these economic factors, debt service on the revenue bonds, and therefore net income and cash available for distribution to shareholders is dependent on the performance of the Underlying Properties.

Interest Rate Risk

The nature of our investments and the instruments used to raise capital for their acquisition expose us to income and expense volatility due to fluctuations in market interest rates. Market interest rates are highly sensitive to many factors, including governmental policies, domestic and international economic and political considerations and other factors beyond our control.

The revenue bonds generally bear interest at fixed rates, or pay interest according to the cash flows of the Underlying Properties, which do not fluctuate with changes in market interest rates. In contrast, payments required under our floating rat securitization programs vary based on market interest rates based on TBMA index and are re-set weekly.

In addition, we have floating rate debt related to our acquisition financing of PWF and Related and our warehouse facilities. PWF has loans receivable and short term borrowings related to its mortgage origination operations which are not expected to subject PWF to significant interest rate risk. PWF typically provides mortgages to borrowers (mortgages receivable) by borrowing from third parties (short-term borrowings). Since PWF's mortgages receivable are typically subject to a take-out commitment by Fannie Mae, Freddie Mac or FHA, the related borrowings to finance such mortgages are typically short-term. The interest income or expense that represents the difference between the interest charged to borrowers and the interest paid to PWF's lender during the warehousing period will be earned by PWF.

Other long-term sources of capital, such as Equity Issuer's various series of Cumulative Preferred Shares, carry a fixed dividend rate and as such, are not impacted by changes in market interest rates.

A rising interest rate environment could reduce the demand for multi-family tax-exempt and taxable financing, which could limit our ability to invest in revenue bonds or to structure transactions. Conversely, falling interest rates may prompt historical renters to become homebuyers, in turn potentially reducing the demand for multi-family housing.

An effective interest rate management strategy can be complex and no strategy can insulate us from all potential risks associated with interest rate changes. Various financial vehicles exist which would allow us to mitigate the impact of interest rate fluctuations on our cash flows and earnings. Beginning in 2001, based upon management's analysis of the interest rate environment and the costs and risks of such strategies, we entered into interest rate swaps in order to hedge a portion of the risk of rising interest rates and the impact of such a rise on our MBIA and P-Floats programs.

On January 5, 2001, we entered into a five-year interest swap that fixes BMA index to 3.98% on a notional amount of $50 million. On February 5, 2001, we entered into a three-year interest swap that fixes the BMA index to 3.64% on a notional amount of an additional $100 million. We have designated both of these swaps on hedging derivatives and FAS No. 133.

During January 2002, concurrent with our acquisition of PWF and pursuant to the financing put in place to complete the acquisition, we entered into an interest rate cap agreement with Fleet Bank, 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 under FAS 133.

On December 17, 2003, we entered into a three-year interest rate swap that fixes TBMA at 2.56%, beginning January 2005, on a notional amount of $100 million. On December 30, 2003, we entered into a three-year interest rate swap that fixes TBMA at 2.00%, 2.78% and 3.27% for the twelve months beginning January 3, 2005, January 3, 2006 and January 3, 2007, respectively, on a notional amount of $50 million.

Interest rate swap agreements are subject to risk of early termination by us or the counterparty, possibly at times unfavorable to us and, depending on market conditions at the time, may result in the recognition of a significant gain or loss from changes in the market value of the hedging instrument. There can be no assurance that we will be able to acquire hedging instruments at favorable prices, or at all, when the existing arrangements expire or are terminated which would then fully expose us to interest rate risk to the extent of the balance of debt subject to such hedges. In addition, there is no assurance that the counterparty to these hedges will have the capacity to pay or perform under the stated terms of the interest rate swap agreement; however, we seek to enter into such agreements with reputable and investment grade rated counterparties.

We adopted statement of Financial Accounting Standards No. 133, as amended and interpreted, on January 1, 2001. Accordingly, we have documented and established our policy for risk management and the related objectives and strategies for the use of derivative instruments to potentially mitigate such risks. Currently, our strategy is intended to reduce interest rate risk through the use of interest rate swaps. At inception, we designated these interest rate swaps as cash flow hedges on the variable interest payments on its floating rate financing. Accordingly, the interest rate swaps are recorded at their fair market values each accounting period, with changes in market values being recorded in accumulated other comprehensive income to the extent that the hedge is 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 highly effective in offsetting changes in the cash flows of the hedged financing. Any ineffectiveness in the hedging relationship is