ILLINOIS HOUSING DEVELOPMENT AUTHORITY

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING MINUTES
Friday, October 18, 2024

The meeting of the Finance Committee of the Illinois Housing Development Authority took place on Friday, October 18, 2024, at 9:30 a.m. at 111 East Wacker Drive, Chicago, IL. Attending the meeting were Finance Committee Chair, Mr. Sam Tornatore, Mr. King Harris, Ms. Luz Ramirez, Ms. Sonia Berg, Mr. Daniel Hayes, Mr. Brice Hutchcraft, Mr. Tom Morsch, Ms. Erika Poethig, and Ms. Claire Leopold. Attending from IHDA's Executive team were Ms. Kristin Faust, Mr. Lawrence Grisham, Ms. Karen Davis, Mr. Seth Runkle, Ms. Christina McClernon, and Mr. Keith Evans.

I.A. Mr. Tornatore called the meeting to order at 9:00 a.m.

I.B. Ms. Geishecker called the roll. Finance Committee Chair Tornatore, Ms. Berg, Chairman Harris, Mr. Hayes, Mr. Hutchcraft, Mr. Morsch, Ms. Poethig, and Vice Chair Ramirez were present.

I.C. Mr. Tornatore called a motion for the approval of the September 20, 2024, minutes to be approved as presented. Motion carried.

II.A. Information Technology Update

Mr. Evans stated: This is the semiannual IT update. First, we will do an Oracle Update, review Key Initiatives, and discuss Artificial Intelligence. focus on the Oracle project and then get into the IT initiatives. We went live on July 1. You can see the dark line on where we are now which is in our post go-live period, and we will be entering into a short-term managed services agreement. We will be putting out a larger RFP for a longer term arrangement. We are closing down JD Edwards and transitioning to an archived solution and at that point will only be available for research. Things that went well with the project were the involvement of IHDA staff, utilizing the standard functionality of Oracle and our governance of the project. We had a list of scope changes which were not planned initially but were necessary. Lessons learned were we could have done more testing with users, moving faster regarding implementation partner changes, and having clear functional ownership and decision-making.

Mr. Evans continued: In keeping with the IT Strategic Themes, 1) Update core technologies, 2) Drive employee efficiency and effectiveness through technology, 3) Enhancing our cybersecurity profile, 4) Developing software solutions to meet IHDA's key business objectives, 5) Strengthening our management of the IT environment, and 6) Continued development of IT team personnel. Slides were shared detailing specifics related to each of these themes.

Mr. Evans continued: I wanted to talk briefly about Artificial Intelligence because it's obviously all over the news. AI is not new; it has been around for some time. What we're hearing about now is generative AI. Artificial intelligence like facial recognition, GPS, and Siri and Alexa, these are embedded in our daily lives. How far is it going to go? Mr. Evans shared a video of being driven in a car without a driver. A slide was shown with headlines of bad press for AI. We need to look at how AI will be used at IHDA.

Mr. Evans stated: AI is the capability of machines/computers to imitate intelligent human behavior. The next step is ML (Machine Learning) which teaches machines/computers to learn and make decisions without being explicitly programmed. DL (Deep Learning) is a machine learning technique where computers learn and make decisions by simulating the structure and functioning of the human brain through neural networks. This leads to Gen AI (Generative AI) which leverages machine learning techniques, particularly deep learning and neural networks, to generate outputs that resemble real-world examples. Generative AI has limitations and risks, including accuracy, bias, hallucinations, infrastructure required and transparency.

Mr. Evans continued: Responsible AI principles include data privacy, accountability, explainability and transparency, fairness and bias detection, security and safety, and validity and reliability. Where do we have concerns about how AI is going to be used? We will use these principles as a starting point. These tools exist today, and we need to know the right and wrong way to use AI. Some companies, mostly banking, prohibit AI use, other large companies allow selective use, large companies such as Amazon and Walmart do not use company sensitive date, and large companies such as Google and Morgan Stanley are all in with AI.

