being amortized using the straight line method over the period to the mandatory repurchase date of the shares, approximately 50 years. Costs incurred in connection with the issuance of Convertible Community Reinvestment Act ("CRA") Shares, such as legal, accounting, documentation and other direct costs, have been accounted for as an offset to beneficial owners' equity of such shares.

Basis of Consolidation

We consolidate all of our wholly owned and majority owned subsidiaries. We own a non-controlling interest in ARCap, which we record on an equity basis. We also invest in partnership interests, related to the real estate equity investment funds we sponsor. Typically, we hold these investments for a short period, essentially warehousing the investments until a new fund is established. We exercise no control during this period. The assets are shown as Investments in Partnerships on our consolidated balance sheets. We record our interest in these investments on the equity basis.

Financial Risk Management and Derivatives

We have entered into several derivative instruments, including an interest rate cap, forward commitments and interest rate swaps, all of which are accounted for under the Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended and interpreted. We have designated the interest rate swaps as cash flow hedges on the variable interest payments on our floating rate securitizations. Two of the interest rate swaps do not become effective until 2005. The two interest rate swaps that are currently in place, are recorded at their respective fair market value each accounting period, with changes in market value being recorded in accumulated other comprehensive income to the extent the hedges are effective in achieving offsetting cash flows. These hedges have been perfectly effective, so have generated no ineffectiveness that needs to be included in earnings. The effectiveness of the other two swaps is being measured using the hypothetical swap method, until they go into effect in 2005. For the year ended December 31, 2003, there was no ineffectiveness related to these two swaps. Had there been any ineffectiveness or should there be any ineffectiveness in the future, the amount would have been or will flow through our consolidated statements of income. The interest rate cap, although designed to mitigate our exposure to rising interest rates, was not designated as a hedging derivative; therefore, any change in fair market value flows through the consolidated statements of income, where it is included in interest income. The forward commitments create derivative instruments under SFAS 133, which have been designated as cash flow hedges of the anticipated funding of the revenue bonds, and, as such, are recorded at fair value, with changes in fair value recorded in accumulated other comprehensive income until the revenue bonds are funded.

Goodwill and Other Intangible Assets

We have adopted SFAS 141 on July 1, 2001 and SFAS 142, on January 1, 2002. We have determined that the amounts previously capitalized as goodwill relating to our initial formation and to the merger of American Tax-Exempt Bond Trust meet the criteria in SFAS 141 for recognition as intangible assets apart from goodwill, and accordingly will continue to amortize the remaining $2.2 million over their remaining useful lives, subject to impairment testing. Therefore, the implementation of SFAS 142 did not materially affect our results of operations.

During the quarter ended June 30, 2002, PWF engaged a third party valuation firm to evaluate PWF's licenses with Fannie Mae, Freddie Mac, FHA, GNMA and various private investors. As a result of this process, approximately $8.6 million has been reclassified from goodwill to intangible assets, representing the estimated market value of PWF's licenses. These licenses have an indefinite life and, as a result, are not being amortized.

On November 17, 2003, we completed our purchase of Related, which resulted in additional intangible assets and goodwill, which were based on fair values verified by an independent third party valuation firm. (See Note 2).

We amortize intangible assets on a straight line basis over their estimated useful lives. The goodwill amounts recorded are tested annually for impairment in accordance with the provisions of FAS 142. We have concluded that goodwill was not impaired at December 31, 2003.

Fair Value of Financial Instruments

As described above, our investments in revenue bonds, its mortgage servicing rights and its liability under the interest rate derivatives are carried at estimated fair values. We have determined that the fair value of its remaining financial instruments, including its temporary investments, cash and cash equivalents, promissory notes receivable, mortgage notes receivable and borrowings approximate their carrying values at December 31, 2003 and 2002.

Income Taxes

Effective July 1, 2001, we began operation of a new wholly owned, taxable subsidiary, CM Corp., which conducts most of our taxable business, including our mortgage servicing activities and fund management activities in which we may engage. We provide for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). FAS 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities.