

## NOTE 7 • Financing Arrangements

We raise capital to acquire additional revenue bonds through two securitization programs.

### *P-FLOATS/RITES Program (“P-FLOATS”)*

We have securitized certain revenue bonds through the Merrill Lynch Pierce Fenner & Smith Incorporated (“Merrill Lynch”) P-FLOATS/RITES program. Under this program, we transfer certain revenue bonds to Merrill Lynch. Merrill Lynch deposits each revenue bond into an individual special purpose trust together with a credit enhancement guarantee (“Guarantee”). Two types of securities are then issued by each trust, (1) Puttable Floating Option Tax-Exempt Receipts (“P-FLOATS”), a short-term senior security which bears interest at a floating rate that is reset weekly and (2) Residual Interest Tax Exempt Securities (“RITES”), a subordinate security which receives the residual interest payment after payment of P-FLOAT interest and ongoing transaction fees. The P-FLOATS are sold to third party investors and the RITES are generally sold back to us. We have the right, with 14 days notice to the trustee, to purchase the outstanding P-FLOATS and withdraw the underlying revenue bonds from the trust. When the revenue bonds are deposited into the P-FLOAT Trust, we receive the proceeds from the sale of the P-FLOATS less certain transaction costs. In certain other cases, Merrill Lynch may directly buy the revenue bonds from local issuers, deposit them in the trust, sell the P-FLOAT security to investors and then the RITES to us.

For financial reporting purposes, due to the repurchase right, we account for the net proceeds received upon the transfer of our revenue bonds through the P-FLOATS/RITES program as secured borrowings and, accordingly, continue to account for the revenue bonds as assets. When Merrill Lynch purchases revenue bonds directly and sells the RITES to us, the RITES are included in other assets and accounted for at fair value as available-for-sale debt securities.

In order to facilitate the securitization, we have pledged certain additional revenue bonds as collateral for the benefit of the credit enhancer or liquidity provider. At December 31, 2003, the total carrying amount of such additional revenue bonds, cash and cash equivalents and temporary investments pledged as collateral was approximately \$168.9 million.

During the year 2003, we transferred 46 revenue bonds with an aggregate face amount of approximately \$292.7 million to the P-FLOATS/RITES program and received proceeds of approximately \$297.7 million. Additionally, we repurchased 14 revenue bonds with an aggregate face value of approximately \$190.5 million.

Our cost of funds relating to its secured borrowings under the Merrill Lynch P-FLOATS/RITES program (calculated as interest expense as a percentage of the weighted average amount

of the secured borrowings) was approximately 2.03%, 2.4% and 3.7%, annualized, for the years ended December 31, 2003 and 2002 and 2001, respectively.

### *MBIA*

On May 21, 1998, our Company closed on the MBIA Tender Option Program (“TOPs”). MBIA is a financial insurer, which has entered into a surety commitment with our Company and certain of its subsidiaries whereby MBIA has agreed to credit enhance certain pools of bonds in exchange for certain fees. Under the TOPs structure, we contribute revenue bonds to CharterMac Origination Trust I (the “Origination Trust”), a consolidated wholly owned, indirect subsidiary of our Company. The Origination Trust then contributes certain of these revenue bonds to CharterMac Owner Trust I (the “Owner Trust”) and others to CharterMac Action Rate Trust I (the “Auction Rate Trust”), which are controlled by us. The Owner Trust and the Auction Trust contribute selected bonds to specific “Series Trusts.” As of December 31, 2003, seven such Series Trusts were created. Six of these series trusts reside beneath Owner Trust including two California only series and four National (non-state specific) series. One series trust resides beneath Auction Trust.

Each Series Trust, issues two equity certificates: (i) a Senior Certificate which has been deposited into a “Certificate Trust” which issues and sells “Floater Certificates” or “Auction Certificates” representing proportional interests in the Senior Certificate to new investors and (ii) a Residual Certificate, issued to the Origination Trust which represents the remaining beneficial ownership interest in each Series Trust.

As of December 31, 2003, the maximum amount of capital that could be raised under the TOPs facility was \$650 million, including \$425 million in Floater Certificates under the Owner Trust and \$225 million in Auction Certificates under the Auction Trust. In addition, the surety commitment by MBIA was recently extended for eight years, through October 1, 2011. As of December 31, 2003, total outstanding under the TOPs program was \$483.5 million, including \$383.5 million in Floater Certificates and \$100.0 million in Auction Certificates.

The surety commitment by MBIA can be used to enhance certificates sold under low floater and auction rate programs. The low floater program requires the existence of liquidity due to the put option available to the buyers of the low floater certificates. The liquidity is currently supplied by a consortium of highly-rated banks. The liquidity commitments are one-year renewable contracts. We expect to renew or replace such commitments upon expiration of their terms. The auction rate program does not require liquidity as the buyers of those securities do not have the option to put their certificates back to the seller.

The effect of the TOPs structure is that a portion of the interest received on the revenue bonds in the Owner Trust and the Auction Trust is distributed through the Senior Certificate to the