CHARTER MUNICIPAL MORTGAGE ACCEPTANCE CO
Form 10-K
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-13237

CHARTER MUNICIPAL MORTGAGE ACCEPTANCE COMPANY
(Exact name of Registrant as specified in its Trust Agreement)

| | |
|---|---|
| Delaware | 13-3949418 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 625 Madison Avenue, New York, New York | 10022 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code (212) 421-5333

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Shares of Beneficial Interest

Name of each exchange on which registered:

American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The approximate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of March 20, 2002 as $653,820,288, based on a price of $16.03 per share, the closing sales price for the Registrant's shares of beneficial interest on the American Stock Exchange on that date.

As of March 20, 2002 there were 41,152,738 outstanding shares of the Registrant's shares of beneficial interest.

DOCUMENTS INCORPORATED BY REFERENCE

Part III: Those portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on June 11, 2002, which are incorporated into Items 10, 11, 12 and 13.

Index to exhibits may be found on page 90


CAUTIONARY STATEMENT FOR PURPOSES OF
THE "SAFE HARBOR" PROVISIONS OF
THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

WHEN USED IN THIS ANNUAL REPORT ON FORM 10-K, THE WORDS "BELIEVES," "ANTICIPATES," "EXPECTS" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. STATEMENTS LOOKING FORWARD IN TIME ARE INCLUDED IN THIS ANNUAL REPORT ON FORM 10-K PURSUANT TO THE "SAFE HARBOR" PROVISION OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. SUCH STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY, INCLUDING, BUT NOT LIMITED TO, THOSE SET FORTH IN "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF.



## PART I

### Item 1. Business.

GENERAL

Charter Municipal Mortgage Acceptance Company ("CharterMac") is a Delaware business trust. CharterMac and its subsidiaries (collectively, the "Company") is a full service investor in and servicer of multifamily housing debt. The Company is principally engaged in the acquisition and ownership (directly or indirectly) of tax-exempt multifamily housing Revenue Bonds and may also acquire, at times, taxable multifamily housing Revenue Bonds. Both the tax-exempt and the taxable bonds are herein referred to as Revenue Bonds ("Revenue Bonds").

CharterMac is classified as a partnership for federal income tax purposes and, thus, is not subject to federal income taxation. As such, CharterMac will pass through to its shareholders, in the form of distributions, income, including tax-exempt income, derived from its investments and activities. Although the exact percentage may vary from quarter to quarter, substantially all of the distributions to shareholders are excludable from gross income for federal income tax purposes. For the calendar year ended December 31, 2001, approximately 96% of the distributions qualified as tax-exempt income.

On January 14, 2002, the Company announced that its Board of Trustees had formed a special committee to explore strategic alternatives for the Company's future management structure, including internalization of management, and ways to further diversify the Company's revenue sources. The special committee consists of the independent members of the Board of Trustees, Peter T. Allen, Arthur P. Fisch and Charles L. Edson. The special committee has retained independent counsel and expects to hire a financial advisor to assist them in this process.

THE PREDECESSOR

CharterMac was formed on October 1, 1997 as the result of the merger (the "Merger") of three publicly registered limited partnerships: Summit Tax Exempt Bond Fund, L.P., Summit Tax Exempt L.P. II and Summit Tax Exempt L.P. III (the "Partnerships"). One of the general partners of the Partnerships was an affiliate of Related Capital Company ("Related"), a nationwide, fully integrated real estate financial services firm. Pursuant to the Merger, CharterMac issued shares of beneficial interest ("Common Shares") to all partners in each of the Partnerships in exchange for their proportionate interests. The Common Shares commenced trading on the American Stock Exchange on October 1, 1997 under the symbol "CHC."

SIGNIFICANT SUBSIDIARIES

CHARTERMAC EQUITY ISSUER TRUST

In 1999, CharterMac created CharterMac Equity Issuer Trust, a 100% owned subsidiary, (collectively, with its subsidiaries, "Equity Issuer") which holds a substantial portion of the Company's Revenue Bonds. From time to time, Equity Issuer may issue Series A and Series B Cumulative Preferred Shares (cumulatively, "Preferred Shares") to institutional investors. The Preferred Shares have a senior claim to the tax-exempt income derived from the investments owned by Equity Issuer. Any income in Equity Issuer after the payment of the cumulative distributions on its Preferred Shares, and after the fulfillment of certain covenants, may then be allocated to CharterMac. The assets of Equity Issuer, while included in the financial statements of the Company, are legally owned by Equity Issuer and are not available to any creditors of the Company outside of Equity Issuer.

CHARTERMAC CORPORATION

In July 2001, the Company formed CharterMac Corporation ("CM Corp.") as a wholly-owned, consolidated taxable subsidiary to help the Company more efficiently manage its taxable business. CM Corp. allows the Company to better diversify its business lines to include, among other things, mortgage origination and servicing to third parties and guaranteeing mortgage loans for a fee. CM Corp. will hold most of the Company's taxable investments, conduct any fee-generating activities in which the Company may engage and provide management services to CharterMac and its other subsidiaries. CM Corp. isolates a substantial portion of the taxable income and expenses of the Company. Unlike CharterMac, CM Corp. is a corporation which is subject to both Federal and State income tax. Any distributions of net income from CM Corp. to CharterMac are taxable and are passed through to the shareholders of CharterMac in its dividend.

PW FUNDING, INC.

In December 2001, the Company, through CM Corp. acquired 80% of the outstanding capital stock of PW Funding, Inc. and its subsidiaries ("PWF"), for approximately $34.9 million, of which, approximately $21.6 million was financed and $7.6 million was paid in cash. Additionally, the Company repaid a $5.7 million loan on behalf of PWF. It is anticipated that CM Corp. will acquire the remaining 20% of the issued and outstanding capital stock of PWF over the next 24 to 36 months. Under the acquisition agreement, the stockholders of PWF were granted the right to put their remaining 20% stock interest to CM Corp. after an initial period of 24 to 36 months. The agreement also grants CM Corp. the right to call the remaining 20% stock interest of PWF from PWF's stockholders after the same initial period of 24 to 36 months.

PWF is a national mortgage-banking firm which specializes in providing financing and ancillary services to the multifamily housing industry, including construction and permanent debt financing, mortgage loan servicing and asset management. Founded in 1971, PWF became one of the original Federal National Mortgage Association ("Fannie Mae") Delegated Underwriter and Servicers ("DUS") and is a Federal Housing Administration ("FHA") approved mortgagor. In 2000, PWF joined a select group of Federal Home Loan Mortgage Corporation ("Freddie Mac") Program Plus lenders through the acquisition of Larson Financial Resources, Inc. ("Larson").

Since 1988, PWF has originated more than $4 billion in multifamily and commercial loans and currently services a $2.9 billion loan portfolio including about $1.5 billion in Fannie Mae DUS loans and $595 million in Freddie Mac loans. Over the past 5 years, the company has averaged more than $350 million annually in loan originations. Together, PWF and its subsidiaries provide a full

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range of financing services to the conventional multifamily market and compliments CharterMac's principal business in the acquisition of tax-exempt affordable housing Revenue Bonds.

CharterMac is entitled to a cumulative preferential distribution from PWF's cash available for distribution equal to 10% of its invested capital. The remaining cash available for distribution will be distributed approximately 80% to CharterMac and 20% to the other stockholders. CharterMac will also be entitled to an additional cumulative priority return equal to 4.3% of its invested capital prior to the purchase payments to PWF's stockholders on exercise of the put or call options. The fee income generated by PWF will be taxable income. However, CM Corp. incurs tax-deductible expenses which will be used to offset a portion of this taxable income.

GOVERNANCE

The Company is governed by a board of trustees comprised of three independent managing trustees and five managing trustees who are affiliated with Related. The Company utilizes the services and advice provided by CM Corp. and Related Charter LP, an affiliate of Related Capital, to operate its day-to-day activities and advise on the selection and underwriting of investments. CM Corp. and Related Charter LP (collectively, the "Manager") provide these services pursuant to management agreements between (i) CM Corp. and/or Related Charter LP and CharterMac, and (ii) CM Corp. and each of the Company's subsidiaries. The Manager has subcontracted its obligations under the management agreements to Related and uses Related's resources and real estate and investment expertise to advise the Company and provide it with services with a core group of experienced staff and executive management. These services include, among other things, acquisition, financial, accounting, capital markets, asset monitoring, portfolio management, investor relations and public relations services. The Company believes that it benefits significantly from its relationship with Related, since Related provides the Company with resources that are not generally available to smaller-capitalized, self-managed companies.

## BUSINESS PLAN

The Company focuses on investing in a portfolio of Revenue Bonds that are secured by affordable multifamily housing properties. Through PWF, the Company focuses on originating and servicing multifamily mortgage loans on behalf of Government Sponsored Enterprises ("GSEs") such as Fannie Mae, Freddie Mac and the FHA. Together, these components offer a full range of capital solutions to developers of affordable and market rate multifamily housing.

## INVESTING IN TAX-EXEMPT REVENUE BONDS

In order to generate tax-exempt income to pass through to CharterMac shareholders and, as a result, enhance the value of its Common Shares, CharterMac primarily invests in or acquires tax-exempt Revenue Bonds secured by multifamily properties. The Company believes that it can earn above market rates of interest on its bond acquisitions by focusing its efforts primarily on affordable housing. The Manager estimates that nearly 50% of all new multifamily development contains an affordable component, which produces tax credits pursuant to Section 42 of the Internal Revenue Code. The traditional methods of financing affordable housing with tax-exempt Revenue Bonds are complex and time consuming, and involve the participation of many intermediaries. Through the Manager, the process has been streamlined using the Company's "Direct Purchase Program." The Direct Purchase Program removes all intermediaries from the financing process (except the governmental issuer of the Revenue Bond) and enables developers to deal directly with one source. By purchasing Revenue Bonds directly from the governmental issuer, the Company's program eliminates the need for underwriters and their counsel, rating agencies and costly documentation. This reduces the financing life cycle, often by several months, and also reduces the bond issuance costs -- usually by 30% or more. In dealing directly with the Company, developers feel more certain about the terms and timing of their financing. The Company believes the savings in time and up-front costs and the certainty of execution that the Company's program offers to developers allows the Company to receive above-market rates of interest on Revenue Bonds.

In addition to investing in tax-exempt Revenue Bonds secured by multifamily properties producing tax credits, the Company may acquire other multifamily tax-exempt bonds including those issued to finance low-income multifamily projects and facilities for the elderly owned by Section 501(c)(3) not-for-profit organizations. The Company also has a portion of assets that produce a small amount of taxable income.

## OFFERING FINANCING THROUGH FANNIE MAE, FREDDIE MAC AND FHA

As a result of the acquisition of PWF, the Company has diversified the range of its investment products and is able to offer developers fixed and floating rate tax-exempt and taxable financing through Fannie Mae, Freddie Mac and, to a lesser extent, FHA for affordable and market rate multifamily properties. Combining this with the core business of investing in tax-exempt Revenue Bonds and the Company's affiliation with Related, the Company is able to provide developers with financing for all aspects of their property's capital structure. In addition, the Company has diversified its revenues with a fee business that will grow in value over time and will provide insulation from the vagaries of the capital markets.

## CREDIT ENHANCEMENT TRANSACTIONS

In addition to expanding the Company's business lines to include providing mortgage origination and servicing to third parties, the Company has also begun guaranteeing third party mortgage loans for a fee. In 2001, the Company executed its first credit enhancement transaction. In such transactions, the Company will generally receive a guarantee fee in return for assuming a first loss position on a pool of multifamily mortgages. The Company expects to be able to selectively grow the value of this new fee business over time.



CMBS INVESTMENT

In October 2001, the Company purchased 739,741 units of Series A Convertible Preferred Membership Interests ("Membership Interests") in ARCap Investors, L.L.C. ("ARCap") at the price of $25.00 per unit, for an aggregate face amount of approximately $18.5 million, with a preferred return of 12.00%. ARCap was formed in January 1999 by REMICap and Apollo Real Estate Investors to invest exclusively in unrated subordinated Collateralized Mortgage-Backed Securities ("CMBS"). As of December 31, 2001, ARCap had approximately $596 million in assets, including investments of approximately $565 million of CMBS. Approximately one-third of ARCap's CMBS are secured by multifamily properties.

As of December 31, 2001, ARCap had approximately $78.1 million of Common Membership Interests outstanding, which are subordinate to the Company's Membership Interests. ARCap's leverage is predominantly fixed rate, long-term financing and, as of December 31, 2001, ARCap had approximately $322.1 million of debt outstanding, representing 54% of its capitalization.

CORPORATE STRATEGY

The Company does not operate as a mortgage REIT, which generally utilizes high levels of leverage to acquire subordinated interests in commercial and/or residential mortgage-backed securities. Mortgage REITs typically incur leverage at ratios ranging from between 3:1 to 10:1. Conversely, and pursuant to its Trust Agreement, the Company is only able to incur leverage or other financing up to 50% of the Company's Total Market Value (as defined in the Trust Agreement) as of the date incurred. Furthermore, the Revenue Bonds owned by the Company generally call for ten-year restrictions from prepayments, eliminating the Company's susceptibility to significant levels of repayment risk as a result of interest rate reductions. Due to the Company's low level of leverage, the Company is less likely than higher leveraged REITs to be affected by any lack of liquidity. The Company's portfolio does not contain assets that are especially vulnerable to volatility during periods of interest rate fluctuations. Consistent with the foregoing, the Company focuses on providing investors with a stable level of distributions, even through unstable markets.

Although the Company expects to be able to increase income from its taxable business, it is not expected that the taxable portion of any distributions will increase proportionately with the amount of taxable income generated. This is because CM Corp., as a taxable subsidiary, can reduce income by deducting certain expenses which qualify for income tax purposes.

BUSINESS SEGMENTS

As a result of the December 2001 acquisition of PWF, the Company has two reportable business segments: an investing segment and an operating segment.

The investing segment consists of subsidiaries holding investments in Revenue Bonds producing primarily tax-exempt interest income.

The operating segment generates taxable interest and fee income. Taxable interest income is generated through the ownership of taxable bonds, certain taxable loans and other investments. Taxable fee income includes loan origination and loan servicing fees (through PWF) on portfolios for third parties, fees earned and associated with the acquisition or origination of Revenue Bonds, and fees for credit enhancement and guaranty services.

Segment results include all direct and contractual revenues and expenses of each segment and allocations of indirect expenses based on specific methodologies. These reportable segments are strategic business units that primarily generate revenue streams that are distinctly different and are generally managed separately. Segment reporting is applicable beginning after the year ended December 31, 2001; prior to the year ended December 31, 2001 all of the Company's operations were attributable to the investing segment. Since the acquisition of PWF took place in late December 2001, there was no impact on the Company's revenues or net income.

REVENUE BONDS

Generally, Revenue Bonds are secured by mortgage loans on underlying properties ("Underlying Properties"). As of December 31, 2001, 97.7% of the Revenue Bond par amount owned by the Company were first mortgage Revenue Bonds. Revenue Bonds that contain provisions for the Company to receive additional interest payments by participating with the borrower in a portion of the cash flow, sale or refinancing proceeds on the Underlying Properties are referred to as "participating"; Revenue Bonds lacking this provision are referred to as "non-participating". As of December 31, 2001 14% of the Company's Revenue Bonds were participating bonds.

As of December 31, 2001 there was an aggregate of 148 Revenue Bonds. The Underlying Properties securing these Revenue Bonds are garden apartments located in major metropolitan markets in 23 states and the District of Columbia. The properties range in size from 70 units to 550 units with an average size of 214 units. Generally, the properties have a market appropriate, competitive amenity package which may include swimming pools, clubhouses, exercise rooms and tennis courts. Of these, 63 Revenue Bonds, with an original par amount of approximately $438 million, had Underlying Properties either under construction or undergoing major rehabilitation. There were also 24 Revenue Bonds, with an original par amount of approximately $188 million in the lease-up stage. The remaining 61 Revenue Bonds in the portfolio have properties with stabilized occupancies. The stabilized portfolio as of December 31, 2001 reports an average occupancy of 94.2%.

The principal and interest payments on each Revenue Bond are payable only from the cash flows of the Underlying Properties, including proceeds from a sale of an Underlying Property or the refinancing of the mortgage loan securing such Revenue Bonds (the "Mortgage Loans"). None of the Revenue Bonds constitute a general obligation of any state or local government, agency or



authority. The structure of each Mortgage Loan mirrors the structure of the corresponding Revenue Bond that it secures. In order to protect the tax-exempt status of the Revenue Bonds, the owners of the Underlying Properties are required to enter into certain agreements to own, manage and operate the Underlying Properties in accordance with requirements of the Internal Revenue Code of 1986, as amended.

Revenue Bonds generally are not subject to optional prepayment during the first five to ten years of the Company's ownership of the bonds and may carry prepayment penalties thereafter generally beginning at 5% of the outstanding principal balance, declining by 1% per annum. Certain Revenue Bonds may be purchased at a discount from their face value. Up to 15% of the Total Market Value of the Company (as defined in its Trust Agreement) may be invested in Revenue Bonds secured by Underlying Properties in which affiliates of the Manager have a controlling interest, equity interest or security interest. The 15% limit is not applicable to properties to which the Manager or its affiliates have taken title for the benefit of the Company and only applies to Revenue Bonds acquired after the Merger. In selected circumstances and generally only in connection with the acquisition of tax-exempt Revenue Bonds, the Company may acquire a small amount of taxable bonds (i) which the Company may be required to acquire in order to satisfy state regulations with respect to the issuance of tax-exempt bonds and (ii) to fund certain costs associated with the issuance of Revenue Bonds, that under current law cannot be funded by such Revenue Bonds.

From time to time, the Company has advanced funds to owners of certain Underlying Properties in order to preserve the underlying asset. Such preservation may include funds for construction completion, past due real estate taxes, remedial deferred maintenance or other operating deficiencies. Promissory notes and/or second mortgages typically secure such advances. As of December 31, 2001, the face amount of such advances was approximately $12.6 million, with rates ranging from 8% to 13% and a carrying value of approximately $7.2 million, (net of purchase accounting adjustments), and a reserve for collectibility of $138,000. Included in such amounts were advances to obligors which are affiliates of the Manager at an aggregate face amount of approximately $5 million, with rates ranging from 8% to 10%.

With respect to Revenue Bonds which are subject to forbearance agreements with their respective obligors, the difference between the stated interest rates and the rates paid (whether deferred and payable out of available future cash flow or, ultimately, from sale or refinancing proceeds) is not accrued for financial statement purposes. The accrual of interest at the stated interest rate will resume once an Underlying Property's ability to pay the stated rate has been adequately demonstrated. Unrecorded contractual interest income was approximately $662,000, $1.6 million and $1.9 million for the years ended December 31, 2001, 2000 and 1999, respectively. Payments under each of the existing forbearance agreements are current as of December 31, 2001.