Mr. Evans concluded: Microsoft has chosen Copilot to be their platform, they are to help you provide information to help with decisions but ultimately you are the Pilot and take responsibility for the information and decisions, vet the data. These are powerful and helpful tools but at the end of the day you are still producing the content for your organization. AI opportunities in Housing Finance include Customer Service, Fraud Detection, Creditworthiness Assessment, while the operations benefits include Efficiency, Accuracy, and Cost Savings. Potential future opportunities for IHDA include Predictive Analytics, Smart Contracts, and Sustainable Development. Our next steps will be to identify guiding principles for AI at IHDA, implement the guiding principles in a specific area for testing, and revise guidelines and create a policy to formalize the guidelines.

II.B. Security Update

Ms. Hardrick stated: We will now review the state of Cybersecurity. There were 76 trillion intrusion attempts worldwide in 2023. 11.6 billion were successful. Over 95% of financial institutions reported at least 1 successful intrusion in 2023. In fact, in Illinois 2024 to date, over 55 breaches requiring public notification have been reported including The Department of Health and Secretary of State. Today we will touch on the current Cyber landscape, look at the DoD Defense in Depth model and IHDA's existing security measures. I will touch on our future focus and direction for Cybersecurity at IHDA.

Ms. Hardrick continued: The top 2 means of initial infiltration for 2023 were stolen credentials- phishing, and externally facing exploits – hygiene. The DoD recommends a model called Defense in depth that is a layered approach, like an onion, with our Data in the middle. At IHDA our onion includes the several layers including: Zscaler - Defense at the endpoint, SecureWorks - Network monitoring and threat detection, KnowBe4 - Awareness training, phishing testing, Microsoft - Suite of tools for cloud, identity, and endpoint, CISA - 2x monthly penetration testing, and Upguard - Continuous outside- in monitoring. In 2023 Zscaler looked at 1.8 billion transactions and blocked over 321 million of those. It filtered those transaction to 1700 that required additional attention. 2024 to date SecureWorks using machine learning and AI inspected over 13 trillion events narrowing to 225 that required deeper inspection and ultimately 54 that required some interaction from my team. KnowBe4 is our training platform that simulates phishing. The black line in the chart shows how often one of those phishing emails is clicked. The ups and downs represent each time my team has raised the bar of difficulty with the final spike being AI. We expect that this number will come down as we train to the challenges.

Ms. Hardrick concluded: IHDA has a dedicated security team. Our future focus will be to continue to focus on cyber awareness training. We will continue with vendor partnerships and assessments such as with SecureWorks, Microsoft and the Internal Audit Baker Tilly NIST assessment. I'd like to close with our Upguard score over time. The dotted line on the chart to the left represents our industry average and the solid line our Upguard score from the outside in. The chart on the right shows other State agencies Upguard scores.

III.A. Presentation of Consolidated Interim Financial Statements

Mr. Jalaluddin stated: We are examining fiscal YTD data covering 3 months of FY25 or Q1 2025. Operating Revenues YTD are $15.9M, reflecting a favorable deviation of $ ($2.4 million) over budget, mainly from origination fees ($1.4 million) resulting from origination fees for the new developments that were closed in July and were budgeted for in FY'24 and higher collection of federal 9% tax credit reservation fees due to new developments that closed in Sept. The Administrative reimbursements were $6.7M, $(1.1 million) unfavorable to budget, which I will get into further in the upcoming slide.

Mr. Jalaluddin continued: Operating Expenses YTD are $16.1M, which is $4.2M under budget. Favorability is attributed to underspending in Salaries and Benefits of ($0.9 million) due to open positions; Professional fees of $2.0M driven by a combination of favorable spend on Contractual Services & Consultants Fees. Most of these are due to timing difference as our budget is based on a consistent, straight-line projection and is expected to smooth out over the course of the fiscal year.

