

and circumstances may occur which would cause these estimates and assumptions to change; therefore, actual results may vary from the estimates and the variance may be material.

For certain revenue bonds, we believe that certain factors have impacted the near-term fair value. In these instances, the revenue bonds are valued at either the outstanding face amount of the bond or management's estimate of the fair value, whichever is lower.

Mortgage Banking Activities

PWF is an approved seller/servicer of multi-family mortgage loans for Fannie Mae, Freddie Mac and Ginnie Mae. For Fannie Mae, PWF is approved under the DUS program. Under DUS, upon obtaining a commitment from Fannie Mae with regard to a particular loan, Fannie Mae commits to acquire the mortgage loan based upon PWF's underwriting and PWF agrees to bear a portion of the risk of potential losses in the event of a default. Fannie Mae commitments may be made to acquire the mortgage loan for cash or in exchange for a mortgage-backed security backed by the mortgage loan. As a Program Plus lender for Freddie Mac, Freddie Mac agrees to acquire for cash from PWF loans for which PWF has issued commitments. Ginnie Mae agrees to exchange FHA-insured mortgages originated by PWF for Ginnie Mae securities.

Mortgage loans originated for Fannie Mae, Freddie Mac or Ginnie Mae are closed in the name of PWF, which uses corporate cash obtained by borrowing from a warehouse lender to fund the loans. Approximately a week to a month following closing of a loan, loan documentation and an assignment are delivered to Fannie Mae, Freddie Mac, Ginnie Mae, or a document custodian on its behalf and the cash purchase price or mortgage-backed security is delivered to PWF. PWF uses the cash it receives to repay its warehouse loans and the mortgage-backed securities are sold pursuant to prior agreements for cash, which is also used to repay warehouse loans. PWF also underwrites and originates multi-family and commercial mortgages for insurance companies and banks.

PWF receives origination fees which are included in mortgage banking fees in the consolidated statements of income. Neither we nor PWF retains any interest in any of the mortgage loans, except for mortgage servicing rights ("MSRs") and certain liabilities under the loss-sharing arrangement with Fannie Mae.

Mortgage Servicing Rights

PWF recognizes as assets the rights to service mortgage loans for others, whether the MSRs are acquired through a separate purchase or through loan origination, by allocating total costs incurred between the loan and the MSRs retained based on their relative fair value. MSRs are being carried at their adjusted cost basis. MSRs are amortized in proportion to, and over the period of, estimated net servicing income.

We have two areas of loss exposure related to PWF's lending activities. First, while a loan is recorded on the balance sheet, there is exposure to potential loss if a loan becomes impaired and defaults. Second, we have exposure to loss due to the retention of a portion of credit risk within PWF's servicing contract under the Fannie Mae DUS program.

When a loan is owned by PWF and recorded on the balance sheet, PWF identifies loans that are impaired and evaluates the allowance for loss on a specific loan basis for losses believed to currently exist in the recorded loan portfolio. An impaired loan is defined, as noted within accounting guidance, when PWF determine it is probable that not all required contractual payments will be made when due. PWF's primary tool for determining which loans are likely to currently have a loss associated with them is to evaluate the debt service coverage ratio based on PWF's historical experience of similar properties and the frequency of such losses. Loans that are impaired and specific loans that are not impaired but have debt service coverage ratios below a certain threshold, which indicates a high likelihood of future foreclosure and currently have an existing loss, are evaluated. The estimate of currently existing loss includes the estimated severity of the loss which would include any advances made or existing property loss. Property maintenance costs (when foreclosure occurs) are expensed when incurred and not included in the loss estimate. However, as most loans are sold very quickly after origination, there typically is not a significant amount of loan loss allowance recorded.

We have exposure to loss due to PWF's retention of a portion of credit risk within PWF's servicing contract under the Fannie Mae DUS program. For loans which have been sold as commercial mortgage-backed securities for which PWF retains the servicing under Fannie Mae's DUS program, PWF's share of loss is associated with the servicing contract and determined in accordance with the loss sharing provisions under the program. Prior to the issuance of Interpretation No. 45, "Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), because the loss sharing on these serviced loans was associated with the servicing contract, they were valued within the servicing right and the anticipated cash flows that are associated with such servicing activities. We have determined that these potential losses are guarantees under the definition of FIN 45 and therefore, record an asset and a corresponding liability based on our estimate of the portion of the servicing cash flows deemed to represent compensation for our guarantee for loans originated on/or after January 1, 2003. On an ongoing basis, we will account for the asset by offsetting cash received for the guarantee against the asset and crediting interest income for the change in asset due to the passage of time. The portion of the liability representing an accrual for probable losses under SFAS No. 5, "Accounting for Contingencies" ("FAS 5") is adjusted as loss estimates change;