PARTICIPATING REVENUE BONDS

Participating Revenue Bonds with an aggregate face amount of approximately $163 million as of December 31, 2001, call for interest only debt service payments during their respective terms (which generally are 24 to 30 years from issuance or re-issuance) with repayment of principal due in a lump sum "balloon" payment at the expiration of their respective terms or upon sale or refinancing. In addition to the stated base rates of interest, these Revenue Bonds provide for "participating interest" which is based on a percentage of the underlying properties cash flow or net sales/refinancing proceeds. Both the stated and participating interest on the Revenue Bonds are exempt from federal income taxation. During the years ended December 31, 2001, 2000 and 1999, the Company was paid participating interest amounting to approximately $1.5 million, $1.7 million and $728,000, respectively.

NON-PARTICIPATING REVENUE BONDS

Non-participating, tax-exempt Revenue Bonds, with an aggregate face amount of approximately $1 billion as of December 31, 2001, generally bear a fixed base interest rate and may or may not provide for amortization of principal. Terms are expected to be 5 to 35 years, although the Company may have the right to cause repayment prior to maturity through a mandatory redemption feature (five to seven years with up to six month's notice). Bonds that call for amortization or "sinking fund" payments of principal are usually based on thirty to forty year level debt service amortization schedules with amortization generally beginning at the completion of rehabilitation or construction.

Certain other non-participating Revenue Bonds, with an aggregate face amount of approximately $13 million are taxable and call for amortization or sinking fund payments of principal on a term ranging between 13 and 40 years.

MODIFIED REVENUE BONDS

From time to time, the Company, as an alternative to foreclosure in the event of default, enters into forbearance agreements and/or permanent modifications with certain borrowers. The determination as to whether it is in the best interest of the Company to enter into permanent modifications or forbearance agreements, to advance second mortgages, or alternatively, to pursue its remedies under the loan documents, including foreclosure, is based upon several factors. These factors include, but are not limited to, Underlying Property operations and performance, owner cooperation and projected costs of foreclosure and litigation - irrespective of whether or not the obligor has an affiliation with the Manager. These modifications have generally encompassed an extension of the maturity together with a prepayment lock out feature and/or prepayment penalties together with an extension of the mandatory redemption feature (5-10 years from modification). Stated interest rates have also been adjusted together with a change in the participating interest features. Base interest rates, participating interest, prepayment lock-outs, mandatory redemption and maturity features are arrived at through negotiations between the Company and the owners of the Underlying Properties and vary dependent on the facts of a particular Revenue Bond, the owner of the Underlying Property, the Underlying Property's performance and requirements of bond counsel and local issuers. Should negotiations break down, the Company has the option to pursue its other remedies including acceleration and foreclosure. The Company may agree to the modification of other Revenue Bonds to generally reflect similar terms as those modified previously, where and as appropriate. Significant modifications to interest rates and maturity dates are subject to final approval of the local issuers, bond counsel and indenture trustees.



In connection with the sale of two of the Underlying Properties, Cedar Creek and Pelican Cove, the Company has agreed to a modification of the terms of the respective Revenue Bonds. Subject to the local issuer's approval, the stated interest rate of the Cedar Creek and Pelican Cove Revenue Bonds will be modified to a stated interest rate of 7.43% and 7.25%, respectively, and the maturity and call dates for each will be extended to October 1, 2010 and October 1, 2020, respectively.

On June 1, 2001, the Company agreed to a modification of the terms of the Revenue Bond secured by the Loveridge Apartments Project. The stated interest rate was reduced from 8% to 7.5% and the call date was extended to June 1, 2004. As of December 31, 2001, this bond had a carrying value and fair value of approximately $6.9 million and $7.4 million, respectively. In addition to the above three Revenue Bonds, other Revenue Bonds, with an aggregate face amount of approximately $154 million, have previously been modified.

REVENUE BONDS WITH THE OBLIGOR AS AN AFFILIATE OF THE MANAGER

The obligors of Revenue Bonds with an aggregate approximate original par amount of approximately $612 million are partnerships in which affiliates of the Manager own a 1% general partner interest. In addition, the original owners of underlying properties and obligors of approximately $12.1 million of Revenue Bonds have been replaced with affiliates of the Manager who have not made equity investments. These affiliate entities could have interests that do not coincide with, and may be adverse to, the interests of the Company. Negotiations, if any, with respect to modifications of Revenue Bonds between the Company and obligors who are affiliates may be affected by these conflicts as the Manager determines the appropriate terms and conditions of modifications or otherwise opts for some other remedy including foreclosure.

The original obligors and owners of the Underlying Properties of the Cedar Creek, Highpointe, Pelican Cove and Loveridge Revenue Bonds have been replaced with affiliates of the Manager who have not made equity investments. These affiliates have assumed the day-to-day responsibilities and obligations of the Underlying Properties. On September 29, 2000, the affiliates of the Manager sold 49% of Pelican Cove and Cedar Creek. During 2001 the remaining 51% of Pelican Cove and Cedar Creek were purchased by the same buyers who purchased the initial 49%. Also in 2001, ownership of the property underlying the Loveridge Revenue Bond was transferred to Loveridge L.P., also an affiliate of the Manager. During June 2001, the affiliates of the Manager sold 49% of Loveridge. The remaining 51% was sold in January 2002, to the same buyer who purchased the initial 49%. A buyer is being sought for the remaining Underlying Property-Highpointe. Highpointe is generally paying as interest an amount equal to the net cash flow generated by operations, which is less than the stated rate of the Revenue Bond. The Company has no present intention of declaring default on this Revenue Bond. The aggregate carrying value of Highpointe at December 31, 2001 and December 31, 2000 was approximately $5.7 million and $5.6 million, respectively, and the income earned from Highpointe for the years ended December 31, 2001 and 2000 was approximately $315,000 and $420,000, respectively.

IMPAIRED REVENUE BOND

During the second quarter of 2001, one Revenue Bond, Lexington Trails, became impaired. The Company did not receive the regular interest payments on this Revenue Bond of $210,000 for the period April through September of 2001. The Company has recorded a reserve against these interest payments. On November 6, 2001, the trustee, for the benefit of the Company, foreclosed on the Underlying Property. Bond payments were received for October through December of 2001. As a result of the foregoing, the Company has written the Revenue Bond down to its estimated fair value of approximately $5.5 million, resulting in a loss on impairment on this bond of $400,000. Management estimated the fair value of this Revenue Bond using the estimated fair value of the Underlying Property.

REVENUE BOND REPAYMENTS

During the period January 1, 2001 through December 31, 2001, three Revenue Bonds and one note were repaid and one RITE was terminated as described in the table below.

Dispositions for the Year Ended December 31, 2001

| Property/Bond Name | Par Amount | Amortized Cost | Realized Gains / (Losses) |
|---|---|---|---|
| BONDS | | | |
| Greenway | $12,850,000 | $12,744,443 | $ 105,557 |
| Rolling Ridge | 4,925,000 | 5,989,416 | (867,416) |
| Country Lake | 6,255,000 | 6,400,979 | (145,979) |
| NOTE | | | |
| Country Lake | 2,540,000 | 2,540,000 | - |
| RITE | | | |
| Courtyard | 5,000 | 22,647 | (3,766) |
| | | | $(911,604) |

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During the period January 1, 2000 through December 31, 2000, three Revenue Bonds were repaid and two RITES were terminated as described in the table below.

Dispositions for the Year Ended December 31, 2000

| Property/Bond Name | Par Amount | Amortized Cost | Realized Gains / (Losses) |
|---|---|---|---|
| BONDS | | | |
| Bay Club | $6,400,000 | $6,438,942 | $ (38,942) |
| East Ridge | 8,700,000 | 8,437,747 | 262,253 |
| Martin's Creek | 7,300,000 | 6,842,946 | 457,054 |
| RITES | | | |
| Avalon | 5,000 | 40,073 | (35,073) |
| Meadowview Park | 5,000 | 5,141 | (141) |
| | | | $ 645,151 |

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REVENUE BONDS - CHARACTERISTICS

The following table provides certain information with respect to each of the Revenue Bond as of December 31, 2001:

| PROPERTY | LOCATION | UNITS | LAST YEAR OF CONSTRUCTION / REHAB | PAR |
|---|---|---|---|---|
| TAX-EXEMPT FIRST MORTGAGE BONDS | | | | |
| STABILIZED PORTFOLIO | | | | |
| Bristol Village | Bloomington, MN | 290 | 1989 | |
| Carrington Point | Los Banos, CA | 80 | 1999 | |
| Casa Ramon | Orange County, CA | 75 | 2001 | |
| Cedar Creek | McKinney, TX | 250 | 1988 | |
| Cedar Pointe | Nashville, TN | 210 | 1989 | |
| Cedarbrook | Hanford, CA | 70 | 1999 | |
| Clarendon Hills | Hayward, CA | 285 | 1989 | |
| Crowne Pointe | Olympia, WA | 160 | 1986 | |
| Cypress Run | Tampa, FL | 408 | 1988 | |
| Del Monte Pines | Fresno, CA | 366 | 2000 | |
| Douglas Pointe | Miami, FL | 176 | 2001 | |
| Fort Chaplin | Washington, DC | 549 | 2000 | |
| Franciscan Riviera | Antioch, CA | 129 | 2001 | |
| Garfield Park | Washington, DC | 94 | 2000 | |
| Greenbriar | Concord, CA | 199 | 2000 | |
| Highland Ridge | St. Paul, MN | 228 | 1989 | |

| | | | |
|---|---|---|---|
| Highpointe | Harrisburg, PA | 240 | 1991 |
| Highpointe | Harrisburg, PA | * | * |
| Lakepoint | Atlanta, GA | 360 | 1989 |
| Lakes Edge at Walden | Miami, FL | 400 | 2001 |
| Lakes, The | Kansas City, MO | 400 | 1989 |
| Lewis Place | Gainesville, FL | 112 | 2000 |
| Lexington Square | Clovis, CA | 130 | 2000 |
| Lexington Trails | Houston, TX | 200 | 1997 |

| PROPERTY | DATE CLOSED | REVENUE BOND PAR AMOUNT | REVENUE BOND FAIR VALUE AT DECEMBER 31, 2001(2) | STATED INTEREST RATE(3) |
|---|---|---|---|---|
| TAX-EXEMPT FIRST MORTGAGE BONDS STABILIZED PORTFOLIO | | | | |
| Bristol Village | Jul-87 | 17,000,000 | 17,388,000 | 7.500% |
| Carrington Point | Sep-98 | 3,375,000 | 2,961,000 | 6.375% |
| Casa Ramon | Jul-00 | 4,744,000 | 4,895,000 | 7.500% |
| Cedar Creek | Dec-86 | 8,100,000 | 8,207,000 | 7.430% |
| Cedar Pointe | Apr-87 | 9,500,000 | 9,069,000 | 7.000% |
| Cedarbrook | Apr-98 | 2,840,000 | 2,782,000 | 7.125% |
| Clarendon Hills | Dec-86 | 17,600,000 | 13,400,000 | 5.520% |
| Crowne Pointe | Dec-86 | 5,075,000 | 5,018,000 | 7.250% |
| Cypress Run | Aug-86 | 15,402,428 | 12,274,000 | 5.500% |
| Del Monte Pines | May-99 | 11,000,000 | 10,317,000 | 6.800% |
| Douglas Pointe | Sep-99 | 7,100,000 | 6,778,000 | 7.000% |
| Fort Chaplin | Dec-99 | 25,800,000 | 24,250,000 | 6.900% |
| Franciscan Riviera | Aug-99 | 6,587,500 | 6,474,000 | 7.125% |
| Garfield Park | Aug-99 | 3,260,000 | 3,223,000 | 7.250% |
| Greenbriar | May-99 | 9,585,000 | 9,089,000 | 6.875% |
| Highland Ridge | Dec-86 | 15,000,000 | 14,831,000 | 7.250% |
| Highpointe | Jul-86 | 8,900,000 | 5,728,000 | 8.500% |
| Highpointe | Nov-00 | 3,250,000 | 3,989,000 | 9.000% |
| Lakepoint | Nov-87 | 15,100,000 | 12,355,000 | 6.000% |
| Lakes Edge at Walden | Jun-99 | 14,850,000 | 13,974,000 | 6.900% |
| Lakes, The | Dec-86 | 13,650,000 | 10,896,000 | 4.870% |
| Lewis Place | Jun-99 | 4,000,000 | 3,682,000 | 7.000% |
| Lexington Square | Aug-98 | 3,850,000 | 3,376,000 | 6.375% |
| Lexington Trails | Nov-00 | 4,900,000 | 5,521,000 | 9.000% |

| PROPERTY | UNIT RENTAL RATES AT DECEMBER 31, 2001 | NUMBER OF COMPETING PROPERTIES | NOTES |
|---|---|---|---|
| TAX-EXEMPT FIRST MORTGAGE BONDS STABILIZED PORTFOLIO | | | |
| Bristol Village | 400-2,398 | 25 | E,J |
| Carrington Point | 448-565 | 5 | E,J,K |
| Casa Ramon | 652-1086 | 43 | E,J,K |
| Cedar Creek | 250-940 | 10 | E,J,Q |
| Cedar Pointe | 540-860 | 168 | D,I |
| Cedarbrook | 418-517 | 18 | E,J,K |

| | | | |
|---|---|---|---|
| Clarendon Hills | 619-1,700 | 99 | D,I,R |
| Crowne Pointe | 485-845 | 39 | E,J,R,T |
| Cypress Run | 485-855 | 247 | D,I,Q |
| Del Monte Pines | 388-544 | 256 | E,J,K |
| Douglas Pointe | 504-604 | 184 | C,H,K |
| Fort Chaplin | 419-1,032 | 158 | E,J,K |
| Franciscan Riviera | 500-872 | 17 | C,H,K |
| Garfield Park | 585-946 | 158 | D,I |
| Greenbriar | 750-1,100 | 55 | E,J,K |
| Highland Ridge | 850-1,460 | 86 | E,J,R |
| Highpointe | 450-830 | * | A,L,M,T |
| Highpointe | * | 24 | B,L |
| Lakepoint | 462-895 | 30 | C,G,R |
| Lakes Edge at Walden | 618-944 | 184 | C,G |
| Lakes, The | 495-700 | 152 | D,I,R |
| Lewis Place | 529-642 | 91 | C,G,K |
| Lexington Square | 393-471 | 42 | D,I,K |
| Lexington Trails | 435-700 | 25 | B |

9

| PROPERTY | LOCATION | UNITS | LAST YEAR OF CONSTRUCTION / REHAB | PAR |
|---|---|---|---|---|
| Loveridge | Pittsburg, CA | 148 | 1987 | |
| Mansions, The | Independence, MO | 550 | 1987 | |
| Newport Village | Tacoma, WA | 402 | 1987 | |
| North Glen | Atlanta, GA | 284 | 1987 | |
| Ocean Air | Norfolk, VA | 434 | 2001 | |
| Orchard Hills | Tacoma, WA | 176 | 1987 | |
| Orchard Mill | Atlanta, GA | 238 | 1990 | |
| Pelican Cove | St. Louis, MO | 402 | 1989 | |
| Phoenix | Stockton, CA | 186 | 2000 | |
| Reflections | Casselberry, FL | 336 | 1995 | |
| River Run | Miami, FL | 164 | 1987 | |
| Shannon Lake | Atlanta, GA | 294 | 1988 | |
| Silvercrest | Clovis, CA | 100 | 1999 | |
| South Congress | Austin, TX | 172 | 2001 | |
| Standiford | Modesto, CA | 250 | 2001 | |
| Stonecreek | Clovis, CA | 120 | 2000 | |
| Sunset Creek | Lancaster, CA | 148 | 1989 | |
| Sunset Downs | Lancaster, CA | 264 | 1987 | |
| Sunset Terrace | Lancaster, CA | 184 | 1987 | |
| Sunset Village | Lancaster, CA | 204 | 1989 | |
| Sycamore Woods | Antioch, CA | 186 | 2000 | |
| Tallwood | Virginia Beach, VA | 120 | 2000 | |
| Thomas Lake | Eagan, MN | 216 | 1988 | |
| Village Green | Merced, CA | * | * | |
| Village Green | Merced, CA | 128 | 2001 | |
| Walnut Park Plaza | Philadelphia, PA | 224 | 2000 | |
| Williams Run | Dallas, TX | 252 | 1986 | |
| Willow Creek | Ames, IA | 138 | 1988 | |
| Subtotal-Revenue Bonds Secured by Stabilized Properties | | 11,731 | | |

| | | | |
|---|---|---|---|
| LEASE-UP PORTFOLIO | | | |
| Barnaby Manor | Washington, DC | 124 | 2001 |
| Bay Colony | League City, TX | 248 | 2001 |
| Chapel Ridge at Little Rock | Little Rock, AR | 128 | 2001 |

| PROPERTY | DATE CLOSED | REVENUE BOND PAR AMOUNT | REVENUE BOND FAIR VALUE AT DECEMBER 31, 2001(2) | STATED INTEREST RATE(3) |
|---|---|---|---|---|
| Loveridge | Nov-86 | 8,550,000 | 7,371,000 | 7.500% |
| Mansions, The | May-86 | 19,450,000 | 19,230,000 | 7.250% |
| Newport Village | Feb-87 | 13,000,000 | 12,853,000 | 7.250% |
| North Glen | Sep-86 | 12,400,000 | 12,683,000 | 7.500% |
| Ocean Air | Apr-98 | 10,000,000 | 9,887,000 | 7.250% |
| Orchard Hills | Dec-86 | 5,650,000 | 5,586,000 | 7.250% |
| Orchard Mill | May-89 | 10,500,000 | 10,739,000 | 7.500% |
| Pelican Cove | Feb-87 | 18,000,000 | 17,797,000 | 7.250% |
| Phoenix | Apr-98 | 3,250,000 | 3,151,000 | 7.125% |
| Reflections | Nov-00 | 10,700,000 | 13,133,000 | 9.000% |
| River Run | Aug-87 | 7,200,000 | 7,855,000 | 8.000% |
| Shannon Lake | Jun-87 | 12,000,000 | 12,103,000 | 7.000% |
| Silvercrest | Sep-98 | 2,275,000 | 2,232,000 | 7.125% |
| South Congress | May-00 | 6,300,000 | 6,444,000 | 7.500% |
| Standiford | Sep-99 | 9,520,000 | 9,356,000 | 7.125% |
| Stonecreek | Apr-98 | 8,820,000 | 8,635,000 | 7.125% |
| Sunset Creek | Mar-88 | 8,275,000 | 6,251,000 | 5.477% |
| Sunset Downs | Feb-87 | 15,000,000 | 11,332,000 | 5.477% |
| Sunset Terrace | Feb-87 | 10,350,000 | 7,819,000 | 5.477% |
| Sunset Village | Mar-88 | 11,375,000 | 8,593,000 | 5.477% |
| Sycamore Woods | May-99 | 9,415,000 | 8,928,000 | 6.875% |
| Tallwood | Sep-99 | 6,205,000 | 6,135,000 | 7.250% |
| Thomas Lake | Sep-86 | 12,975,000 | 13,271,000 | 7.500% |
| Village Green | Aug-00 | 503,528 | 521,000 | 7.500% |
| Village Green | Aug-00 | 3,078,000 | 3,184,000 | 7.500% |
| Walnut Park Plaza | Apr-00 | 5,500,000 | 5,600,000 | 7.500% |
| Williams Run | Dec-00 | 12,650,000 | 12,596,000 | 7.650% |
| Willow Creek | Feb-87 | 6,100,000 | 6,031,000 | 7.250% |
| Subtotal-Revenue Bonds Secured by Stabilized Properties | | 489,510,456 | 459,793,000 | |
| LEASE-UP PORTFOLIO | | | | |
| Barnaby Manor | Nov-99 | 4,500,000 | 4,526,000 | 7.375% |
| Bay Colony | Aug-00 | 10,100,000 | 10,330,000 | 7.500% |
| Chapel Ridge at Little Rock | Aug-99 | 5,600,000 | 5,428,000 | 7.125% |

