agreements serve to offset the impact of increased or decreased interest paid by the Trusts on floating rate asset-backed securities on the cash flows to be received by us from the Trusts. We utilize such arrangements to modify our net interest sensitivity to levels deemed appropriate based on our risk tolerance. In circumstances where the interest rate risk is deemed to be tolerable, usually if the risk is less than one year in term at inception, we may choose not to hedge potential fluctuations in cash flows due to changes in interest rates. Our special purpose finance subsidiaries are contractually required to purchase a financial instrument to protect the net spread in connection with the issuance of floating rate securities even if we choose not to hedge our future cash flows. Although the interest rate cap agreements are purchased by the Trusts, cash outflows from the Trusts ultimately impact our retained interests in the securitization transactions as cash expended by the securitization Trusts will decrease the ultimate amount of cash to be received by us. Therefore, when economically feasible, we may simultaneously sell a corresponding interest rate cap agreement to offset the premium paid by the Trust to purchase the interest rate cap agreement. The fair value of the interest rate cap agreements purchased by the special purpose finance subsidiaries in connection with securitization transactions are included in other assets and the fair value of the interest rate cap agreements sold by us are included in other liabilities on our consolidated balance sheets. Changes in the fair value of the interest rate cap agreements are reflected in interest expense on our consolidated statements of operations and comprehensive operations.

Pre-funding securitizations is the practice of issuing more asset-backed securities than needed to cover finance receivables initially sold or pledged to the Trust. The proceeds from the pre-funded portion are held in an escrow account until additional receivables are delivered to the Trust in amounts up to the pre-funded balance held in the escrow account. The use of pre-funded securitizations allows us to lock in borrowing costs with respect to the finance receivables subsequently delivered to the Trust. However, we incur an expense in pre-funded securitizations during the period between the initial delivery of finance receivables and the subsequent delivery of finance receivables equal to the difference between the interest earned on the proceeds held in the escrow account and the interest rate paid on the asset-backed securities outstanding.

Additionally, in May 2006, we issued a “revolving” securitization transaction that allowed us to replace receivables as they amortize down rather than paying down the outstanding debt balance for a period of one year subject to compliance with certain covenants. The use of this type of transaction allowed us to lock in borrowing costs for the revolving period and allowed us to finance approximately 50% more receivables than in our typical amortizing securitization structure at that borrowing cost. It is unlikely that we will be able to utilize this revolving structure in the foreseeable future due to challenging capital market conditions, particularly for sub-prime collateral.

We have entered into interest rate swap agreements to hedge the variability in interest payments on our seven most recent securitization transactions. Portions of these interest rate swap agreements are designated and qualify as cash flow hedges. The fair values of the interest rate swap agreements are included in other liabilities on the consolidated balance sheets.