

Management's Discussion and Analysis – Continued

CharterMac & Subsidiaries

ed loans for the amount by which each construction loan exceeds the corresponding permanent loan, if any. The subordinated bonds will bear interest at 10%. Under Fannie Mae guidelines, the size of the subordinated bonds will be limited to a 1.0x debt service coverage based on 75% of the cash flow after the senior debt.

Our maximum exposure, related to these two transactions, is 40% of the stated amount of the letter of credit of approximately \$27 million.

The following table reflects our maximum exposure and carrying amount for guarantees we and our subsidiaries have entered into:

<i>(In thousands)</i>	Maximum Exposure	Carrying Amount
Payment guarantees	\$ 17,933	\$ --
Insured tax credits guarantee	15,000	--
Completion guarantees	53,236	--
Operating deficit guarantees	614	--
CMC credit enhancement	19,000	--
LIHTC guarantees	228,000	5,850
	<u>\$ 333,783</u>	<u>\$ 5,850</u>

Contractual Obligations

The following table provides our commitments as of December 31, 2003 to make future payments under our debt agreements and other contractual obligations.

<i>(In thousands)</i>	Payments due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Notes payable	\$153,350	\$109,128	\$ 27,182	\$17,040	\$ --
Operating lease obligations	1,376	545	831	--	--
Unfunded loan commitments	178,930	49,750	129,180	--	--
Fixed rate securitization	100,000	--	100,000	--	--
Employee contracts	6,000	2,000	4,000	--	--
Total	<u>\$439,656</u>	<u>\$161,423</u>	<u>\$261,193</u>	<u>\$17,040</u>	<u>\$ --</u>

Income Taxes

We are organized as a Delaware statutory trust and, for tax purposes, are classified as a partnership. Almost all of our recurring income is tax-exempt. From time to time we may sell or securitize various assets which may result in capital gains and losses. This tax structure allows us to have the pass-through income characteristics of a partnership for both taxable and tax-exempt income. We do not pay tax at the partnership level. Instead, the distributive share of our income, deductions and credits is reported to each shareholder for inclusion on their respective income tax return. The tax-exempt income derived from most of our

revenue bonds remains tax-exempt as it is passed through to shareholders. Any cash dividends received by us from subsidiaries, organized as corporations, will be recorded as dividend income for tax purposes. For such subsidiaries, created in 2001, there were no dividends distributed for tax purposes.

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.