| PROPERTY | NUMBER OF COMPETING PROPERTIES | NOTES |
|---|---|---|
| Loveridge | 18 | D,I |

| | | |
|---|---|---|
| Mansions, The | 15 | E,J |
| Newport Village | 181 | E,J,R,T |
| North Glen | 371 | E,J |
| Ocean Air | 60 | E,J,K |
| Orchard Hills | 181 | E,J,R |
| Orchard Mill | 371 | E,J,K |
| Pelican Cove | 172 | E,J |
| Phoenix | 96 | E,J,K |
| Reflections | 9 | E,J,R |
| River Run | 184 | E,J,R,T |
| Shannon Lake | 371 | A,R |
| Silvercrest | 142 | E,J,K |
| South Congress | 152 | E,J,K |
| Standiford | 63 | E,J,K |
| Stonecreek | 5 | E,J,K |
| Sunset Creek | 37 | C,G,S |
| Sunset Downs | 37 | D,I,S |
| Sunset Terrace | 37 | D,I,S |
| Sunset Village | 37 | C,G,S |
| Sycamore Woods | 17 | E,J,K |
| Tallwood | 86 | C,H,K |
| Thomas Lake | 16 | E,J |
| Village Green | * | E,J,K |
| Village Green | 11 | E,J,K |
| Walnut Park Plaza | 49 | E,J,K |
| Williams Run | 10 | C,G |
| Willow Creek | 7 | E,J |
| Subtotal-Revenue Bonds Secured by Stabilized Properties | | |
| LEASE-UP PORTFOLIO | | |
| Barnaby Manor | 12 | C,G,K |
| Bay Colony | 15 | D,K |
| Chapel Ridge at Little Rock | 83 | E,J,K |



| PROPERTY | LOCATION | UNITS | LAST YEAR OF CONSTRUCTION / REHAB | PAR |
|---|---|---|---|---|
| Chapel Ridge at Texarkana | Texarkana, AR | 144 | 2000 | |
| College Park | Naples, FL | 210 | 2000 | |
| Columbia at Bells Ferry | Cherokee Co., GA | 272 | 2001 | |
| Falcon Creek | Indianapolis, IN | 131 | 2000 | |
| Forest Hills | Garner, NC | 136 | 2000 | |
| Gulfstream | Dania, FL | 96 | 2000 | |
| Hamilton Gardens | Hamilton, NJ | 174 | 2001 | |
| Jubilee Courtyards | Florida City, FL | 98 | 1999 | |
| Lake Jackson | Lake Jackson, TX | 160 | 2000 | |
| Lake Park | Turlock, CA | 104 | 2000 | |
| Lakemoor | Durham, NC | 160 | 2001 | |
| Lenox Park | Gainesville, GA | 292 | 2000 | |

| | | | |
|---|---|---|---|
| Madalyn Landing | Palm Bay, FL | 304 | 2000 |
| Marsh Landing | Portsmouth, VA | 250 | 2001 |
| Millpond Village | East Windsor, CT | 360 | 2001 |
| Mountain Ranch | Austin, TX | 196 | 2001 |
| Newark Commons | New Castle, DE | 220 | 2001 |
| Northpointe Village | Fresno, CA | 406 | 2000 |
| Park Sequoia | San Jose, CA | 81 | 2001 |
| San Marcos | San Marcos, TX | 156 | 2001 |
| Summer Lake | Davie, FL | 108 | 2001 |
| Walnut Creek | Austin, TX | 98 | 2001 |
| Walnut Creek | Austin, TX | * | * |
| Subtotal-Revenue Bonds Secured by properties in lease-up stage | | 4,656 | |
| CONSTRUCTION BOND PORTFOLIO | | | |
| Arbors at Creekside | Austin, TX | 176 | - |
| Armstrong Farm | Jeffersonville, IN | 168 | - |
| Belmont Heights Estates | Tampa, FL | 201 | - |
| Bluffview | Denton, TX | 250 | - |
| Blunn Creek | Austin, TX | 280 | - |
| Chandler Creek | Round Rock, TX | 216 | - |
| Chapel Ridge at Claremore | Claremore, OK | 104 | - |

| PROPERTY | DATE CLOSED | REVENUE BOND PAR AMOUNT | REVENUE BOND FAIR VALUE AT DECEMBER 31, 2001(2) | STATED INTEREST RATE(3) |
|---|---|---|---|---|
| Chapel Ridge at Texarkana | Sep-99 | 5,800,000 | 5,833,000 | 7.375% |
| College Park | Jul-98 | 10,100,000 | 9,961,000 | 7.250% |
| Columbia at Bells Ferry | Apr-00 | 13,000,000 | 13,119,000 | 7.400% |
| Falcon Creek | Sep-98 | 6,144,600 | 6,062,000 | 7.250% |
| Forest Hills | Dec-98 | 5,930,000 | 5,696,000 | 7.125% |
| Gulfstream | Jul-98 | 3,500,000 | 3,445,000 | 7.250% |
| Hamilton Gardens | Mar-99 | 6,400,000 | 6,181,000 | 7.125% |
| Jubilee Courtyards | Sep-98 | 4,150,000 | 3,928,000 | 7.125% |
| Lake Jackson | Dec-98 | 10,934,000 | 10,430,000 | 7.000% |
| Lake Park | Jun-99 | 3,638,000 | 3,638,000 | 7.250% |
| Lakemoor | Dec-99 | 9,000,000 | 8,898,000 | 7.250% |
| Lenox Park | Jul-99 | 13,000,000 | 12,055,000 | 6.800% |
| Madalyn Landing | Nov-98 | 14,000,000 | 13,349,000 | 7.000% |
| Marsh Landing | May-98 | 6,050,000 | 5,944,000 | 7.250% |
| Millpond Village | Dec-00 | 14,300,000 | 14,724,000 | 7.550% |
| Mountain Ranch | Dec-98 | 9,128,000 | 8,863,000 | 7.125% |
| Newark Commons | May-00 | 14,300,000 | 14,236,000 | 7.300% |
| Northpointe Village | Aug-98 | 13,250,000 | 13,679,000 | 7.500% |
| Park Sequoia | Oct-00 | 6,740,000 | 6,972,000 | 7.500% |
| San Marcos | May-00 | 7,231,000 | 7,273,000 | 7.375% |
| Summer Lake | Mar-00 | 5,600,000 | 5,651,000 | 7.400% |
| Walnut Creek | May-00 | 3,240,000 | 3,314,000 | 7.500% |
| Walnut Creek | May-00 | 360,000 | 344,000 | 7.500% |
| Subtotal-Revenue Bonds Secured by properties in lease-up stage | | 205,995,600 | 203,879,000 | |
| CONSTRUCTION BOND PORTFOLIO | | | | |

| | | | | |
|---|---|---|---|---|
| Arbors at Creekside | Jun-01 | 8,600,000 | 8,796,000 | 8.000% |
| Armstrong Farm | Oct-00 | 8,246,000 | 8,434,000 | 7.500% |
| Belmont Heights Estates | Jun-01 | 7,850,000 | 8,136,000 | 8.150% |
| Bluffview | May-01 | 10,700,000 | 11,090,000 | 8.600% |
| Blunn Creek | Aug-01 | 15,000,000 | 14,933,000 | 7.900% |
| Chandler Creek | Oct-00 | 15,850,000 | 15,679,000 | 8.500% |
| Chapel Ridge at Claremore | Oct-00 | 4,100,000 | 4,193,000 | 7.500% |

| PROPERTY | NUMBER OF COMPETING PROPERTIES | NOTES |
|---|---|---|
| Chapel Ridge at Texarkana | 26 | E,J,K |
| College Park | 33 | E,J |
| Columbia at Bells Ferry | 5 | E,J |
| Falcon Creek | 252 | E,J,K |
| Forest Hills | 152 | C,H,K |
| Gulfstream | 5 | E,J,K |
| Hamilton Gardens | 16 | C,H,K |
| Jubilee Courtyards | 2 | E,J,K |
| Lake Jackson | 10 | E,J,K |
| Lake Park | 24 | E,J,K |
| Lakemoor | 89 | C,H |
| Lenox Park | 15 | C,G,K |
| Madalyn Landing | 8 | E,J,K |
| Marsh Landing | 23 | E,J,K |
| Millpond Village | 2 | C,G |
| Mountain Ranch | 475 | C,H,K |
| Newark Commons | 35 | E,J,K |
| Northpointe Village | 256 | E,J,K |
| Park Sequoia | 165 | E,J,K |
| San Marcos | 25 | D,I,K |
| Summer Lake | 6 | D,I,K |
| Walnut Creek | * | E,J |
| Walnut Creek | 152 | E,J |
| Subtotal-Revenue Bonds Secured by properties in lease-up stage | | |
| CONSTRUCTION BOND PORTFOLIO | | |
| Arbors at Creekside | 475 | C,K,N,P,U |
| Armstrong Farm | 158 | C,H,K,N,P |
| Belmont Heights Estates | 269 | C,H,K,V |
| Bluffview | 48 | C,H,K,W |
| Blunn Creek | 475 | C,H,K,X |
| Chandler Creek | 19 | C,H,N,P,Y |
| Chapel Ridge at Claremore | 5 | C,K,N,P |



| LAST YEAR OF CON- | PARTICI- | BOND TYPE (LIHTC / |
|---|---|---|

| PROPERTY | LOCATION | UNITS | STRUCTION / REHAB | PATING BOND | 501(c)(3)/ OTHER)(1) | DATE CLOS |
|---|---|---|---|---|---|---|
| Chapel Ridge at Lowell | Lowell, AR | 126 | - | No | LIHTC | May-01 |
| Cobb Park | Ft. Worth, TX | 172 | - | No | LIHTC | Jul-01 |
| Grace Townhomes | Ennis, TX | 112 | - | No | LIHTC | May-00 |
| Grandview Forest | Durham, NC | 92 | - | No | LIHTC | Dec-00 |
| Greenbridge at Buckingham | Richardson, TX | 242 | - | No | 501(c)(3) | Nov-00 |
| Hidden Grove | Miami, FL | 222 | - | No | LIHTC | Sep-00 |
| Hillside | Dallas, TX | 236 | - | No | LIHTC | Dec-01 |
| Knollwood Villas | Denton, TX | 264 | - | No | LIHTC | May-01 |
| Lakeline | Leander, TX | 264 | - | No | 501(c)(3) | Nov-01 |
| Lakewood Terrace | Belton, MO | 152 | - | No | LIHTC | Aug-01 |
| Magnolia Arbors | Covington, GA | 250 | - | No | LIHTC | Apr-01 |
| Midtown Square | Columbus, GA | 144 | - | No | LIHTC | Jun-01 |
| Oak Hollow | Dallas, TX | 150 | - | No | LIHTC | Dec-01 |
| Oaks at Hampton | Dallas, TX | 250 | - | No | LIHTC | Apr-00 |
| Palm Terrace | Auburn, CA | 80 | - | No | LIHTC | Aug-01 |
| Palm Terrace | Auburn, CA | * | - | No | LIHTC | Aug-01 |
| Parks at Westmoreland | DeSoto, TX | 250 | - | No | LIHTC | Jul-00 |
| Princess Anne House | Virginia Beach, VA | 186 | - | No | LIHTC | Apr-00 |
| Red Hill Villas | Round Rock, TX | 168 | - | No | LIHTC | Dec-00 |
| River's Edge | Green Island, NY | 190 | - | No | LIHTC | Nov-01 |
| Riverside Meadows | Austin, TX | 248 | - | No | LIHTC | Dec-01 |
| Running Brook | Miami, FL | 186 | - | No | LIHTC | Sep-00 |
| Southwest Trails | Austin, TX | 160 | - | No | LIHTC | Aug-00 |
| West Meadows | Colorado Spgs., CO | 216 | - | No | LIHTC | Dec-01 |
| Westlake Village | Jackson, NJ | 150 | - | No | LIHTC | Nov-01 |
| Westlake Village | Jackson, NJ | * | - | No | LIHTC | Nov-01 |
| White Rock | San Antonio, TX | 336 | - | No | 501(c)(3) | Dec-01 |
| Woods Edge | Charlottesville, VA | 97 | - | No | LIHTC | Nov-00 |
| Subtotal-Revenue Bonds Secured by Properties in Construction | | 6,338 | | | | |

| PROPERTY | STATED INTEREST RATE(3) | RENTAL OCCUPANCY DECEMBER 31, 2001 | UNIT RENTAL RATES AT DECEMBER 31, 2001 | NUMBER OF COMPETING PROPERTIES | NOTES |
|---|---|---|---|---|---|
| Chapel Ridge at Lowell | 5.500% | - | - | 0 | C,G,K |
| Cobb Park | 7.900% | - | - | 259 | A,Z |
| Grace Townhomes | 7.500% | - | - | 9 | D,I,N,P |
| Grandview Forest | 8.500% | - | - | 82 | D,I,K,N,P,AA |
| Greenbridge at Buckingham | 7.400% | - | - | 30 | C,H,N,P |
| Hidden Grove | 7.400% | - | - | 184 | C,H,K,N,P |
| Hillside | 7.900% | - | - | 676 | C,K,N,P,B |
| Knollwood Villas | 8.600% | - | - | 48 | C,H,K,CC BB |
| Lakeline | 8.100% | - | - | 1 | C,N,P,DD |
| Lakewood Terrace | 7.900% | - | - | 1 | D,I,N,P,EE |
| Magnolia Arbors | 7.500% | - | - | 3 | C,H,N,P |
| Midtown Square | 7.400% | - | - | 38 | A,N,P |
| Oak Hollow | 7.900% | - | - | 676 | C,K,N,P, HH |

| | | | | | |
|---|---|---|---|---|---|
| Oaks at Hampton | 7.200% | - | - | 11 | C,G,K |
| Palm Terrace | 8.400% | - | - | 14 | C,G,K,N,P,KK |
| Palm Terrace | 9.500% | - | - | * | C,G,K,N,P |
| Parks at Westmoreland | 7.500% | - | - | 14 | C,H,K,N,P |
| Princess Anne House | 7.500% | - | - | 250 | C,H,K,N,P |
| Red Hill Villas | 8.400% | - | - | 19 | C,K,LL |
| River's Edge | 7.700% | - | - | 0 | C,MM |
| Riverside Meadows | 7.500% | - | - | 475 | C,K,NN |
| Running Brook | 7.400% | - | - | 15 | C,K,N,P |
| Southwest Trails | 7.350% | - | - | 15 | D,I,K,N,P |
| West Meadows | 5.000% | - | - | 208 | C,K,N,P |
| Westlake Village | 7.200% | - | - | 3 | C,K,N,P |
| Westlake Village | 8.000% | - | - | * | C,K,N,P |
| White Rock | 7.750% | - | - | 467 | C,N,P,QQ |
| Woods Edge | 7.800% | - | - | 20 | D,I,N,P,RR |
| Subtotal-Revenue Bonds Secured by Properties in Construction | | | | | z |

REHABILITATION BOND PORTFOLIO

12

| PROPERTY | LOCATION | UNITS | LAST YEAR OF CON-STRUCTION / REHAB | PARTICI-PATING BOND | BOND TYPE (LIHTC / 501(c)3 / OTHER)(1) | DATE CLOSED |
|---|---|---|---|---|---|---|
| Autumn Ridge | San Marcos, CA | 192 | - | No | LIHTC | Aug-00 |
| King's Village | Pasadena, CA | 313 | - | No | LIHTC | Jul-00 |
| Mecca Vineyards | Indio, CA | 268 | - | No | LIHTC | Nov-01 |
| Mecca Vineyards | Indio, CA | * | - | No | LIHTC | Nov-01 |
| Merchandise Mart | St. Louis, MO | 213 | - | No | LIHTC | Oct-01 |
| Oakwood Manor | Little Rock, AR | 200 | - | No | LIHTC | Jun-01 |
| Oakwood Manor | Little Rock, AR | * | - | No | LIHTC | Jun-01 |
| Ocean Ridge | Federal Way, WA | 192 | - | No | LIHTC | Dec-01 |
| Sherwood Lake | Tampa, FL | 149 | - | No | LIHTC | Apr-01 |
| Silverwood | Lakewood, WA | 107 | - | No | LIHTC | Dec-01 |
| Valley View & Ridgecrest | Little Rock, AR | 240 | - | No | LIHTC | Oct-01 |
| Subtotal-Revenue Bonds Secured by properties undergoing rehabilitation | | 1,874 | | | | |
| Subtotal- Tax-Exempt First Mortgage Bonds | | 24,599 | | | | |
| TAXABLE FIRST MORTGAGE BONDS | | | | | | |
| Chandler Creek | Round Rock, TX | * | * | No | 501(c)(3) | Oct-00 |
| Cobb Park | Ft. Worth, TX | * | * | No | LIHTC | Jul-01 |
| Greenbriar | Concord, CA | * | * | No | LIHTC | May-99 |
| Greenbridge at Buckingham | Richardson, TX | * | * | No | 501(c)(3) | Nov-00 |
| Hillside | Dallas, TX | * | * | No | LIHTC | Dec-01 |
| Lake Park | Turlock Park, CA | * | * | No | LIHTC | Jun-99 |
| Lakeline | Leander, TX | * | * | No | 501(c)(3) | Dec-01 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Lakes Edge at Walden | Miami, FL | * | * | No | Other | Jun-99 |
| Magnolia Arbors | Covington, GA | * | * | No | LIHTC | Apr-01 |
| Mecca Vineyards | Indio, CA | * | * | No | LIHTC | Nov-01 |
| Midtown Square | Columbus, GA | * | * | No | LIHTC | Jun-01 |
| Oaks at Hampton | Dallas, TX | * | * | No | LIHTC | Apr-00 |
| Oakwood Manor | Little Rock, AR | * | * | No | LIHTC | Jun-01 |
| Ocean Ridge | Federal Way, WA | * | * | No | LIHTC | Dec-01 |
| Parks at Westmoreland | DeSoto, TX | * | * | No | LIHTC | Jul-00 |
| Princess Anne House | Virginia Beach, VA | * | * | No | LIHTC | Apr-00 |
| Red Hill Villas | Round Rock, TX | * | * | No | LIHTC | Dec-00 |

