the acquisition, (the "Call Option"). The agreement also gives the owners of the remaining 20% of PWF's shares the right to put those shares to CharterMac (the "Put Option"), within the 34 months following the close of the acquisition. We consider these two options to be a single unit (a forward contract), due to the fact the Put Option and Call Option were entered into at the same time, have the same counter parties, have the same risk, and could have been accomplished in a single transaction. The price at which the shares of stock are to be repurchased is based on many factors, determined in the future including the performance of the underlying revenues of PWF, the value of PWF's servicing portfolio and other factors which are not currently determinable. We determined the forward contract should not be recorded until the contract is settled and the associated shares transferred to our Company. During the period of the forward contract, we will allocate subsidiary income or loss to the minority interest on a pro-rata basis, determined by its ownership percentage.

NOTE 18 • Financial Risk Management and Derivatives

Our revenue bonds generally bear fixed rates of interest, but the P-FLOATS and TOP financing programs incur interest expense at variable rates re-set weekly, so we are exposed to interest rate risks. Various financial vehicles exist which allow our management to hedge against the impact of interest rate fluctuations on our cash flows and earnings.

We currently manage a portion of our interest rate risk through the use of The Bond Market Association ("TBMA") indexed interest rate swaps. Under each interest rate swap agreement, for a specified period of time we are required to pay a fixed rate of interest on a specified notional amount to the transaction counterparty and we receive a floating rate of interest equivalent to the TBMA index, which is the most widely used tax-exempt floating rate index. As of December 31, 2003, we have entered into two such swaps with MLCS as counterparty: the first has a notional amount of $50 million fixed at an annual rate of 3.98%, which expires in January 2006. The second has a notional amount of $100 million fixed at an annual rate of 3.64%, which expires in February 2004. We have also entered into two interest rate swaps with Fleet as the counterparty. One has a notional amount of $100 million fixed at an annual rate of 2.56% beginning in January 2005 and expiring in December 2007. The other swap with Fleet has a notional amount of $50 million and fixed rates of 2.00%, 2.78%, and 3.27% for the twelve months beginning January 2005, 2006, and 2007, respectively.

The average BMA rates for 2003 and 2002, were 1.03% and 1.38%, respectively. Net swap payments received by us, if any, will be taxable income to our Company and, accordingly, to shareholders. A possible risk of such swap agreements is the possible inability of the Counterparty to meet the terms of the contracts with us; however, there is no current indication of such an inability.

We adopted SFAS No. 133, as amended and interpreted, on January 1, 2001. Accordingly, we have established a policy for risk management and our objectives and strategies for the use of derivative instruments to potentially mitigate such risks. We evaluate our interest rate risk on an ongoing basis to determine whether or not it would be advantageous to engage in any further hedging transactions. At inception, we designated these 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 that the hedges are effective in achieving offsetting cash flows. We assess, both at the inception of the hedge and on an ongoing basis whether the swap agreements are perfectly effective in offsetting changes in the cash flows of the hedged financing. Any ineffectiveness in the hedging relationship is recorded in earnings. There was no ineffectiveness in the hedging relationship during 2002 or 2003, and we expect that these hedging relationships will be highly effective in achieving offsetting changes in cash flow throughout their terms. Net amounts payable or receivable under the swap agreements are recorded as adjustments to interest expense.

At December 31, 2003, the first two interest rate swaps were recorded as a liability with a combined fair market value of approximately $2.4 million, included in accounts payable, accrued expenses and other liabilities on the consolidated balance sheets. Interest paid or payable under the terms of the swaps, of approximately $4.1 million, is included in interest expense. The two new interest rate swaps were recorded as an asset with a fair market value of $1.7 million, included in other assets on the consolidated balance sheets.

We estimate that approximately $3.3 million of the net derivative loss included in accumulated other comprehensive income will be reclassed into interest expense within the next twelve months.

During January 2002, we entered into an interest rate cap agreement with Fleet, with a cap of 8% on a notional amount of $30 million. Although this transaction is designed to mitigate our exposure to rising interest rates, we have not designated this interest rate cap as a hedging derivative. As of December 31, 2003, this interest rate cap was recorded as an asset with a fair market value of $34,004 included in other assets in the consolidated balance sheets. Because we have not designated this derivative as a hedge, the change in fair market value flows through the consolidated statements of income, where it is included in interest income, in the amount of $27,050 for the year ended December 31, 2003.