Mr. Jalaluddin continued: Focusing solely on the admin fund, we observe favorability in both operating revenues and expenses, reflective of the factors previously outlined. This fund analysis provides an isolated view of the administrative fund's financial performance, excluding reimbursements.

Mr. Jalaluddin continued: Shifting our attention to the Governmental fund's operating revenues which comprises of Administrative Reimbursements for incurred authority expenses. FYTD reimbursements reached $6.7M, unfavorable to budget by $(1.1 million). This is largely due to the timing as the State CBRAP which went live in September, and as this program gets ramped up, we will see the reimbursement pick up for the FY.

Mr. Jalaluddin concluded: Operating Expenses for the Governmental Funds YTD are $6.8M, favorable to budget by $2.7M. This primarily due to Salaries and Benefits and professional fees of ($ 1 million) & ($ 1.3 million) respectively which again is due to timing of billing for the State-funded court rental assistance program. The overage in the Other GA is due to temporary employee expenses for closing out of some of the old initiatives specifically the ERA2 program.

III.B. Multifamily Update

Mr. Bannon stated: Underwriting Pipeline by Project - There are currently 78 projects working towards initial financial closings. This is up 12 projects from the prior quarter (Q4 2024) but down 21 from prior year (Q1 2024). This chart excludes those projects in the Preliminary Project Assessment stage as well as 9% LIHTC Applications and Permanent Supportive Housing applications. The 9% LIHTC projects in the pipeline average approximately 53 units per development while 4% LIHTC projects, which are primarily acquisition and rehabilitation of existing developments, average approximately 100 units per development. The *Gray-Shaded* section represents projects in the Permanent Supportive Housing (PSH) and Housing for Justice Involved Individuals (HJIIP) programs. These are smaller developments but impactful for the community and residents. To date, 18 Housing for Justice Involved Individuals projects have closed.

Mr. Bannon continued: Underwiring Pipeline by Set-Aside - This slide represents the same underwriting pipeline data but is displayed by set-aside. Projects are developed around the state relative to the population of the geographic set-asides. As demonstrated, the majority of the deals in the pipeline are located in the Chicago and Chicago Metro set asides – this also correlates to the locations of most 4% preservation transactions, which tend to be larger developments as noted previously (*~100 units per development*). The statistics are as follows: Chicago has 23 projects, 23% of total, 33% of population; Chicago Metro has 28 projects, 36% of total, 33% of population; Other Metro has 19 projects, 24% of total, 25% of population; and non-Metro has 8 projects, 10% of total, 8% of population. Underwriting Pipeline by Construction Type - Again, this is the Multifamily pipeline with the breakdown of new construction and preservation transactions. Currently, new construction projects exceed preservation projects by a 3:2 ratio.

Mr. Bannon continued: Units Created and Preserved from FY2024 compared to Q12025 - This slide shows the units created and preserved by program over the past five quarters. The first quarter of 2025 was particularly active with 21 closings, including a record number of closings for the Permanent Support Housing and Housing for Justice Involved Individuals programs (5). You will notice the large spike back in the second quarter of 2024 which included 400 Lakeshore Drive (650 units) and 5 other 4% preservation transactions with over 130 units each. Units Created and Preserved from FY2024 and FY2025 - This slide shows the same initial closing data, broken down by construction type. Notably, the five-quarter-trend has preservation units exceeding new construction by about 40% (whereas the pipeline ratio is the reverse). Projects in Construction Period - In the first quarter of fiscal year 2025, IHDA's field reps monitored 111 projects consisting of 6,851 units across 30 counties. You may recall that last October we engaged Rider Levett Bucknall to help us evaluate hard construction costs and move from a per-unit metric to a per-square-foot metric, which is more consistent with the construction industry. Recently, we engaged Rider Levett Bucknall to update the hard construction cost limits: we are seeing increases of between 3.8% and 4.5% across set asides. This is the new normal and these increases have moderated from the 10-15% year-over-year increases we saw from 2020-2023.