| PROPERTY | STATED INTEREST RATE(3) | RENTAL OCCUPANCY DECEMBER 31, 2001 | UNIT RENTAL RATES AT DECEMBER 31, 2001 | NUMBER OF COMPETING PROPERTIES | NOTES |
|---|---|---|---|---|---|
| Autumn Ridge | 7.650% | 97.4% | 606-847 | 11 | E,J,K |
| King's Village | 7.500% | 98.7% | 383-896 | 12 | E,J,K |
| Mecca Vineyards | 7.750% | - | - | 27 | C,K,FF |
| Mecca Vineyards | 7.250% | * | * | * | C,K |
| Merchandise Mart | 8.000% | - | - | 186 | C,K,O,P, GG |
| Oakwood Manor | 8.500% | 41.0% | 332-441 | 94 | C,H,K,II |
| Oakwood Manor | 7.650% | * | * | * | C,H,K |
| Ocean Ridge | 7.750% | - | - | 57 | C,K,JJ |
| Sherwood Lake | 8.450% | 58.4% | 370-480 | 269 | C,G,K,OO |
| Silverwood | 8.000% | - | - | 10 | C,K,PP |
| Valley View & Ridgecrest | 5.000% | - | - | 94 | C,G,K |
| Subtotal-Revenue Bonds Secured by properties undergoing rehabilitation | | | | | |
| Subtotal- Tax-Exempt First Mortgage Bonds | | | | | |
| TAXABLE FIRST MORTGAGE BONDS | | | | | |
| Chandler Creek | 9.750% | * | * | * | F,N,P,SS |
| Cobb Park | 9.500% | * | * | * | F |
| Greenbriar | 9.000% | * | * | * | F,K |
| Greenbridge at Buckingham | 10.000% | * | * | * | F,N,P |
| Hillside | 9.250% | * | * | * | F,K,N,P |
| Lake Park | 9.000% | * | * | * | F,K |
| Lakeline | 9.650% | * | * | * | F,N,P |
| Lakes Edge at Walden | 11.000% | * | * | * | F |
| Magnolia Arbors | 8.950% | * | * | * | F,N,P |
| Mecca Vineyards | 9.000% | * | * | * | F,K |
| Midtown Square | 8.950% | * | * | * | F,N,P |
| Oaks at Hampton | 9.000% | * | * | * | F,K |
| Oakwood Manor | 9.500% | * | * | * | F,K |
| Ocean Ridge | 8.750% | * | * | * | F,K |
| Parks at Westmoreland | 9.000% | * | * | * | F,K,N,P |
| Princess Anne House | 9.500% | * | * | * | F,K,N,P |
| Red Hill Villas | 9.500% | * | * | * | F,K |

| PROPERTY | LOCATION | UNITS | LAST YEAR OF CON- STRUCTION / REHAB | PARTICI- PATING BOND | BOND TYPE (LIHTC / 501(c)(3)/ OTHER)(1) | DATE CLOSE | |
|---|---|---|---|---|---|---|---|
| Riverside Meadows | Austin, TX | * | * | No | LIHTC | Dec-01 | |
| Silverwood | Lakewood, WA | * | * | No | LIHTC | Dec-01 | |
| White Rock | San Antonio, TX | * | * | No | 501(c)(3) | Dec-01 | |
| Williams Run | Dallas, TX | * | * | No | 501(c)(3) | Dec-00 | |
| Subtotal-Taxable Bonds | | | | | | | |
| Total First Mortgage Bonds | | | | | | | 1 |
| OTHER TAX-EXEMPT SUBORDINATE BONDS | | | | | | | |
| Draper Lane | Silver Spring, MD | 406 | | No | Other | Feb-01 | |
| Museum Tower | Philadelphia, PA | 286 | | No | Other | Nov-00 | |
| Park at Landmark | Alexandria, VA | 396 | | No | Other | Sep-00 | |
| Subtotal-Subordinate Bonds | | 1,088 | | | | | |
| Total Revenue Bonds | | 1,088 | | | | | 1 |

| PROPERTY | STATED INTEREST RATE(3) | RENTAL OCCUPANCY DECEMBER 31, 2001 | UNIT RENTAL RATES AT DECEMBER 31, 2001 | NUMBER OF COMPETING PROPERTIES | NOTES |
|---|---|---|---|---|---|
| Riverside Meadows | 8.750% | * | * | * | F,K |
| Silverwood | 8.750% | * | * | * | F,K |
| White Rock | 9.500% | * | * | * | F,N,P |
| Williams Run | 9.250% | * | * | * | F |
| Subtotal-Taxable Bonds | | | | | |
| Total First Mortgage Bonds | | | | | |
| OTHER TAX-EXEMPT SUBORDINATE BONDS | | | | | |
| Draper Lane | 10.000% | NAP | NAP | | C,H |
| Museum Tower | 8.250% | NAP | NAP | | C,G |
| Park at Landmark | 8.750% | NAP | NAP | | C,G |
| Subtotal-Subordinate Bonds | | | | | |
| Total Revenue Bonds | | | | | |

1. LIHTC bonds are bonds for which the owner of the Underlying Property is eligible to receive Low Income Housing Tax Credits. Bonds for which the obligor is a non-for- profit entity under Section 501( c)(3) of the Internal Revenue Code are classified as 501 ( c)(3) bonds. Other bonds are those which are neither LIHTC or 501( c)(3) bonds.

2. The Revenue Bonds are deemed to be available-for-sale debt securities and, accordingly, are carried at their estimated fair values at December 31, 2001 in accordance with FAS 115.

3. The stated interest rate represents the coupon rate of the Revenue Bond at December 31, 2001.

A. Owned by the Company, not including its consolidated subsidiaries.
B. Owned by CM Holding, a consolidated subsidiary of the Company (see Merger)
C. Owned by CharterMac Equity Issuer Trust, a consolidated subsidiary of the Company (see Merger)
D. Owned by CharterMac Origination Trust I, a consolidated subsidiary of the Company (see Merger)
E. Owned by CharterMac Owner Trust I, a consolidated subsidiary of the Company (see Merger)
F. Owned by CharterMac Corporation, a consolidated subsidiary of the Company.
G. Held by Merrill Lynch as collateral for secured borrowings (see P-FLOATS/RITES below).
H. Held by Merrill Lynch as collateral in connection with the Merrill Lynch P-FLOATS/RITES Program (see P-FLOATS/RITES below).
I. Held as collateral in connection with the TOP (see Private Label Tender Option Program below).
J. Transferred to CharterMac Owner Trust I in connection with the TOP (see Private Label Tender Option Program below).
K. The obligors of these Revenue Bonds are partnerships in which affiliates of the Manager are partners that own a controlling interest.
L. The original owner of the Underlying Property and obligor of the Revenue Bond has been replaced with an affiliate of the Manager.



M. The minimum interest rate is the cash flow of the property
N. In the event the construction of the Underlying Property is not completed in a timely manner, the Company may "put" the Revenue Bond to the construction lender at par.
O. In the event the rehabilitation of the Underlying Property is not completed in a timely manner, the Company may "put" the Revenue Bond to the construction lender at par.
P. All of the "puts" (see N and O above) are secured by a letter of credit issued by the construction lender to the Company.
Q. The Revenue Bond is currently awaiting approval from the Issuer for modification. The Company is confident that the modification will occur and has therefore shown the terms of the Revenue Bond as per a forbearance agreement which mirrors the terms of the Revenue Bond modification.
R. The Company received participating interest during 2001.
S. A third party has the option to acquire these Revenue Bonds for an aggregate price of $35,250,000. The notice to exercise the option, on or about March 18, 2002, was re- ceived by the Company on February 15, 2002.
T. The Company is permitted to call the Revenue Bond with six months written notice.
U. The interest rate for this Revenue Bond is 8.5% through September 1, 2002 and 7.5% thereafter.
V. The interest rate for this Revenue Bond is 8.15% through March 1, 2003 and 7.6% thereafter.
W. The interest rate for this Revenue Bond is 8.6% through August 1, 2002 and 7.6% thereafter.
X. The interest rate for this Revenue Bond is 7.9% through November 1, 2002 and 7.4% thereafter.
Y. The interest rate for this Revenue Bond is 8.5% through November 1, 2002 and 7.6% thereafter.
Z. The interest rate for this Revenue Bond is 7.9% through December 1, 2002 and 7.4% thereafter.
AA. The interest rate for this Revenue Bond is 8.5% through January 1, 2003 and 7.5% thereafter.

BB. The interest rate for this Revenue Bond is 7.9% through March 1, 2003 and 7.0% thereafter.
CC. The interest rate for this Revenue Bond is 8.6% through August 1, 2002 and 7.6% thereafter.
DD. The interest rate for this Revenue Bond is 8.1% through November 1, 2003 and 7.7% thereafter.
EE. The interest rate for this Revenue Bond is 7.9% through October 1, 2002 and 7.4% thereafter.
FF. The interest rate for this Revenue Bond is 7.75% through February 1, 2003 and 7.25% thereafter.
GG. The interest rate for this Revenue Bond is 8.0% through March 1, 2003 and 7.5% thereafter.
HH. The interest rate for this Revenue Bond is 7.9% through March 1, 2003 and 7.0% thereafter.
II. The interest rate for this Revenue Bond is 8.5% through September 1, 2002 and 7.65% thereafter.
JJ. The interest rate for this Revenue Bond is 7.75% through November 1, 2002 and 6.95% thereafter.
KK. The interest rate for this Revenue Bond is 8.4% through January 1, 2003 and 7.4% thereafter.
LL. The interest rate for this Revenue Bond is 8.4% through December 1, 2002 and 7.4% thereafter.
MM. The interest rate for this Revenue Bond is 7.7% through December 1, 2003 and 7.2% thereafter.
NN. The interest rate for this Revenue Bond is 7.5% through April 1, 2003 and 7.0% thereafter.
OO. The interest rate for this Revenue Bond is 8.45% through October 1, 2002 and 7.45% thereafter.
PP. The interest rate for this Revenue Bond is 8.0% through September 1, 2002 and 7.2% thereafter.
QQ. The interest rate for this Revenue Bond is 7.75% through April 1, 2003 and 7.7% thereafter.
RR. The interest rate for this Revenue Bond is 7.8% through November 1, 2002 and 7.5% thereafter.
SS. The interest rate for this Revenue Bond is 9.75% through November 1, 2002 and 9.25% thereafter.



ACCESSING MULTIPLE FORMS OF CAPITAL

In order for the Company to fund its investments in Revenue Bonds and facilitate growth, the Company will need to continue to access additional capital. The Company uses a combination of equity offerings and securitizations of its assets in order to finance additional investments in Revenue Bonds. The Company's diverse access to capital provides financial flexibility and enables the Company to not have to rely on one single source of debt or equity. Further, the particular structure of each capital source has attributes that may make it more accommodating to certain investors or more favorably received in the then current climate of the capital markets.

The Company has primarily used two sources of capital: collateralized debt securitizations and equity offerings. The most efficient and economical source of capital is securitization. The Company has two primary securitization programs: the Private Label Tender Option Program ("TOP") and the P-FLOATS/RITES-SM- program. Securitizations continue to offer the lowest cost of capital, albeit with certain covenants and leverage limits. Pursuant to its Trust Agreement, the Company is only able to incur leverage or other financing up to 50% of the Company's Total Market Value; this leverage restriction is generally consistent or more conservative than leverage covenants on the

Company' s securitized debt. The Company's conservative capital structure therefore requires periodic equity offerings to maintain leverage within required limits.

During 2001, the Company's growth was financed by the Private Label Tender Option Program, new common share public offerings, preferred share offerings by a subsidiary, and securitization transactions as well as funds generated from operations in excess of distributions. The Company's continued growth is expected to be financed by new issuances of Common Shares, the TOP or similar programs, additional securitization transactions and funds generated from operations in excess of distributions. During 2002, the Company expects to raise funds through additional common share, preferred share and Convertible Community Reinvestment Act Preferred Share offerings ("Convertible CRA Shares"); however, there can be no assurance that these initiatives will be successful.

PUBLIC OFFERINGS

On February 21, 2002, the Company sold to the public 6.3 million Common Shares at a price of $15.47 per share. The net proceeds from this offering, approximating $92.5 million, will be used primarily to fund additional investments in Revenue Bonds and for general corporate purposes.

On November 8, 2001, the Company sold to the public 3.7 million Common Shares at a price of $15.00 per share. The net proceeds from this offering, approximating $51.8 million, were used to fund additional investments in Revenue Bonds and for general corporate purposes.

On May 10, 2001, the Company sold to the public 8.4 million Common Shares at a price of $14.64 per share. The net proceeds from this offering, approximating $115.7 million, were used to fund additional investments in Revenue Bonds, reduce outstanding debt and for general corporate purposes.

PREFERRED EQUITY ISSUANCES

One of CharterMac's subsidiaries, Equity Issuer, has issued preferred shares to institutional investors with an aggregate liquidation amount of approximately $218.5 million, issued as follows: $90.0 million in 1999, $79.0 million in 2000 and $49.5 million in 2001. The Cumulative Preferred Shares are not convertible into Common Shares of Equity Issuer or the Company's Common Shares. The Cumulative Preferred Shares have an annual preferred dividend payable quarterly in arrears, but only upon declaration thereof by Equity Issuer's board of trustees and only to the extent of Equity Issuer's tax-exempt income (net of expenses) for the particular quarter. Since inception, all quarterly distributions have been declared at the stated annualized dividend rate for each respective series and all distributions so declared have been paid. See Item 5, "Market for the Company's Common Shares and Related Shareholder Matters" for more detailed information.

PRIVATE LABEL TENDER OPTION PROGRAM

On May 21, 1998, the Company closed on its Private Label Tender Option Program ("TOP") in order to raise additional capital to acquire additional Revenue Bonds. As of December 31, 1999, the maximum amount of capital that could be raised under the TOP was $400 million. On December 7, 2000, the Company refined the structure the TOP for the primary purpose of segregating Revenue Bonds issued by governmental entities in California from the remainder of the Revenue Bonds under the TOP and to increase the maximum amount of capital available under the program to $500 million.

As of December 31, 2001, the Company has contributed 64 issues of Revenue Bonds in the aggregate par amount of approximately $578 million to CharterMac Origination Trust I (the "Origination Trust"), a wholly-owned, indirect subsidiary of the Company. The Origination Trust then contributed 47 of its Revenue Bonds, with an aggregate par amount of approximately $428 million, to CharterMac Owner Trust I (the "Owner Trust") which is controlled by the Company. The Owner Trust contributes selected bonds to specific "Series Trusts" in order to segregate Revenue Bonds issued by governmental entities selected by state of origin. As of December 31, 2001, four such Series Trusts were created: two "California only" series that had 17 issues of Revenue Bonds in the aggregate par amount of approximately $123 million and two "National" (non-state specific) series that had 37 issues of Revenue Bonds in the aggregate par amount of approximately $319 million.

Each Series Trust issues two equity certificates: (i) a Senior Certificate, which has been deposited into another Delaware business trust (a "Certificate Trust") which issues and sells "Floater Certificates" representing proportional interests in the Senior Certificate to new investors and (ii) a Residual Certificate representing the remaining beneficial ownership interest in each Series Trust, which



has been issued to the Origination Trust. At December 31, 2001, the California only and National Series Trusts had Floater Certificates with an outstanding amount of $70 million and $205 million, respectively.

The Revenue Bonds remaining in the Origination Trust (aggregate principal amount of approximately $150 million) are additional collateral for the Owner Trust's obligations under the Senior Certificate. In addition, the Owner Trust obtained a municipal bond insurance policy from MBIA to credit enhance Certificate distributions for the benefit of the holders of the Floater Certificates and arranged for a liquidity facility, issued by a consortium of highly rated European banks, with respect to the Floater Certificates. The Company owns no beneficial interest in and does not control the Certificate Trusts.

The effect of the TOP structure is that a portion of the interest received by the Owner Trust on the Revenue Bonds it holds is distributed through the Senior Certificate to the holders of the Floater Certificates with the residual interest remitted to the Origination Trust (and thus to the benefit of the Company) via the Residual Certificate. The effect of the December 7, 2000, refinement of the TOP structure was to segregate the California related Floater Certificates as they generally will pay distributions at lower rates than National (non-state specific) Floater Certificates and thus the yield on the Residual Certificates owned by the Origination Trust is increased.

The Company's cost of funds relating to the TOP (calculated as interest expense plus recurring fees as a percentage of the weighted average amount of the outstanding Senior Certificate) was approximately 3.5%, 5.4% and 4.5% for the years ended December 31, 2001, 2000 and 1999, respectively.

P-FLOATS/RITES

Another source of financing for the Company's investments is the securitization of selected Revenue Bonds through the Merrill Lynch Pierce Fenner & Smith Incorporated ("Merrill Lynch") P-FLOATS/RITES program. Merrill Lynch deposits each Revenue Bond into an individual special purpose trust together with a Credit Enhancement Guarantee ("Guarantee"). Two types of securities are then issued by each trust, (1) Puttable Floating Option Tax-Exempt Receipts ("P-FLOATS"), a short-term senior security which bears interest at a floating rate that is reset weekly and (2) Residual Interest

Tax Exempt Securities ("RITES"), a subordinate security which receives the residual interest payment after payment of P-FLOAT interest and ongoing transaction fees. The P-FLOATS are sold to qualified third party, tax-exempt investors and the RITES are generally sold back to the Company. The Company has the right, with 14 days notice to the trustee, to purchase the outstanding P-FLOATS and to withdraw the underlying Revenue Bonds from the trust. When the Revenue Bonds are deposited into the P-FLOAT Trust, the Company receives the proceeds from the sale of the P-FLOATS less certain transaction costs. In certain other cases, Merrill Lynch may directly buy the Revenue Bonds from local issuers, deposit them in the trust, sell the P-FLOAT security to qualified investors and then sell the RITES to the Company.

In order to facilitate the securitization under the P-FLOATS program, the Company has pledged certain additional Revenue Bonds, cash and cash equivalents and temporary investments as collateral for the benefit of the credit enhancer or liquidity provider. At December 31, 2001, the total par amount of such additional Revenue Bonds, cash and cash equivalents and temporary investments pledged as collateral was approximately $148 million.

During the year 2001, the Company transferred 13 Revenue Bonds with an aggregate par amount of approximately $142 million to the P-FLOATS/RITES program and received proceeds of approximately $135 million. Additionally, the Company repurchased five Revenue Bonds with an aggregate par value of approximately $55 million.

The Company's cost of funds relating to its secured borrowings under the Merrill Lynch P-FLOATS/RITES program (calculated as interest expense as a percentage of the weighted average amount of the secured borrowings) was approximately 3.72%, 4.96% and 4.8%, for the years ended December 31, 2001 and for the period June 29, 1999 (inception of this program) through December 31, 1999, respectively.

OTHER DEBT

In December 2001, CM Corp. acquired of 80% of PWF common stock for approximately $34.9 million, of which, approximately $21.6 million was financed and $7.6 million was paid in cash. Additionally, the Company repaid a $5.7 million loan on behalf of PWF. The acquisition loan commitment ("PWF Acquisition Loan") is $40 million, with an aggregate loan advance of up to $30 million during the first three months, subject to a maximum advance ratio of 80% of the value of PWF's mortgage servicing portfolio, following the PWF acquisition and loan closing. At the time of closing, $27.3 million ("Initial Advance") of the facility was drawn. CM Corp. may request a resizing of the loan, up to the maximum facility size of $40 million, in order to generate additional funding ("Final Advance") that may be required for the remaining 20% stock ownership of PWF. The Final Advance would equal the lesser of 100% of the cost of the remaining 20% equity interests of PWF or an amount that represents an overall maximum advance of 75% of the value of the PWF mortgage servicing portfolio at the time of the Final Advance.

