

Notes to Consolidated Financial Statements – Continued

CharterMac & Subsidiaries

Interest Income on Temporary Investments – Interest income from temporary investments, such as cash in banks and short-term instruments, is recognized on the accrual basis as it becomes due.

Construction Service Fees – We receive fees, in advance, from borrowers for servicing revenue bonds during the construction period. These fees are deferred and amortized into other income over the anticipated construction period.

Credit Enhancement Fees – We receive fees for providing credit enhancements. The credit enhancement fees are received monthly and recognized in other income when received.

Guarantee Fees – We receive fees for providing guarantees on guaranteed yields. These fees are deferred and recognized in other income on a pro-rata basis over the guarantee period.

- **Fund Management Fees**

Origination Fees – Origination fees include both property acquisition fees and partnership management fees which are received by Related from the proceeds raised at formation of the investment funds. Property acquisition fees (generally 2% to 4% of equity raised) are for services performed in connection with the acquisition of interests in property-owning partnerships and are recognized when the earnings process is complete and collectibility is reasonably assured, which is defined as the date the investor equity is raised and the properties have been acquired by the investment fund. Partnership management fees (generally 1% of equity raised) are for services to be performed by Related for (i) maintaining the books and records of the investment fund, including requisite investor reporting, and (ii) monitoring the acquired property interests to ensure that their development, leasing and operations comply with low income housing or other tax credit requirements. Related recognizes these fees when such services are rendered, which, per the partnership agreements, are contractually over five years following the initial closing of the investment fund, using the straight-line method.

Acquisition Fees – Acquisition fees are earned upon acquisition of investments by publicly-held entities for which Related acts as the advisor. These fees are calculated as a percentage of the purchase price of investments acquired, up to 1%.

Development Fees – Development fees are earned from properties co-developed by Related with unaffiliated developers and sold to investment funds. Recognition of development fees is based on completion and stabilization of properties, after guarantees of completion and deficits are no longer deemed to require funding. The guarantees are issued by an affiliate of Related, which is also a subsidiary of CharterMac to the lender (for the underlying financing of the properties) on behalf of Related and as required by the investment fund.

Asset Management Fees – Related earns asset management fees from its investment funds on an annual basis calculated based on a percentage of each investment fund's invested assets, generally 0.5%. These fees are paid from the investment fund's available working capital balances, and are earned by Related for managing the Underlying Property assets of the investment fund. These fees are recorded monthly as earned, but only when the management of Related determines that collection is reasonably assured based on the investment funds' working capital balance.

- **Equity in Earnings of ARCap** – Our equity in the earnings of ARCap Investors, LLC (“ARCap”) is accrued at our preferred dividend rate of 12%, unless ARCap does not have earnings and cash flows adequate to meet this dividend requirement. In the case where earnings are not sufficient to cover the 12% dividend rate, any excess dividends received would be a returned capital and would decrease our investment.

Deferred Costs

Prior to our acquisition of Related, we paid fees to Related, as our Manager, for its activities performed to acquire revenue bonds, including their evaluation and selection, negotiation of mortgage loan terms, coordination of property developers and government agencies, and other direct expenditures of acquiring or investing in revenue bonds. These fees are capitalized and amortized as a reduction to interest income over the terms of the revenue bonds. Direct costs relating to unsuccessful acquisitions and all indirect costs relating to the revenue bonds are charged to operations.

Costs incurred in connection with our TOP, such as legal, accounting, documentation and other direct costs, have been capitalized and are being amortized using the straight-line method over 10 years, which approximates the average remaining term to maturity of the revenue bonds in this program.

Costs incurred in connection with the issuance of preferred shares of Equity Issuer subsidiary, such as legal, accounting, documentation and other direct costs, have been capitalized and are