Mr. Bannon stated: Multifamily Lending Originations 2024-2025 - Multifamily loan originations for FY 2024 and the pipeline for FY 2025. In FY 2024, IHDA originated approximately $78MM in tax exempt and taxable first mortgages for the financing of multifamily developments. In FY 2025, the current pipeline is approximately $91MM. The high-interest rate environment and reduced availability of below-market gap financing are primary factors of the lower projections in 3rd and 4th quarters of 2025. Additionally, 4% PPAs are not included in pipeline data. Multifamily Private Activity Bond Issuance - This slide depicts bond issuance for FY 2024 and the first quarter of 2025, as well as the pipeline for 3rd and 4th quarters. IHDA issued a record $575MM in tax exempt bonds in FY 2024. Based on current applications and first quarters closings, FY 2025 Multifamily TEB issuance will be $374MM.

Mr. Bannon concluded: We have one item on the main agenda for your consideration today which is the Housing for Justice Involved Individuals – Round #1 Extension. One major department update – Multifamily received a total of 113 Preliminary Project Assessments on October 7th for the "Universal PPA" round, including: 68 9% Low Income Housing Tax Credits, 33 Permanent Supportive Housing, and 2 Non-Congregate Shelter. PPA determinations will go to sponsors the second week of December. Full Applications are due for the various programs beginning in February.

III.C. Single Family/Homeownership Update

Mr. Gumucio stated: Homeownership reservations for the month of September 2024 totaled just over $64.7 million in first mortgages, we had a variance decrease of 76% by loan count and 77% by loan volume compared to the same month in 2023. Remember that 2023 was a banner year where IHDA achieved the highest volume in history; we are simply returning to a more normalized volume flow.

Mr. Gumucio continued: The breakdown IHDA DPA offerings were as follows: Access 4%, our forgivable program, accounted for 27% of total volume, Access 5%, our deferred program, made up 34%, and Access 10%, our repayable program, made up the remaining 39%. Chicagoland was the largest of the regions by loan count and volume, followed by Central, Northwest, and Southern. As of 9/30/24, our pipeline is just over $317.8M. The pipeline is the total number of loans in the reservation and loans purchased not yet pooled status. Average count is 54 days from reservation to purchase by our master servicer.

Mr. Gumucio continued: Regarding GNMA/conventional loan reservation history for the IHDA programs over the last 13 months, the green line on this chart represents our rates compared to the red line which represents the Freddie national 30-day offered rate. Our rates are currently being affected by volume cap; this is causing our rates to be higher than current market rates; which is partially driving the decrease in production. For further clarification, Michael Babcock will be presenting on Volume Cap later in our Finance Committee meeting. Currently our rates are at or slightly above the FHLMC offering rate for two reasons. First, our rates are a blend of both government and conventional loan rates, not just conventional products we are benchmarking against in this graph. In addition, our deferred and repayable programs have been getting more appeal due to the higher DPA amounts. These programs have slightly lower mortgage rates, contributing to the lower interest rate value

Mr. Gumucio continued: IHDA Demographic Analysis compared to State of IL year-to-date race comparisons through 9/30/24, those who identify as Black or African American households of IHDA's purchased loans was 16.7% compared to the state of IL's total population at 14.7%, while those who identify as Hispanic or Latino of IHDA's purchased loans was 30.1% compared to the State of IL total population at 18.3%. Homeownership is aware that the Black/African American race and Hispanic/Latino ethic categories rose this month and we are continuing our targeted outreach and marketing efforts for further improvements and evaluation.

Mr. Gumucio concluded: Here is a year-to-date comparison for years 2021-2024. The purple line is the 2024 line, as you can see, we are returning to a more traditional volume flow compared to the last three years.