The PWF Acquisition Loan has a term of five years with an interest rate of LIBOR plus 2.25%. The loan is interest only for the first twelve months. Beginning in month thirteen and through the remaining loan term, quarterly straight-line principal amortization on the Initial Advance is paid based on a ten-year amortization period. Additionally, after receiving the Final Advance, additional quarterly straight-line principal amortization payments on the Final Advance will be made based on the remaining years of the amortization period for the Initial Advance.

PWF has a $50 million multi-family revolving warehouse facility, which will expire on May 31, 2002. At December 31, 2001, the facility was temporarily increased to $160 million and had outstanding borrowings of $ 29.3 million at an interest rate of 30-day LIBOR plus 1.00%, which resets daily, with a LIBOR floor of 3%. At December 31, 2001, the interest rate was 4.0%. Borrowings



under the line of credit are collateralized by PWF's ownership interests in the original mortgage notes. At December 31, 2001, PWF was in compliance with all covenants of the facility.

PWF is the guarantor for a $35 million loan and security agreement for Larson, which will expire on May 31, 2002. The interest rate for the agreement is the lower of 30 day LIBOR plus 209 basis points or the 30 day Treasury Bill rate plus 205 basis points. At December 31, 2001, there were no outstanding borrowings under the agreement. At December 31, 2001, the Company and Larson were in compliance with all covenants of the agreement.

PWF also has another $100 million secured, revolving mortgage warehouse facility, subject to annual renewal during December of each year. CM Corp is a guarantor of this warehouse facility. The interest rate for each warehouse advance must be selected by the Company from the following two alternatives: LIBOR (for the estimated duration of the advance) plus 125 basis points or Prime plus 12.5 basis points (the default rate). At December 31, 2001 there were no outstanding borrowings under the facility. At December 31, 2001, the Company was in compliance with all covenants of the facility.

ATEBT MERGER

On November 2, 1999, the Company and American Tax Exempt Bond Trust ("ATEBT"), whose manager was an affiliate of the Manager of the Company, entered into an Agreement and Plan of Merger providing for the merger of ATEBT into and with the Company as the surviving trust in the merger (the "ATEBT Merger"). The ATEBT Merger was approved by the ATEBT shareholders on September 27, 2000 and consummated on November 14, 2000.

On the ATEBT Merger consummation date, ATEBT had total assets of approximately $29,700,000 and net assets of approximately $28,300,000. ATEBT had four tax-exempt first mortgage bonds financing properties in four states, with an aggregate outstanding face amount of $23,775,000, and with individual interest rates of 9.0%.

Pursuant to the Merger Agreement, each share of beneficial ownership in ATEBT issued and outstanding was converted into 1.43112 Common Shares of the Company. Following the ATEBT Merger, previous ATEBT shareholders own 2,115,722 Common Shares (representing approximately 9.3% of the outstanding Common Shares at the time of the merger) of the Company.

COMPETITION

The Company, from time to time, may be in competition with private investors, mortgage banking companies, lending institutions, quasi-governmental agencies such as Fannie Mae and FHA, trust funds, mutual funds, domestic and foreign credit enhancers, bond insurers, investment partnerships and other entities with objectives similar to the Company. Although the Company operates in a competitive environment, competitors focused on providing tax-exempt financing on multifamily housing consistent with the Company's custom-designed programs are relatively few.

The Company's business is also affected by competition to the extent that the Underlying Properties from which it derives interest and, ultimately, principal payments may be subject to competition relating to rental rates and relative levels of amenities from those offered by comparable neighboring properties. See the comprehensive table under the heading "Revenue Bonds - Characteristics", above, for additional competitive information.

In addition, the Company is also in competition with 26 licensed DUS lenders which originate multifamily mortgages on behalf of Fannie Mae. However, the Company, through PWF, is better positioned to offer a full range of financing programs on both affordable and market-rate multifamily housing. PWF's origination groups are able to cross market the Company's tax-exempt Revenue Bonds and Related Capital's Low Income Tax Credit equity with its loan products, thereby offering developers a single, streamlined execution.

The Manager and/or its affiliates have formed, and may continue to form, various entities to engage in businesses that may be competitive with the Company. However, the Company's relationship with the Manager and its affiliates offers developers different products for all their financing needs, including pre-development loans, bridge loans and federal Low Income Tax Credit Equity. These "Capital Solutions" enable developers to have a single, streamlined process, which reduces the time and cost of financing. As a result, the savings in time and up-front costs and the certainty of execution that the Company offers developers enables the Company to receive above-market rates of interest on our Revenue Bonds.

EMPLOYEES

CharterMac and each of its subsidiaries have entered into separate management agreements with Related Charter L.P. and/or CM Corp. pursuant to which they provide each respective entity with investment advice, portfolio management, and all other services vital to such entity's operations.

Prior to the acquisition of PWF in December 2001, the Company had no employees. PWF operates as a stand-alone entity and is actively self-managed with its own employees. Thus on a consolidated basis, the Company had 145 employees as of December 31, 2001. These employees are not a party to any collective bargaining agreement.

REGULATORY MATTERS

Neither CharterMac nor its subsidiaries are registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"). The Company would not be able to conduct its activities as it currently conducts them if it was required to register.



CharterMac at all times intends to conduct its, and those of its subsidiaries' activities, so as not to become regulated as an "investment company" under the Investment Company Act. While CharterMac is not an "investment company" under the Investment Company Act, if one of CharterMac's subsidiaries were deemed to be an "investment company," CharterMac could also be subject to regulation under the Investment Company Act. There are a number of exemptions from registration under the Investment Company Act that CharterMac believes applies to it and its subsidiaries, and which CharterMac believes make it possible for the Company not to be subject to registration under the Investment Company Act.

RECENT LEGISLATION

The States of California and Florida recently adopted administrative amendments to their allocation plans pursuant to which they award bond value capital to developers of multifamily housing. These amendments will require, in some cases, that a certain portion of the debt financing for such properties to be taxable. Therefore, in certain cases, the Company may be required to offer taxable financing to California and Florida developers in order to be competitive.

Since 1986, the Internal Revenue Code has provided that any Revenue Bond which is a "private activity bond" (other than certain refunding bonds and bonds issued for Section 501(c)(3) organizations) must receive an allocation of "volume cap" from the governmental issuer of the bond. The amount of volume cap was established in 1986 and was not indexed for inflation. Thus, the amount of available volume cap in real dollars has decreased each year, reducing the number of projects that may be financed with private activity bonds. On December 21, 2000, President Clinton signed into law an omnibus funding bill (H.R. 4577) containing $31.5 billion in tax cuts. Included in the law are provisions increasing both the low-income housing tax credit and tax exempt bond volume caps over a two year period as follows: (i) the tax credit cap has been increased to $1.50 per capita in 2001 and will be $1.75 per capita in 2002; (ii) the bond volume cap has been increased to the greater of $62.50 per resident or $187.5 million in 2001 and will be $75 per resident or $225 million in 2002. Both volume caps are indexed for inflation beginning in 2003.

## Item 2. Properties

The Company leases office space as follows:

Mineola, New York. In 1997, PWF entered into a 10 year, 2 month lease for an office facility. The lease expires in 2007.

Bernardsville, New Jersey. In 1999, Larson entered into a 5 year lease for an office facility. The lease expires in 2004.

Dallas, Texas. In 2000, PWF entered into a 5 year lease for an office facility. The lease expires in 2005.

The Manager leases office space located at 625 Madison Avenue, New York, New York, 10022.

The Company and the Manager believe that these facilities are suitable for current requirements and contemplated future operations.

## Item 3. Legal Proceedings

The Company is subject to routine litigation and administrative proceedings arising in the ordinary course of business. Management does not believe that such matters will have a material adverse impact on the Company's financial position, results of operations or cash flows.

## Item 4. Submission of Matters to a Vote of Shareholders

None.



# PART II

Item 5. Market for the Company's Common Shares and Related Shareholder Matters.

As of March 20, 2002, there were 3.551 registered shareholders owning 41,152,738 Common Shares. The Company's Common Shares have been listed on the American Stock Exchange since October 1, 1997 under the symbol "CHC". Prior to October 1, 1997, there was no established public trading market for the Company's Common Shares.

The high and low prices for each quarterly period of the last two years during which the Common Shares were traded are as follows:

| QUARTER ENDED | 2001 LOW | 2001 HIGH | 2000 LOW |
|---|---|---|---|
| March 31 | $13.300 | $16.100 | $11.250 |
| June 30 | $14.210 | $15.950 | $11.375 |
| September 30 | $15.000 | $15.990 | $12.188 |
| December 31 | $14.750 | $16.480 | $12.400 |

The last reported sale price of Common Shares on the American Stock Exchange on March 20, 2002 was $16.03.

INCENTIVE SHARE OPTION PLAN

The Company has adopted an incentive share option plan (the "Incentive Share Option Plan"), the purpose of which is to (i) permit the Company and the Manager to attract and retain qualified persons as trustees and officers and (ii) to provide incentive and to more closely align the financial interests of the Manager and its employees and officers with the interests of the shareholders by providing the Manager with substantial financial interest in the Company's success. The Compensation Committee administers the Incentive Share Option Plan. Pursuant to the Incentive Share Option Plan, if the Company's distributions per Common Share in the immediately preceding calendar year exceed $0.9517 per Common Share, the Compensation Committee has the authority to issue options to purchase, in the aggregate, that number of Common Shares which is equal to three percent of the Common Shares outstanding as of December 31 of the immediately preceding calendar year, provided that the Compensation Committee may only issue, in the aggregate, options to purchase a maximum number of Common Shares over the life of the Incentive Share Option Plan equal to 10% of the Common Shares outstanding on October 1, 1997 (2,058,748 Common Shares).

Subject to the limitations described in the preceding paragraph, if the Compensation Committee does not grant the maximum number of options in any year, then the excess of the number of authorized options over the number of options granted in such year will be added to the number of authorized options in the next succeeding year and will be available for grant by the Compensation Committee in such succeeding year.

All options granted by the Compensation Committee will have an exercise price equal to or greater than the fair market value of the Common Shares on the date of the grant. The maximum option term is ten years from the date of grant. All Common Share options granted pursuant to the Incentive Share Option Plan may vest immediately upon issuance or in accordance with the determination of the Compensation Committee. For the years ended December 31, 1997 and 1998 the Company did not grant any options since its distributions per Common Share did not exceed the minimum threshold of $0.9517 per Common

Share. In 2001, 2000 and 1999, the Company distributed $1.14, $1.07 and $0.995 per Common Share, respectively, thus enabling the Compensation Committee, at its discretion, to issue options.

On May 1, 2000, options to purchase 297,830 Common Shares were granted to officers of the Company and certain employees of an affiliate of the Manager, none of who are employees of the Company. The exercise price of these options is $11.5625 per share. The term of each option is ten years. The options vest in equal installments on May 1, 2001, 2002 and 2003. The Company has adopted the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" for its share options issued to non-employees. Accordingly, compensation cost is accrued based on the estimated fair value of the options issued, and amortized over the vesting period. Because vesting of the options is contingent upon the recipient continuing to provide services to the Company until the vesting date, the Company estimates the fair value of the non-employee options at each period-end up to the vesting date, and adjusts expensed amounts accordingly. The 297,830 options granted on May 1, 2000 had an estimated fair value at December 31, 2001 of $.90 per option grant, or a total of $268,047. The fair value of each option grant is estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2001: dividend yield of 7.38%, expected volatility of 24%, and expected lives of ten years. On May 1, 2001, one-third, or 99,276, of the options vested, of which 69,568 were exercised, leaving a balance of 228,262. The Company recorded compensation cost of $168,936 and $109,952 during the years ended December 31, 2001 and 2000, respectively, relating to these option grants.

COMMON SHARE REPURCHASE PLAN

GENERAL

On October 9, 1998, the Board of Trustees authorized the implementation of a Common Share repurchase plan, enabling the Company to repurchase, from time to time, up to 1,500,000 of its Common Shares. The repurchases, if any, are to be made in the open market and the timing is dependent on the availability of Common Shares and other market conditions. As of December 31, 2001,



the Company had acquired 8,400 of its Common Shares for an aggregate purchase price of $103,359 (including commissions and service charges). Repurchased Common Shares are accounted for as treasury Common Shares of beneficial interest.

PREFERRED EQUITY ISSUANCE BY SUBSIDIARY

One of the Company's subsidiaries, Equity Issuer, has issued preferred shares to institutional investors with an aggregate liquidation amount of approximately $218.5 million. Attributes of each series of Cumulative Preferred Shares are as follows:

| PREFERRED SERIES | DATE OF ISSUANCE | NUMBER OF SHARES | LIQUIDATION PREFERENCE PER SHARE | TOTAL FACE AMOUNT |
|---|---|---|---|---|
| Series A | June 29, 1999 | 45 | $2,000,000 | $90,000,000 |
| Series A-1 | July 21, 2000 | 48 | 500,000 | 24,000,000 |

| | | | | |
|---|---|---|---|---|
| Series A-2 | October 9, 2001 | 62 | 500,000 | 31,000,000 |
| Series B | July 21, 2000 | 110 | 500,000 | 55,000,000 |
| Series B-2 | October 9, 2001 | 37 | 500,000 | 18,500,000 |

The Series A Cumulative Preferred Shares, Series A-1 Cumulative Preferred Shares and Series A-2 Cumulative Preferred Shares are collectively referred to as the "Series A Shares". The series B Subordinate Cumulative Preferred Shares and Series B-1 Subordinate Cumulative Preferred Shares are collectively referred to as the "Series B Shares". The Series A Shares and the Series B Shares are collectively referred to as the "Cumulative Preferred Shares".

The Cumulative Preferred Shares are not convertible into Common Shares of Equity Issuer or CharterMac's Common Shares. The Cumulative Preferred Shares have an annual preferred dividend payable quarterly in arrears on January 31, April 30, July 31 and October 31 of each year, but only upon declaration thereof by Equity Issuer's board of trustees and only to the extent of Equity Issuer's tax-exempt income (net of expenses) for the particular quarter. Since inception, all quarterly distributions have been declared at the stated annualized dividend rate for each respective series and all distributions so declared have been paid.

In connection with the initial offering of Cumulative Preferred Shares, CharterMac contributed 100% of its ownership interests in the Origination Trust to Equity Issuer, a Delaware business trust and an indirectly-owned subsidiary in which CharterMac owns 100% of the common equity. As a result, Equity Issuer became the direct and indirect owner of all of the Revenue Bonds held by the Origination Trust and the Owner Trust (see discussion of Private Label Tender Option Program, in Item 1). In addition to contributing the ownership of the Origination Trust, CharterMac also contributed certain additional Revenue Bonds to Equity Issuer.

The Series A Shares all have identical terms except as to the distribution commencement date, the annual preferred dividend rate and the liquidation amount per share. Equity Issuer may not redeem the Series A Shares before June 30, 2009 and they are subject to mandatory tender for remarketing and purchase on such date and each remarketing date thereafter at a price equal to their respective per share liquidation amounts plus an amount equal to all distributions accrued but unpaid on Series A Shares. Holders of the Series A Shares may elect to retain their shares upon remarketing, with a distribution rate to be determined immediately prior to the remarketing date by the remarketing agent. After that date, all or a portion of the shares may be redeemed, subject to certain conditions. Each holder of the Series A Shares will be required to tender its shares to Equity Issuer for mandatory repurchase on June 30, 2049, unless Equity Issuer decides to remarket the shares on such date.

The Series A Shares rank, with respect to payment of distributions and amounts upon liquidation, dissolution or winding-up of Equity Issuer, senior to the Series B Shares and all classes or series of Common Shares of Equity Issuer and, therefore, effectively rank senior to the Company's Common Shares, Convertible CRA Shares, and preferred shares, if any.

The Series B Shares all have identical terms, except as to the distribution commencement date and the annual preferred dividend rate. Equity Issuer may not redeem the Series B Shares before November 30, 2010 and they are subject to mandatory tender for remarketing and purchase on such date under the same terms as the Series A Shares. After that date, all or a portion of the shares may be redeemed, subject to certain conditions. Each holder of the Series B Shares will be required to tender its shares to Equity Issuer for mandatory repurchase on November 30, 2050, unless Equity Issuer decides to remarket the shares on such date.

The Series B Shares rank with respect to payment of distributions and amounts upon liquidation, dissolution or winding up of Equity Issuer, senior to all classes or series of Common Shares of Equity Issuer and, therefore, effectively rank senior to the Company's Common Shares, Convertible CRA Shares, and preferred shares, if any, and junior to the Series A Shares.

Equity Issuer is subject to, among others, the following covenants with respect to the Cumulative Preferred Shares:

TAX-EXEMPT INTEREST AND DISTRIBUTIONS Equity Issuer may only acquire new investments that it reasonably believes will generate interest and distributions excludable from gross income for federal income tax purposes. Equity Issuer will dispose of any investment the interest on which becomes includable in gross income for federal income tax purposes, for any reason, as soon as commercially practicable.

LEVERAGE Equity Issuer will not, and will not permit any of its subsidiaries to, directly or indirectly, incur any obligation except if (i) Equity Issuer is not in default under its trust agreement, (ii) Equity Issuer has paid or declared and set aside for payment all accrued and unpaid distributions on the Cumulative Preferred Shares, and (iii) after giving effect to the incurrence of the obligation, the leverage ratio on the Company's portfolio is less than 0.6 to 1.0.



FAILURE TO PAY DISTRIBUTION If Equity Issuer has not paid in full six consecutive quarterly distributions on Equity Issuer preferred shares, Equity Issuer is required to reconstitute its board of trustees so that a majority of the board of trustees consists of trustees who are independent with respect to Equity Issuer, the Company, the Company's Manager or Related Capital.

ALLOCATION OF TAXABLE INTEREST INCOME AND MARKET DISCOUNT Equity Issuer will specially allocate taxable interest income and market discount that is taxable as ordinary income to the Company. Market discount, if any, may arise where Equity Issuer acquires a bond other than upon its original issuance for less than its stated redemption price at maturity and the difference is greater than a de minimis amount (generally 1/4 of 1% of bond's stated redemption price at maturity multiplied by the number of complete years to maturity).

LIMITATION ON ISSUANCE OF PREFERRED EQUITY INTERESTS Equity Issuer may not issue preferred equity interests that are senior to the Series A and A-1 Preferred Shares without the consent of a majority of the holders of the Series A and A-1 Preferred Shares. Equity Issuer may not issue any preferred equity interests that are equal in rank to the Cumulative Preferred Shares unless certain conditions are met, including that the amount of such preferred equity interests is limited, Equity Issuer has paid or declared and set aside for payment all accrued and unpaid distributions on the Cumulative Preferred Shares to holders, and there is no default or event of default under Equity Issuer's trust agreement.

CONVERTIBLE COMMUNITY REINVESTMENT ACT PREFERRED SHARE OFFERINGS

The Company has completed two issuances of Convertible CRA Shares, raising net proceeds of approximately $34 million. As of December 31, 2001, the Company had 1,882,364 Convertible CRA Shares outstanding, which are convertible at the holders' option into 1,764,663 Common Shares.

The Convertible CRA Shares enable financial institutions to receive positive consideration under the Community Reinvestment Act ("CRA") as a "qualified investment". The Company has developed a proprietary method for specially allocating these CRA "credits" to specific financial institutions that invest in these Convertible CRA Shares. Other than the preferred allocation of CRA credits, the investors receive the same economic benefits as the Company's common shareholders, including receipt of the same dividends per share as those paid to the Company's common shareholders. Other than on matters relating to the terms of these Convertible CRA Shares or to amendments to the Trust Agreement, which would adversely affect the powers, preferences, privileges or rights of these Convertible CRA Shares, the Convertible CRA Shares do not have any voting rights. The Company's earnings are allocated pro rata among Common Shares and Convertible CRA Shares, and the Convertible CRA Shares rank on parity with the Common Shares with respect to rights upon liquidation, dissolution or winding up of the Company. The investors, at their option, have the ability to convert their Convertible CRA Shares into Common Shares at the conversion price specified below. Upon conversion, the investors will no longer be entitled to a special allocation of any CRA credit.

| ISSUANCE DATE | CONVERSION PRICE | CONVERSION RATIO |
|---|---|---|
| May 10, 2000 | $15.33 | 0.9217 |
| December 20, 2000 | $14.60 | 0.9678 |

The Company may raise additional equity in the future from similar financial institutions that can utilize the regulatory benefits that have not previously been allocated to other holders of the Company's Convertible CRA Shares. While these future offerings could be a source of additional equity, it is only one of many potential sources. Furthermore, there is no assurance that the Company will be able to consummate such transactions at all or on favorable terms. In addition, this potential source of liquidity would be eliminated if the applicable federal regulatory agencies were to determine that an investment in the Convertible CRA Shares did not result in the financial institutions being able to receive these regulatory benefits.

OTHER

Through calendar year 1999, each independent trustee was entitled to receive annual compensation for serving as a trustee in the aggregate amount of $15,000 payable in cash (maximum of $5,000 per year) and/or Common Shares valued at their fair market value on the date of issuance. Beginning in calendar year 2000, the annual compensation for the two original independent trustees was increased from $15,000 to $17,500 and the maximum payable in cash was increased from $5,000 to $7,500. In 2000, a third independent trustee was appointed and such trustee will receive annual compensation in the aggregate amount of $30,000 payable in cash (maximum of $20,000 per year) and/or Common Shares. As of December 31, 2001 and 2000, 5,553 and 3,552 Common Shares, respectively, having an aggregate value on the date of issuance of $75,000 and $45,000, respectively, were issued to the independent trustees as compensation for their services. An additional 1,830 shares, with an aggregate value of $30,000 at issuance, were issued to the independent trustees in January 2002 as compensation for their 2001 service.

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DISTRIBUTION INFORMATION

DISTRIBUTIONS PER SHARE

The Company's earnings are allocated pro rata among the Common Shares and the Convertible CRA Shares (collectively, "Shares"), and the Convertible CRA Shares rank on parity with the Common Shares with respect to rights upon liquidation, dissolution or winding up of the Company. Quarterly cash distributions per Share for the years ended December 31, 2001 and 2000 were as follows:

| | SHAREHOLDERS OF THE COMPANY | | |
|---|---|---|---|
| CASH DISTRIBUTION FOR QUARTER ENDED | DATE PAID | PER SHARE | TOTAL AMOUNT DISTRIBUTED |
| March 31, 2001 | 5/15/01 | $0.275 | $ 6,954,856 |
| June 30, 2001 | 8/14/01 | 0.275 | 9,064,756 |
| September 30, 2001 | 11/15/01 | 0.290 | 9,575,495 |
| December 31, 2001 | 2/15/02 | 0.300 | 11,012,485 |
| Total for 2001 | | $1.140 | $36,607,592 |
| March 31, 2000 | 5/15/00 | $0.265 | $ 5,454,406 |
| June 30, 2000 | 8/15/00 | 0.265 | 5,749,086 |
| September 30, 2000 | 11/15/00 | 0.265 | 5,970,096 |
| December 31, 2000 | 2/15/01 | 0.275 | 6,800,306 |
| Total for 2000 | | $1.070 | $23,973,894 |

In addition to the distributions set forth in the table above, the Company paid the Manager a special distribution (equal to .375% per annum of the total invested assets of the Company), which amounted to $3,620,923 and $2,743,465 for the years ended December 31, 2001 and 2000, respectively.

There are no material legal restrictions upon the Company's present or future ability to make distributions in accordance with the provisions of the Company's Amended and Restated Trust Agreement. Future distributions paid by the Company will be at the discretion of the Trustees based upon evaluation of the actual cash flow of the Company, its financial condition, capital requirements and such other factors as the Trustees deem relevant.

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Item 6. Selected Financial Data

The information set forth below presents selected financial data of the Company. Additional financial information is set forth in the audited financial statements and notes thereto contained in "Item 8. Financial Statements and Supplementary Data".

| | FOR THE YEAR ENDED DECEMBER | | |
|---|---|---|---|
| OPERATIONS | 2001 | 2000 | 1999 |
| Total revenues | $ 75,081 | $ 59,091 | $ 40, |
| Operating expenses | (6,074) | (4,563) | (3, |
| Interest expense and financing costs | (16,132) | (16,488) | (8, |
| Other-than-temporary impairments related to investments in Revenue Bonds | (400) | - | (1, |
| Gain/(Loss) on repayment of Revenue Bonds | (912) | 645 | ( |
| Income before allocation to preferred shareholders | 51,563 | 38,685 | 26, |
| Income allocated to preferred shareholders of subsidiary | (12,578) | (8,594) | (3, |
| Net income | $ 38,985 | $ 30,091 | $ 23, |
| Net income applicable to Shareholders (5) | $ 35,011 | $ 27,074 | $ 20, |
| Net income per Share (5) | | | |
| Basic | $ 1.14 | $ 1.22 | $ 1 |
| Diluted | $ 1.14 | $ 1.22 | $ 1 |
| Weighted average Shares outstanding | | | |
| Basic | 30,782 | 22,141 | 20, |
| Diluted | 30,837 | 22,152 | 20, |
| FINANCIAL POSITION | | | |
| Total assets | $ 1,411,263 | $ 925,236 | $ 673, |
| Financing arrangements | $ 541,796 | $ 385,026 | $ 257, |
| Notes payable | $ 56,586 | $ -- | $ |
| Total liabilities | $ 652,427 | $ 399,222 | $ 268, |
| Preferred shares of subsidiary (subject to mandatory repurchase) | $ 218,500 | $ 169,000 | $ 90, |
| Total shareholders' equity/partners' capital | $ 535,248 | $ 357,014 | $ 315, |
| DISTRIBUTIONS | | | |
| Distributions to Series A preferred shareholders | $ 5,962,500 | $ 5,962,500 | $ 3,014, |
| Distributions to Series A-1 preferred shareholders | $ 1,704,000 | $ 762,067 | |
| Distributions to Series B preferred shareholders | $ 4,180,000 | $ 1,869,389 | |
| Distributions to Series A-2 preferred shareholders | $ 444,850 | N/A | |
| Distributions to Series B-1 preferred shareholders | $ 286,544 | N/A | |

| | | | |
|---|---|---|---|
| Distributions to BUC$holders | N/A | N/A | |
| Distributions to Shareholders (5) | $36,607,570 | $23,973,872 | $20,478, |
| Distributions per share (2) | $ 1.14 | $ 1.07 | $ 1 |

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OTHER DATA

(1) Information prior to October 1, 1997 (the date of the Merger) is only with respect to Summit Tax Exempt L.P. II. Information subsequent to September 30, 1997 is with respect to the Company and its consolidated subsidiaries that include Summit Tax Exempt II and the other Partnerships pursuant to the Merger.

(2) Distributions per share are the same for both Common Shares and Convertible CRA Shares. Net income and distribution per Share information for periods prior to October 1, 1997 is not presented because it is not indicative of the Company's continuing capital structure.

(3) Represents amount for the three months ended December 31, 1997.

(4) Represents amount for the nine months ended September 30, 1997.

(5) Includes common shareholders and Convertible CRA Shareholders.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL

The Company is a full service investor in and servicer of multifamily housing debt. The Company is principally engaged in the acquisition and ownership (directly or indirectly) of tax-exempt (and, on occasion, taxable) multifamily housing revenue bonds issued by various state or local governments, agencies, or authorities ("Revenue Bonds") and other investments that produce tax-exempt income. The Revenue Bonds are secured by mortgage loans on underlying properties ("Underlying Properties").

CharterMac is classified as a partnership for federal income tax purposes and, thus, is not subject to federal income taxation. As such, CharterMac will pass through to its shareholders, in the form of distributions, income, including tax-exempt income, derived from its investments and activities. Although the exact percentage may vary from quarter to quarter, substantially all of the distributions to shareholders are excludable from gross income for federal income tax purposes. For the calendar year ended December 31, 2001, approximately 96% of the distributions qualified as tax-exempt income.

The Company focuses on investing in a portfolio of Revenue Bonds that are secured by affordable multifamily rental housing properties. Through PWF, the Company focuses on originating and servicing multifamily mortgage loans on behalf of GSEs such as Fannie Mae, Freddie Mac and FHA. Together, these components offer a full range of capital solutions to developers of affordable and market rate multifamily housing.

The Company does not operate as a mortgage REIT, which generally utilizes high levels of leverage and acquire subordinated interests in commercial and/or residential mortgage-backed securities. Unlike mortgage REITs that typically incur leverage at ratios ranging from 3:1 to 10:1, the Company is only able to incur leverage or other financing up to 50% of the Company's Total Market Value (as defined and pursuant to its Trust Agreement) as of the date incurred. Furthermore, the Revenue Bonds owned by the Company generally call for ten-year restrictions from prepayments, eliminating the Company's susceptibility to significant levels of repayment risk as a result of interest rate reductions. Due to the Company's low level of leverage, the Company is less likely than highly leveraged REITs to be affected by any lack of liquidity. The Company's portfolio does not contain assets that are especially vulnerable to volatility during periods of interest rate fluctuations. Consistent with the foregoing, the Company focuses on providing investors with a stable level of distributions, even through unstable markets.

In order to generate tax-exempt income to pass through to the Company's shareholders and, as a result, enhance the value of the Company's Common Shares, the Company primarily invests in or acquires tax-exempt bonds secured by multifamily properties. The Company believes that it can earn above market rates of interest on its bond acquisitions by focusing its efforts primarily on affordable housing. The Manager estimates that nearly 50% of all new multifamily development contains an affordable component which produces tax credits pursuant to Section 42 of the Internal Revenue Code. The traditional methods of financing affordable housing with tax-exempt Revenue Bonds are complex and time consuming, and involve the participation of many intermediaries. Through Manager, the process has been streamlined with the "Direct Purchase Program." The Company's Direct Purchase Program removes all intermediaries from the financing process (except the governmental issuer of the Revenue Bond) and enables developers to deal directly with one source. Because the Company purchases its Revenue Bonds directly from the governmental issuer, the need for underwriters and their counsel, rating agencies and costly documentation is eliminated. This reduces the financing life cycle, often by several months, and also reduces the bond issuance costs, usually by 30% or more. In dealing directly with the Company, developers feel more certain about the terms and timing of their financing. The Company believes the savings in time and up-front costs and the certainty of execution that the Direct Purchase Program offers to developers allows us to receive above-market rates of interest on the Company's Revenue Bonds.

In addition to investing in tax-exempt Revenue Bonds secured by multifamily properties producing tax credits, the Company may acquire other multifamily tax-exempt bonds including those issued to finance low-income multifamily projects and facilities for the elderly owned by Section 501(c)(3) not-for-profit organizations. The Company also has a portion of assets that produce a small amount of taxable income.

As a result of the acquisition of PWF, the Company has diversified the range of the Company's investment products and is able to offer developers fixed and floating rate tax-exempt and taxable financing through Fannie Mae, Freddie Mac and, to a lesser extent, FHA for affordable and market rate multifamily properties. Combining this with the Company's core business of investing in Revenue Bonds and its affiliation with Related Capital, the Company is able to provide developers with financing for all aspects of



their property's capital structure. In addition, the Company has diversified its revenues with a fee business that will grow in value over time and will insulate the Company from the vagaries of the capital markets.

On January 14, 2002, the Company announced that its Board of Trustees had formed a special committee to explore strategic alternatives for the Company's future management structure, including internalization of management, and ways to further diversify the Company's revenue sources. The special committee consists of the independent members of the Board of Trustees, Peter T. Allen, Arthur P. Fisch and Charles L. Edson. The special committee has retained independent counsel and expects to hire a financial advisor to assist them in this process.

CRITICAL ACCOUNTING POLICIES

INVESTMENT IN REVENUE BONDS AND PROMISSORY NOTES RECEIVABLE

The Company accounts for its investments in Revenue Bonds as available-for-sale debt securities under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115").

In most cases the Company has a right to require redemption of the Revenue Bonds prior to their maturity, although it can and may elect to hold them up to their maturity dates unless otherwise modified. As such, SFAS 115 requires the Company to classify these investments as "available-for-sale." Accordingly, investments in Revenue Bonds are carried at their estimated fair values, with unrealized gains and losses reported in other comprehensive income. Unrealized gains or losses do not affect the cash flow generated from property operations, distributions to shareholders, the characterization of the tax-exempt income stream or the financial obligations under the Revenue Bonds.

The Company periodically evaluates its credit risk exposure associated with its Revenue Bonds to determine whether other than temporary impairments exist. Impairment is indicated if, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the existing contractual terms of the Revenue Bond. The cost basis of a Revenue Bond with other than temporary impairment is written down to its then estimated fair value, with the amount of the write-down accounted for as a realized loss.

For Revenue Bonds and promissory notes, interest income is recognized at the stated rate as it accrues and when collectibility of future amounts is reasonably assured. Contingent interest is recognized when received. Interest income from Revenue Bonds with modified terms or where the collectibility of future amounts is uncertain is recognized based upon expected cash receipts. Certain construction Revenue Bonds carry a higher interest rate during the construction period, which declines to a lower rate for the balance of the term. In these cases, the Company calculates the effective yield on the Revenue Bond and uses that rate to recognize interest over the life of the bond.

MORTGAGE BANKING ACTIVITIES

Fannie Mae Program - The Company, through its PWF subsidiary, is approved by the Federal National Mortgage Association ("Fannie Mae") as a Delegated Underwriter and Servicer ("DUS"). Under the Fannie Mae DUS product line, the Company originates, underwrites and services mortgage loans on multifamily residential properties and sells the loans directly to Fannie Mae. The Company assumes responsibility for a portion of any loss that may result from borrower defaults, based on the Fannie Mae loss sharing formulas, Levels I, II, or III. As of December 31, 2001, all but one of the Company's loans consisted of Level I loans. For such loans, the Company is responsible for the first 5% of the unpaid principal balance and a portion of any additional losses to a maximum of 20% of the original principal balance. Level II and Level III loans carry a higher loss sharing percentage. Fannie Mae sustains any remaining loss.

Under the terms of the Master Loss Sharing Agreement between Fannie Mae and the Company, the Company is responsible for funding 100% of mortgagor delinquency (principal and interest) and servicing (taxes, insurance and foreclosure costs) advances until the amounts advanced exceed 5% of the unpaid principal balance at the date of default. Thereafter, for Level I loans, the Company may request interim loss sharing adjustments which allow the Company to fund 25% of such advances until final settlement under the Master Loss Sharing Agreement. No interim sharing adjustments are available for Level II and Level III loans.

The Company maintains on allowance for loan losses for loans originated under the Fannie Mae DUS product line at a level that, in management's judgment, is adequate to provide for estimated losses. This judgment is based upon various risk assessments including the value of the collateral, the operating results of the properties, the borrower's financial condition and the Company's loss experience.

FHA Program - The Company, through PWF and its subsidiaries, is approved by the U.S. Department of Housing and Urban Development ("HUD")/Federal Housing Administration ("FHA") as nonsupervised mortgagees. The Company, through a PWF subsidiary, is also approved by the Government National Mortgage Association ("GNMA") as a GNMA seller/servicer. As of December 31, 2001, the Company serviced approximately $362 million of loans under the FHA 223(f), 232, and 242 Programs, of which approximately $120 million had GNMA securities outstanding.

Freddie Mac Program - The Company, through PWF and its subsidiaries, is an approved Federal Home Loan Mortgage Corporation ("Freddie Mac") seller/servicer of mortgage loans. At December 31, 2001, the Company had approximately $595 million of such loans in its portfolio. A substantial portion of the underlying properties subject to these mortgages are located in New Jersey.

Other Programs - The Company's PWF subsidiary also originates, underwrites and services multifamily and commercial mortgages for insurance companies, and banks. The servicing for these loans is generally retained by the Company. At December 31 2001, the Company had approximately $305 million of such loans in its portfolio.

Mortgage banking fee revenues earned from arranging financings under the Fannie Mae DUS product line Freddie Mac, FHA, insurance and banking or other programs are recorded at the point the financing commitment is accepted by the mortgagor and the interest rate of the mortgage loan thereafter is fixed. Revenue from servicing the loan portfolio is recognized on an accrual basis.



MORTGAGE SERVICING RIGHTS

The Company recognizes as assets the rights to service mortgage loans for others, whether the servicing rights are acquired through a separate purchase or through loan origination, by allocating total costs incurred between the loan and the servicing rights retained based on their relative fair value. Mortgage servicing rights are being carried at their estimated fair values based on the purchase price paid by CM Corp for its 80% share of PWF.

SFAS No. 140 also requires an entity to measure the impairment of servicing rights based on the difference between the carrying amount of the servicing rights and their current fair value. Impairment of servicing rights is recognized in the Consolidated Statement of Operations during the applicable period through additions to a valuation allowance. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights exceed their fair value. Subsequent to the initial measurement of impairment, the valuation allowance is adjusted to reflect changes in the measurement of impairment. Fair value in excess of the amount capitalized as mortgage servicing rights (net of amortization ), however, is not recognized. For the purpose of evaluating and measuring impairment of capitalized mortgage servicing rights, the Company stratify those rights based on the predominant risk characteristics of the underlying loans.

FINANCIAL RISK MANAGEMENT AND DERIVATIVES

During 2001, the Company entered into two interest rate swaps, which are accounted for under the Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Standards No. 133". At the inception, the Company designated these interest rate swaps as cash flow hedges on the variable interest payments in 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 other comprehensive income to the extent the hedges are effective in achieving offsetting cash flows. These hedges have been highly effective, so these has been no ineffectiveness included in earnings. Net amounts receivable or payable under the swap agreements are recorded as adjustments to interest expense.