IV.A.1. Resolution Ratifying Permitted Financial Activities

Ms. Sanders stated: This presentation is for the Ratification of Permitted Financial Activities for the quarter ending 9/30/2024. IHDA's book value was $4.4 billion. IHDA's Book Value as of 9/30/2024 was $4.4 billion. Please note: our unrealized gain/loss position of $34.1M is lower due to market interest rates falling – which is good news. Prior Quarter = ~ $4 billion Difference = Increase ~ $344Million. The next slide depicts a summary of Purchases along with Sales/Maturities for the Quarter, IHDA Purchased = ~ $943 Million (Last Quarter ~ $872 Million) $71 Million Increase. Sales/Maturities = ~ $516 Million (Last Quarter. ~ $683 Million) $167 Million Decrease. Using the Weighted Average US Treasury Yield Curve as our baseline. IHDA Yields beat the Weighted Average US Treasury Curve each month in the quarter.

Ms. Sanders concluded: IHDA processed ~ $57.9 Million in Payouts & Draws this quarter (Last Quarter: ~$98 million) Decrease of 41M. IHDA processed ~ $39.5 Million of Bond Debt Service Payments this quarter (Last Quarter: ~ $114.4 Million) Decrease of 74. This slide reflects our Interest Rate Risk Management Positions as of 9/30/2024. We hedge variable rate debt to protect against interest rate volatility/risk. This includes 25 Swaps & 3 Interest Rates Caps. As for our TBA Position, there were approximately $393.13 Million in outstanding hedges.

IV.A.2. Understanding Volume Cap: Overview and Implications

Mr. Babcock stated: As mentioned at the September meeting, I am here today to present an overview of Volume Cap and the Authority's recycling program. To begin with, I will run through an overview of what is Volume Cap. Volume Cap, or Private Activity Volume Cap, refers to the limit of tax-exempt bonds that can be issued for private activities. The Federal Tax Reform act of 1986 limited the total amount of these bonds that can be issued by state and determined a formula for calculating such limit. The current limit is $125 multiplied by the total population of the state. Cap is allocated to each state, and each state is responsible for further allocation the cap to entities throughout the state. Private Activity Volume Cap is utilized by local and state governments for the purpose of issuing tax exempt bonds to fund qualifying activities, specifically by attracting private investment.

Mr. Babcock continued: Illinois has its own defined formula for allocating volume cap on an annual basis. Entities that are entitled to cap are: Home Rule Units, Non-Home Rule units, and state agencies and authorities. The allocation for 2024 was $1,568,711,125. The State allocates cap twice a year—in late January/Early February and mid-July. Once cap is allocated, it can be carried forward for up to three calendar years. For example, the Authority received 2023 cap at the beginning of calendar year 2024, which is eligible for use in calendar years 2024, 2025, and 2026. This "carry forward" process helps with managing fluctuations in allocations year over year and makes management of the bond pipeline smoother—as there are higher and lower issuance years, and volume cap is either "use it or lose it," meaning it expires if not used.

Mr. Babcock continued: Here is the Authority's historic Volume Cap allocations for the last 5 years—as well as the % of total state allocation that came to the Authority. It is notable that IHDA is only entitled to a small portion of cap any given year. While we have been fortunate to receive above and beyond that amount, there is no guarantee. Additionally, though we have received some reallocated cap from municipalities across the state, this is also not guaranteed and occurs on an ad hoc basis. Once the authority receives our annual allocation, a form is filed with the IRS delineating the breakout between Single family and Multifamily allocation.

Mr. Babcock concluded: The Authority uses volume cap for both the single family and multifamily programs. Tax-exempt bonds issuances use volume cap, while taxable do not. On the multifamily side, tax-exempt bonds generate the 4% low-income housing tax credit, generating additional equity for developments. On the single family side, tax-exempt bonds low the cost of financing, resulting in reduced mortgage rates for single family borrowers.

IV. Mr. Tornatore adjourned the meeting at 10:39 a.m.