INCOME TAXES

Prior to 2001, no provision or benefits for income taxes have been included in these financial statements since the income or loss passes through to, and is reportable by, the shareholders on their respective income tax returns. Effective July 1, 2001, the Company began operation of a new wholly-owned, taxable subsidiary -- CM Corp., which on December 31, 2001, purchased PWF. CM Corp will own the taxable Revenue Bonds and other taxable investments acquired by the Company. The Company provides 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.

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LIQUIDITY AND CAPITAL RESOURCES

In order for the Company to fund its investments in Revenue Bonds and facilitate growth, the Company has primarily used two sources of capital: collateralized debt securitizations and equity offerings. To date, the primary source of long-term liquidity has come from the Company's Private Label Tender Option Program and preferred equity offerings by the Company or a subsidiary. During the years 1999, 2000 and 2001, the Company raised additional capital as follows:

| | AMOUNT OF CAPITAL RAISED DURING (IN $000'S): | | | ENDING BA |
|---|---|---|---|---|
| CAPITAL SOURCE | 1999 | 2000 | 2001 | DECEMBER 3 |
| EQUITY: | | | | |

| | | | | |
|---|---|---|---|---|
| PREFERRED | | | | |
| Series A | $ 90,000 | $ -- | $ -- | $ 90,0 |
| Series A-1 | -- | 24,000 | -- | 24,0 |
| Series A-2 | -- | -- | 31,000 | 31,0 |
| Series B | -- | 55,000 | -- | 55,0 |
| Series B-1 | -- | -- | 18,500 | 18,5 |
| Convertible CRA | -- | 36,596 | -- | 36,5 |
| Total | $ 90,000 | $ 115,596 | $ 49,500 | $ 255,0 |
| COMMON | | | | |
| May 2001 | $ -- | $ -- | $ 122,683 | $ 122,6 |
| November 2001 | -- | -- | 55,140 | 55,1 |
| Total | $ -- | $ -- | $ 177,823 | $ 177,8 |
| SECURITIZATIONS: | | | | |
| Private Label Tender Option Program | $ 177,000 | $ 98,000 | $ 75,000 | $ 350,0 |
| P-Floats/RITES | 80,769 | 29,348 | 81,770 | 191,7 |
| Total | $ 257,769 | $ 127,348 | $ 156,770 | $ 541,7 |
| FLEET: PW ACQUISITION | $ -- | $ -- | $ 27,261 | $ 27,2 |
| PW WAREHOUSE LINE | $ -- | $ -- | $ 29,325 | $ 29,3 |
| Total of all capital activity | $ 347,769 | $ 242,944 | $ 440,679 | $ 1,031,3 |

These capital raising transactions are described in more detail below.

The Company has two primary securitization programs: the Private Label Tender Option Program and the P-FLOATS/RITES-SM- program. Securitizations continue to offer efficient execution and the lowest cost of capital, albeit with certain covenants and leverage limits. Pursuant to its Trust Agreement, the Company is only able to incur leverage or other financing up to 50% of the Company's Total Market Value; such terms are generally consistent or more conservative than leverage covenants on the Company' s securitized debt.

Short-term liquidity is provided by interest income from Revenue Bonds and promissory notes in excess of the related financing costs, and interest income from cash and temporary investments. For the Company's PWF subsidiary, short-term liquidity is provided by a $100 million revolving warehouse line to fund loans prior to a committed take-out by Fannie Mae, Freddie Mac, Ginnie Mae or FHA, under which PWF is the originator, underwriter, and servicer under established programs with these entities. The Company believes that its financing capacity and cash flow from current operations are adequate to meet its current and projected liquidity requirements. As of December 31, 2001, the Company has no off-balance sheet debt.



CAPITAL RAISING TRANSACTIONS

(I) PREFERRED EQUITY ISSUANCES BY SUBSIDIARY

Since June 1999, the Company, through a subsidiary, has issued multiple series of Cumulative Preferred Shares. Proceeds from these offerings were used to invest in or acquire additional tax-exempt assets for the Company.

| PREFERRED SERIES | DATE OF ISSUANCE | MANDATORY TENDER | MANDATORY REPURCHASE | NUMBER OF SHARES | LIQUIDATION PREFERENCE PER SHA |
|---|---|---|---|---|---|
| Series A | 6/29/99 | 6/30/09 | 6/30/49 | 45 | $2,000,000 |
| Series A-1 | 7/21/00 | 6/30/09 | 6/30/49 | 48 | 500,000 |
| Series A-2 | 10/9/01 | 6/30/09 | 6/30/49 | 62 | 500,000 |
| Series B | 7/21/00 | 11/30/10 | 11/30/50 | 110 | 500,000 |
| Series B-1 | 10/9/01 | 11/30/10 | 11/30/50 | 37 | 500,000 |

Each series of Cumulative Preferred Shares has an annual preferred dividend payable quarterly in arrears upon declaration thereof by the Company's Board of Trustees, but only to the extent of tax-exempt net income for the particular quarter. All series of Cumulative Preferred Shares are subject to mandatory tender by the holders thereof for remarketing and purchase on their respective mandatory tender dates and each remarketing date thereafter at their respective liquidation preference per share plus an amount equal to all distributions accrued but unpaid.

Holders of Cumulative Preferred Shares may elect to retain their shares upon remarketing, with a distribution rate to be determined immediately prior to the remarketing date by the remarketing agent. Each holder of Cumulative Preferred Shares will be required to tender its shares to the Issuer for mandatory repurchase on the mandatory repurchase date, unless the Company decides to remarket the shares on such date. Cumulative Preferred Shares are not convertible into Common Shares of the Company.

The Series A, A-1 and A-2 Cumulative Preferred Shares rank, with respect to payment of distributions and amounts upon liquidation, dissolution or winding-up of the Company, senior to all classes or series of Convertible CRA Shares, Series B and Series B-1 Subordinate Cumulative Preferred Shares and Common Shares of the of the Company. The Series B Subordinate Cumulative Preferred Shares rank, with respect to payment of distributions and amounts upon liquidation, dissolution or winding-up of the Company, senior to the Company's Common Shares and the Company's Convertible CRA Shares and junior to the Issuer's Series A, A-1 and A-2 Cumulative Preferred Shares.

Since inception, all quarterly distributions have been declared at each stated annualized dividend rate for each respective series and all distributions due have been paid. In February 2002, preferred shareholder distributions that were declared in December 2001, were paid to the preferred shareholders from cash flow from operations for the quarter ended December 31, 2001. The per share distributions declared and paid for this period were as follows:

| | DIVIDEND PER SHARE | TOTAL DISTRIB |
|---|---|---|
| Series A; 6.625% | $ 33,125 | $1,490 |
| Series A-1; 7.100% | $ 8,875 | $ 426 |
| Series A-2; 6.300% | $ 7,878 | $ 488 |
| Series B; 7.600% | $ 9,500 | $1,045 |

| | | |
|---|---|---|
| Series B-1; 6.800% | $ 8,500 | $1,258 |

(II) CONVERTIBLE COMMUNITY REINVESTMENT ACT PREFERRED SHARE OFFERINGS

On May 10, 2000, the Company completed a $27,497,000 private placement of Convertible Community Reinvestment Act Preferred Shares ("Convertible CRA Shares") to three financial institutions (1,946,000 Convertible CRA Shares priced at $14.13 per share.) The Company incurred an initial purchasers' discount of approximately $1,109,000 and other related costs of approximately $610,000, resulting in net proceeds (less expenses) of $25,778,000. On December 14, 2000, the Company completed an additional $9,100,000 private placement of Convertible CRA Shares to three additional financial institutions (644,000 Convertible CRA Shares priced at $14.13 per share). After an initial purchasers' discount of approximately $367,000 and other related costs of approximately $318,000, the Company received net proceeds (less expenses) of $8,414,000. On May 24, 2001, the Company bought back 707,636 Convertible CRA Shares, issued May 10, 2000, at $12.70 per share for a total purchase price of $8,986,977. As of December 31, 2001, the Company had outstanding, 1,882,364 Convertible CRA Shares, which are convertible at the holders option into 1,764,663 Common Shares.

The Convertible CRA Shares enable financial institutions to receive certain regulatory benefits in connection with their investment. The Company has developed a proprietary method for specially allocating these regulatory benefits to specific financial institutions that invest in the Convertible CRA Shares. Other than the preferred allocation of regulatory benefits, the preferred investors receive the same economic benefits as Common Shareholders of the Company, including receipt of the same dividends per share as those paid to Common Shareholders. The Convertible CRA Shares have no voting rights, except on matters relating to the terms of the Convertible CRA Shares or to amendments to the Company's Trust Agreement which would adversely affect the Convertible CRA Shares. The Company's earnings are allocated pro rata among the Common Shares and the Convertible CRA Shares, and the Convertible CRA Shares rank on parity with the Common Shares with respect to rights upon liquidation, dissolution or winding up of the Company.

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The investors, at their option, have the ability to convert their Convertible CRA Shares into Common Shares at a predetermined conversion price. Upon conversion, the investors will no longer be entitled to a special allocation of the regulatory benefit. The conversion price is the greater of (i) the Company's book value per Common Share as set forth in the Company's most recently issued annual or quarterly report filed with the SEC prior to the respective Convertible CRA Share issuance date or (ii) 110% of the closing price of a Common Share on the respective Convertible CRA Share's pricing date. The conversion price for each Convertible CRA Share offering is indicated on the following table:

| ISSUANCE DATE | CONVERSION PRICE | CONVERSION RATIO |
|---|---|---|
| May 10, 2000 | $15.33 | 0.9217 |
| December 14, 2000 | $14.60 | 0.9678 |

(III) PRIVATE LABEL TENDER OPTION PROGRAM

On May 21, 1998, the Company closed on its Private Label Tender Option Program ("TOP") in order to raise additional capital to acquire additional Revenue Bonds. As of December 31, 1999, the maximum amount of capital that could be raised under the TOP was $400 million. On December 7, 2000, the Company refined the structure the TOP for the primary purpose of segregating Revenue Bonds issued by governmental entities in California from the remainder of the Revenue Bonds under the TOP and to increase the maximum amount of capital available under the program to $500 million. In addition, the TOP's surety commitment was extended for a five-year term. The liquidity commitment is a one-year renewable commitment. The Company expects to renew or replace such commitments upon expiration of their terms.

Under the TOP structure, the Company contributes Revenue Bonds to CharterMac Origination Trust I (the "Origination Trust"), a wholly owned, indirect subsidiary of the Company. The Origination Trust then contributes certain of these Revenue Bonds to CharterMac Owner Trust I (the "Owner Trust") which is controlled by the Company. The Owner Trust contributes selected bonds to specific "Series Trusts" in order to segregate Revenue Bonds issued by governmental entities selected by state of origin. As of December 31, 2000, four such Series Trusts were created: two California only series and two National (non-state specific) series.

Each Series Trust, issues two equity certificates: (i) a Senior Certificate which has been deposited into a "Certificate Trust" which issues and sells "Floater Certificates" representing proportional interests in the Senior Certificate to new investors and (ii) a Residual Certificate, issued to the Origination Trust which represents the remaining beneficial ownership interest in each Series Trust.

The effect of the TOP structure is that a portion of the interest received on Revenue Bonds in the Owner Trust is distributed through the Senior Certificate to the holders of the Floater Certificates with any remaining interest remitted to the Origination Trust (and thus to the benefit of the Company) via the Residual Certificate. The effect of the December 7, 2000, refinement of the TOP structure was to segregate the California related Floater Certificates as they generally will pay distributions at lower rates than National (non-state specific) Floater Certificates and thus the yield on the Residual Certificates owned by the Origination Trust is increased. The Revenue Bonds remaining in the Origination Trust (aggregate principal amount of approximately $150 million) are an additional collateral pool for the Owner Trust's obligations under the Senior Certificate.

The balance of the TOP at December 31, 2001 (the equity in the Owner Trust, represented by the Senior Certificate), was $350 million. The Company's floating rate cost of funds relating to the TOP (calculated as interest expense plus recurring fees as a percentage of the weighted average amount of the outstanding Senior Certificate) was approximately 3.5%, 5.4% and 4.5% for the years ended December 31, 2001, 2000 and 1999, respectively.

(IV) P-FLOATS/RITES

Another source for financing the Company's investments is the securitization of selected Revenue Bonds through the Merrill Lynch Pierce Fenner & Smith Incorporated ("Merrill Lynch") P-FLOATS/RITES-SM- program. Merrill Lynch deposits each Revenue Bond into an individual special purpose trust together with a credit enhancement guarantee. Two types of securities are then issued by each trust, (1) Puttable Floating Option Tax-Exempt Receipts ("P-FLOATS"), a short-term senior security which bears interest at a floating rate that is reset weekly and (2) Residual Interest Tax Exempt Securities ("RITES"), a subordinate security which receives the residual interest payment after payment of P-FLOAT interest and ongoing transaction fees. The P-FLOATS are sold to qualified third party, tax-exempt investors and the RITES are generally sold back to the Company.

During the year 2000, the Company transferred 13 Revenue Bonds with an aggregate face amount of approximately $142 million to P-FLOATS/RITES-SM- program and received proceeds of approximately $135 million. Additionally, the Company repurchased five Revenue Bonds with an aggregate face value of approximately $55 million.

The Company's cost of funds relating to its secured borrowings under the Merrill Lynch P-FLOATS/RITES-SM- program (calculated as interest expense as a percentage of the weighted average amount of the secured borrowings) was approximately 3.72%, 4.96% and 4.8%, annualized, for the years ended December 31, 2001 and 2000 and the period June 29, 1999 (inception of this program) through December 31, 1999, respectively.



(V) OTHER DEBT

In December 2001, CM Corp. acquired of 80% the outstanding capital stock of PWF for approximately $34.9 million, of which approximately $21.6 million was financed and $7.6 million was paid in cash. Additionally, the Company borrowed $5.7 million to pay off loans held by PWF. The acquisition loan commitment ("PWF Acquisition Loan") is $40 million, with an aggregate loan advance of up to $30 million during the first three months, subject to a maximum advance ratio of 80% of the value of PWF's mortgage servicing portfolio, following the PWF acquisition and loan closing. At the time of closing, $27.3 million ("Initial Advance") of the facility was drawn. CM Corp. may request a resizing of the loan, up to the maximum facility size of $40 million, in order to generate additional funding ("Final Advance") that may be required the remaining 20% stock ownership of PWF. The Final Advance would equal the lesser of 100% of the cost of the remaining 20% equity interests of PWF or an amount that represents an overall maximum advance of 75% of the value of the PWF mortgage servicing portfolio at the time of the Final Advance.

The PWF Acquisition Loan has a term of five years with an interest rate of LIBOR plus 2.25%. The loan is interest only for the first twelve months. Beginning in month thirteen and through the remaining loan term, quarterly straight-line principal amortization on the Initial Advance is paid based on a ten-year amortization period. Additionally, after receiving the Final Advance, additional quarterly straight-line principal amortization payments on the Final Advance will be made based on the remaining years of the amortization period for the Initial Advance.

PWF has a $50 million multi-family revolving warehouse facility, which will expire on May 31, 2002. At December 31, 2001, the facility was temporarily increased to $160 million and had outstanding borrowings of $ 29.3 million at an interest rate of 30-day LIBOR plus 1.00%, which resets daily, with a LIBOR floor of 3%. At December 31, 2001, the interest rate was 4.0%. Borrowings under the line of credit are collateralized by PWF's ownership interests in the original mortgage notes. At December 31, 2001, PWF was in compliance with all covenants of the facility.

PWF is the guarantor for a $35 million loan and security agreement for Larson, which will expire on May 31, 2002. The interest rate for the agreement is the lower of 30 day LIBOR plus 209 basis points or the 30 day Treasury Bill rate plus 205 basis points. At December 31, 2001, there were no outstanding borrowings under the agreement. At December 31, 2001, the Company and Larson were in compliance with all covenants of the agreement.

PWF also has another $100 million secured, revolving mortgage warehouse facility, subject to annual renewal during December of each year. CM Corp is a guarantor of this warehouse facility. The interest rate for each warehouse advance must be selected by the Company from the following two alternatives: LIBOR (for the estimated duration of the advance) plus 125 basis points or Prime plus 12.5 basis points (the default rate). At December 31, 2001 there were no outstanding borrowings under the facility. At December 31, 2001 the Company was in compliance with all covenants of the facility.

COMMITMENTS AND CONTINGENCIES

Through PWF, the Company originates and services multifamily mortgage loans for Fannie Mae, Freddie Mac and FHA. PWF and its subsidiaries' mortgage lending business is subject to various governmental and quasi-governmental regulation. PW Funding and/or its subsidiaries, collectively, are licensed or approved to service and/or originate and sell loans under Fannie Mae, Freddie Mac, Ginnie Mae and FHA programs. FHA and Ginnie Mae are agencies of the Federal government and Fannie Mae and Freddie Mac are federally chartered, investor-owned corporations. These agencies require PWF and its subsidiaries to meet minimum net worth and capital requirements and to comply with other requirements. Mortgage loans made under these programs are also required to meet the requirements of these programs. In addition, under Fannie Mae's DUS program, PWF has the authority to originate loans without a prior review by Fannie Mae and is required to share in the losses on loans originated under this program.

The DUS program is Fannie Mae's principal loan program. Under the Fannie Mae DUS Product Line, the Company originates, underwrites and services mortgage loans on multifamily residential properties and sells the project loans directly to Fannie Mae. The Company assumes responsibility for a portion of any loss that may result from borrower defaults, based on the Fannie Mae loss sharing formulas, Levels I, II or III. At December 31, 2001, all but one of the Company's loans consisted of Level I loans. For such loans, the Company is responsible for the first 5% of the unpaid principal balance and a portion of any additional losses to a maximum of 20% of the original principal balance. Level II and Level III loans carry a higher loss sharing percentage. Fannie Mae bears any remaining loss.

Under the terms of the Master Loss Sharing Agreement between Fannie Mae and the Company, the Company is responsible for funding 100% of mortgagor delinquency (principal and interest) and servicing (taxes, insurance and foreclosure costs) advances until the amounts advanced exceed 5% of the unpaid principal balance at the date of default. Thereafter, for Level I loans, the Company may request interim loss sharing adjustments which allow the Company to fund 25% of such advances until final settlement under the Master Loss Sharing Agreement. No interim loss sharing adjustments are available for Level II and Level III loans.

The Company maintains an allowance for loan losses for loans originated under the Fannie Mae DUS product line at a level that, in management's judgment, is adequate to provide for estimated losses. At December 31, 2001, that reserve was approximately $3.5 million.

Unlike loans originated for Fannie Mae, PWF does not share the risk of loss for loans it originates for Freddie Mac or FHA.

On December 31, 2001, the Company completed a credit enhancement transaction with Merrill Lynch Capital Services, Inc. ("MLCS") pursuant to which CM Corp. initially will receive an annual fee of approximately $1.2 million in return for assuming MLCS's $46.9 million first loss position on a $351.9 million pool of tax-exempt weekly variable rate multifamily mortgage loans originated by CreditRe Mortgage Capital, LLC, an affiliate of Credit Suisse First Boston and the Related Companies, L.P. The Re-



lated Companies, L.P. has provided CM Corp. with an indemnity covering 50% of any losses that are incurred by CM Corp. as part of this transaction. As the loans mature or prepay, the first loss exposure and the fees paid to CM Corp. will both be reduced. The latest maturity date on any loan in the portfolio occurs in 2009. Fannie Mae and Freddie Mac have assumed the remainder of the real estate exposure after the $46.9 million first loss position. In connection with the transaction, CharterMac has guaranteed the obligations of CM Corp., and as a security therefor, have posted collateral, initially in an amount equal to 50% of the first loss amount, which may be reduced to 40% if certain post closing conditions are met. The Related Companies, L.P. is an affiliate of Related Capital.

CM Corp. performed due diligence on each property in the pool, including an examination of loan-to-value and debt service coverage both on a current and "stressed" basis. CM Corp. analyzed the portfolio on a "stressed" basis by increasing capitalization rates and assuming an increase in the low floater bond rate. As of December 31, 2001, the credit enhanced pool of properties are performing according to their contractual obligations and the Company does not anticipate any losses to be incurred on its guaranty.

Management is not aware of any trends or events, commitments or uncertainties, which have not otherwise been disclosed that will or are likely to impact liquidity in a material way.

Minimum annual rentals, under non-cancelable leases for a office space, are as follows:

| | |
|---|---|
| 2002 | $ 504,000 |
| 2003 | 501,000 |
| 2004 | 397,000 |
| 2005 | 311,000 |
| 2006 | 291,000 |
| 2007 | 50,000 |
| | $2,054,000 |

Leases contain provisions for escalation based on certain increases in costs incurred by the lessors.



ACQUISITIONS AND DISPOSITIONS OF REVENUE BONDS

During 2001, the Company acquired 42 Revenue Bonds with an aggregate par value of approximately $296 million, not including bond selection fees and expenses of approximately $6.4 million.

ACQUISITIONS FOR THE YEAR ENDED DECEMBER 31, 2001

| PROJECT NAME | CLOSING DATE | PAR AMOUNT | AGGREGATE PURCHASE PRICE (a) | BO |
|---|---|---|---|---|
| Draper Lane | Feb-28 | $11,000,000 | $ 11,260,970 | |
| Sherwood Lake | Apr-24 | 4,100,000 | 4,193,572 | |
| Magnolia Arbors | Apr-26 | 12,500,000 | 12,789,997 | |
| Magnolia Arbors | Apr-26 | 1,000,000 | 1,020,000 | |
| Bluffview | May-03 | 10,700,000 | 10,947,687 | |
| Knollwood Villas | May-03 | 13,750,000 | 14,068,044 | |
| Chapel Ridge of Lowell | May-18 | 5,500,000 | 5,613,165 | |
| Belmont Heights Estates | June-06 | 7,850,000 | 8,030,136 | |
| Arbors at Creekside | June-12 | 8,600,000 | 8,800,720 | |
| Midtown Square | June-13 | 5,600,000 | 5,732,024 | |
| Midtown Square | June-13 | 235,000 | 239,700 | |
| Oakwood Manor | June-26 | 5,010,000 | 5,144,488 | |
| Oakwood Manor | June-26 | 440,000 | 448,800 | |
| Oakwood Manor | June-26 | 765,000 | 780,300 | |
| Cobb Park | July-31 | 7,500,000 | 7,669,755 | |
| Cobb Park | July-31 | 285,000 | 290,700 | |
| Palm Terrace | Aug-15 | 4,460,000 | 4,564,483 | |
| Palm Terrace | Aug-15 | 1,542,381 | 1,573,229 | |
| Lakewood Terrace | Aug-21 | 7,650,000 | 7,814,099 | |
| Blunn Creek | Aug-28 | 15,000,000 | 15,355,213 | |
| Valley View & Ridgecrest | Oct-12 | 9,200,000 | 9,387,268 | |
| Merchandise Mart | Oct-24 | 25,000,000 | 25,505,683 | |
| Lakeline Apartments | Nov-06 | 21,000,000 | 21,442,825 | |
| Lakeline Apartments | Nov-06 | 550,000 | 561,000 | |
| Rivers Edge | Nov-20 | 15,000,000 | 15,306,040 | |
| Mecca Vineyards | Nov-29 | 13,040,000 | 13,300,800 | |
| Mecca Vineyards | Nov-29 | 1,500,000 | 1,530,000 | |
| Mecca Vineyards | Nov-29 | 360,000 | 367,200 | |
| Westlake Village | Nov-30 | 6,425,000 | 6,553,500 | |
| Westlake Village | Nov-30 | 575,000 | 586,500 | |
| Silverwood | Dec-11 | 3,300,000 | 3,366,000 | |
| Silverwood | Dec-11 | 525,000 | 535,500 | |
| Riverside Meadows | Dec-13 | 11,500,000 | 11,732,121 | |
| Riverside Meadows | Dec-13 | 200,000 | 204,000 | |
| Oak Hollow | Dec-18 | 8,625,000 | 8,797,500 | |
| Hillside Apartments | Dec-18 | 12,500,000 | 12,760,859 | |
| Hillside Apartments | Dec-18 | 400,000 | 408,000 | |
| White Rock | Dec-21 | 20,345,000 | 20,751,900 | |
| White Rock | Dec-21 | 430,000 | 438,600 | |
| West Meadows | Dec-21 | 13,000,000 | 13,262,208 | |
| Ocean Ridge | Dec-21 | 6,675,000 | 6,808,500 | |
| Ocean Ridge | Dec-21 | 2,325,000 | 2,371,500 | |
| | | $295,962,381 | $302,314,588 | |

(a) Includes bonds selection fees and other direct costs of acquiring the bond.



During 2000, the Company acquired 44 Revenue Bonds (including, Revenue Bonds acquired in the ATEBT merger) with an aggregate per value of approximately $299.8 million, not including bond selection fees and expense of approximately $5.8 million and a purchase price adjustment related to the ATEBT bonds of approximately $5 million.

ACQUISITIONS FOR THE YEAR ENDED DECEMBER 31, 2000

| PROPERTY/BOND NAME | CLOSING DATE | PAR AMOUNT | AGGREGATE PURCHASE PRICE (a) | BO RAT |
|---|---|---|---|---|
| Summer Lake | Mar-14 | $5,600,000 | $ 5,726,806 | |
| Princess Anne House | Apr-06 | 125,000 | 127,500 | |
| Princess Anne House | Apr-06 | 7,500,000 | 7,684,106 | |
| Walnut Park Plaza | Apr-11 | 5,500,000 | 5,611,284 | |
| Columbia at Bells Ferry | Apr-19 | 13,000,000 | 13,264,889 | |
| Oaks at Hampton | Apr-27 | 525,000 | 535,500 | |
| Oaks at Hampton | Apr-27 | 9,535,000 | 9,737,266 | |
| Walnut Creek | May-04 | 360,000 | 367,200 | |
| Walnut Creek | May-04 | 3,240,000 | 3,305,433 | |
| South Congress | May-04 | 6,300,000 | 6,431,026 | |
| Newark Commons | May-17 | 14,300,000 | 14,643,370 | |
| Grace Townhomes | May-23 | 5,225,600 | 5,330,112 | |
| San Marcos | May-23 | 7,231,000 | 7,380,311 | |
| Casa Ramon | Jul-14 | 4,744,000 | 4,856,800 | |
| Parks at Westmoreland | Jul-17 | 455,000 | 464,100 | |
| Parks at Westmoreland | Jul-17 | 9,535,000 | 9,745,037 | |
| Kings Villages | Jul-26 | 17,650,000 | 18,027,011 | |
| Autumn Ridge | Aug-11 | 9,304,230 | 9,495,593 | |
| Bay Colony | Aug-11 | 10,100,000 | 10,306,797 | |
| Village Green | Aug-14 | 503,528 | 513,598 | |
| Village Green | Aug-14 | 3,078,000 | 3,144,885 | |
| Southwest Trails | Aug-14 | 6,500,000 | 6,633,855 | |
| Park at Landmark | Sep-07 | 9,500,000 | 9,690,000 | |
| Hidden Grove | Sep-26 | 8,600,000 | 8,772,000 | |
| Running Brook | Sep-27 | 8,495,000 | 8,674,092 | |
| Park Sequoia | Oct-17 | 6,740,000 | 6,874,800 | |
| Armstrong Farm | Oct-19 | 8,246,000 | 8,410,920 | |
| Chapel Ridge of Claremore | Oct-26 | 4,100,000 | 4,182,000 | |
| Chandler Creek | Oct-31 | 350,000 | 357,000 | |
| Chandler Creek | Oct-31 | 15,850,000 | 16,167,000 | |
| Greenbridge at Buckingham | Nov-07 | 350,000 | 357,000 | |
| Greenbridge at Buckingham | Nov-07 | 19,735,000 | 20,143,757 | |
| Woods Edge | Nov-13 | 4,850,000 | 4,947,000 | |
| Highpointe Club | Nov-14 | 3,250,000 | 3,927,000 (b) | |
| Lexington Trails | Nov-14 | 4,900,000 | 5,921,000 (b) | |
| Rolling Ridge | Nov-14 | 4,925,000 | 5,951,000 (b) | |
| Reflections | Nov-14 | 10,700,000 | 12,930,000 (b) | |
| Museum Tower | Nov-29 | 6,000,000 | 6,120,000 | |
| Williams Run | Dec-06 | 200,000 | 204,000 | |
| Williams Run | Dec-06 | 12,650,000 | 12,903,000 | |
| Red Hill Villas | Dec-12 | 400,000 | 408,000 | |
| Red Hill Villas | Dec-12 | 9,900,000 | 10,112,024 | |
| Grandview Forest | Dec-22 | 5,483,907 | 5,597,602 | |
| Millpond Village | Dec-28 | 14,300,000 | 14,586,000 | |
| | | $299,836,265 | $310,567,674 | |

(a) Includes bond selection fees and other direct costs of acquiring the bond.
(b) These bonds were purchased as part of the ATEBT merger.

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During the period January 1, 2001 through December 31, 2001, three Revenue Bonds and one note were repaid and one RITE was terminated as described in the table below.

DISPOSITIONS FOR THE YEAR ENDED DECEMBER 31, 2001

| Property/Bond Name | Par Amount | Amortized Cost | Realized Gains / (Losses) |
|---|---|---|---|
| BONDS | | | |
| Greenway | $12,850,000 | $12,745,927 | $ 105,557 |
| Rolling Ridge | 4,925,000 | 5,989,416 | (867,416) |
| Country Lake | 6,255,000 | 6,400,979 | (145,979) |
| NOTE | | | |
| Country Lake | 2,540,000 | 2,540,000 | - |
| RITE | | | |
| Courtyard | 5,000 | 8,766 | (3,766) |
| | | | $(911,604) |

During the period January 1, 2000 through December 31, 2000, three Revenue Bonds were repaid and two RITES were terminated as more fully described in table below.

DISPOSITIONS FOR THE YEAR ENDED DECEMBER 31, 2000

| Property/Bond Name | Bond Par Amount | Amortized Cost | Realized Gains / (Losses) |
|---|---|---|---|
| BONDS | | | |
| Bay Club | $6,400,000 | $6,438,942 | $ (38,942) |
| East Ridge | 8,700,000 | 8,437,747 | 262,253 |
| Martin's Creek | 7,300,000 | 6,842,946 | 457,054 |
| RITES | | | |
| Avalon | 5,000 | 40,073 | (35,073) |
| Meadowview Park | 5,000 | 5,141 | (141) |
| | | | $645,151 |

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INVESTMENT IN REVENUE BONDS

The Company accounts for its investments in Revenue Bonds as available-for-sale debt securities under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115").

In most cases the Company has a right to require redemption of the Revenue Bonds prior to their maturity, although it can and may elect to hold them up to their maturity dates unless otherwise modified. As such, SFAS 115 requires the Company to classify these investments as "available-for-sale." Accordingly, investments in Revenue Bonds are carried at their estimated fair values, with unrealized gains and losses reported in other comprehensive income. Unrealized gains or losses do not affect the cash flow generated from property operations, distributions to shareholders, the characterization of the tax-exempt income stream or the financial obligations under the Revenue Bonds.

The Company periodically evaluates its credit risk exposure associated with its Revenue Bonds to determine whether other than temporary impairments exist. Impairment is indicated if, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the existing contractual terms of the Revenue Bond. The cost basis of a Revenue Bond with other than temporary impairment is written down to its then estimated fair value, with the amount of the write-down accounted for as a realized loss.

Because Revenue Bonds have a limited market, the Company estimates fair value for each bond as the present value of its expected cash flows using a discount rate for comparable tax-exempt investments. This process is based upon projections of future economic events affecting the real estate collateralizing the bonds, such as property occupancy rates, rental rates, operating cost inflation, market capitalization rates and upon determination of an appropriate market rate of interest, all of which are based on good faith estimates and assumptions developed by the Manager. Changes in market conditions 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.

REVENUE BOND MODIFICATIONS

The original obligors and owners of the Underlying Properties of the Cedar Creek and Pelican Cove Revenue Bonds have been replaced with affiliates of the Manager who have not made equity investments. These affiliates have assumed the day-to-day responsibilities and obligations of the Underlying Properties. On September 29, 2000, the affiliates of the Manager sold 49% of Pelican Cove and Cedar Creek to a third party buyer with an option from the buyers to purchase the remaining 51% in 2001.



In connection with the sale of two of the Underlying Properties, Cedar Creek and Pelican Cove, the Company has agreed to a modification of the terms of the respective Revenue Bonds. Subject to Issuer approval, the stated interest rate of the Cedar Creek Revenue Bond will be modified to a stated interest rate of 7.43% and 7.25% and the maturity and call dates will be extended to October 1, 2010 and October 1, 2020, respectively.

On June 1, 2001, the Company agreed to a modification of the terms of the Revenue Bond secured by the Loveridge Apartments Project. The stated interest rate was reduced from 8% to 7.5% and the call date was extended to June 1, 2004. As of December 31, 2001, this bond had a carrying value and fair value of approximately $6.9 million and $7.4 million respectively.

IMPAIRMENT OF REVENUE BOND

During the second quarter of 2001, one Revenue Bond, Lexington Trails, became impaired. The Company did not receive the regular interest payments on this Revenue Bond of $210,000 for the period April through September of 2001. The Company has recorded a reserve against these interest payments. On November 6, 2001, the trustee, for the benefit of the Company, foreclosed on the Underlying Property. Bond payments were received for October through December of 2001. As a result of the foregoing, the Company has written the Revenue Bond down to its estimated fair value of approximately $5.5 million, earning a loss on impairment on this bond of $400,000. Management estimated the fair value of this Revenue Bond using the estimated fair value of the Underlying Property.

ATEBT MERGER

On November 2, 1999, the Company and American Tax Exempt Bond Trust ("ATEBT"), whose manager is an affiliate of the Manager of the Company, entered into an Agreement and Plan of Merger providing for the merger of ATEBT into and with the Company as the surviving trust in the merger (the "ATEBT Merger"). The ATEBT Merger was approved by the ATEBT shareholders on September 27, 2000 and consummated on November 14, 2000.

On the ATEBT Merger consummation date, ATEBT had total assets of approximately $29,700,000 and net assets of approximately $28,300,000. ATEBT had four tax-exempt first mortgage bonds financing properties in four states, with an aggregate outstanding face amount of $23,775,000, and with individual interest rates of 9.0%.

Pursuant to the Merger Agreement, each share of beneficial ownership in ATEBT issued and outstanding was converted into 1.43112 Common Shares of the Company. Following the ATEBT Merger, previous ATEBT shareholders own 2,115,722 Common Shares (representing approximately 9.3% of the then outstanding Common Shares) of the Company.

RESULTS OF OPERATIONS

The following is a summary of the Company's results of operations for the years ended December 31, 2001, 2000 and 1999. Net income for the years ended December 31, 2001, 2000 and 1999 was $38.9 million, $30.1 million and $23.2 million, respectively.

2001 VS. 2000

For the year ended December 31, 2001 as compared to 2000, total revenues, total expenses and net income increased due to the net result of the acquisition of 42 Revenue Bonds and the repayment of three Revenue Bonds.

Interest income from Revenue Bonds increased approximately $15.8 million for the year ended December 31, 2001 as compared to 2000. This increase was primarily due to an increase in interest income of approximately $21.9 million on new Revenue Bonds acquired during 2001 and 2000, partially offset by a decrease in deferred, unrecorded base interest related to prior periods, contingent interest and a decrease in interest income due to Revenue Bond repayments.

Total revenues for the year ended December 31, 2001 increased by approximately $16 million, including the net increase from Revenue Bonds noted above, the equity in earnings of ARCap of approximately $456,000, an increase in other income of approximately $627,000, which included a breakup fee of $250,000 related to the Country Lake repayment and a placement fee of $141,000 related to Mayflower, partially offset by a decrease in interest income from temporary investments of approximately $1.1 million due to lower cash balances and lower interest rates.

Total expenses for the year ended December 31, 2001, increased by approximately $1.6 million primarily due to increases in bond servicing costs, general and administrative expenses and amortization due to the acquisition of 42 new Revenue Bonds during the year and a loss on impairment of $400,000 taken against the Lexington Trails Revenue Bond, partially offset by a decrease in interest expense due to lower interest rates and the refinement of the Private Label Tender Option Program. During 2001, Lexington Trails failed to make the regular interest payments due of $210,000 for the period from April through September. As a result this bond was written down to the estimated fair value of the underlying property of approximately $5.5 million.

For the year ended December 31, 2001, the Company recognized a net loss on the repayment of Revenue Bonds of approximately $912,000 as compared to a gain of approximately $645,000 in 2000.

Income allocated to preferred shareholders of subsidiary for the year ended December 31, 2001, increased by approximately $4.0 million related to the preferred offerings executed on July 21, 2000 and October 9, 2001.



As of December 31, 2001, the Company recorded an unrealized gain on its Revenue Bonds of approximately $262,000 versus a net unrealized loss in 2000 of approximately $22.9 million. The large swing between the years was due to declining interest rates and is recorded as part of other comprehensive income in the statements of changes in shareholders' equity.

2000 VS. 1999

For the year ended December 31, 2000 as compared to 1999, total revenues, total expenses and net income increased due to the net result of the acquisition of 44 Revenue Bonds and the repayment of three Revenue Bonds.

Interest income from Revenue Bonds increased approximately $17.2 million for the year ended December 31, 2000 as compared to 1999. This increase was primarily due to an increase in interest income of $15.2 million on new Revenue Bonds acquired during 1999 and 2000. Also contributing to the increase was the receipt during 2000 of deferred, unrecorded, base interest of $2.5 million relating to prior periods with respect to certain Revenue Bonds.

Total revenues for the year ended December 31, 2000 increased by approximately $18,700,000, including the increases in interest income from Revenue Bonds noted above. The remaining increase is due to an increase in interest income from temporary investments of approximately $1,100,000 primarily due to cash pledged as collateral during 2000 related to securitization transactions, and an increase in interest income from promissory notes of approximately $300,000 primarily due to the Country Lake note acquired during 2000.

Interest expense and recurring fees increased approximately $3,200,000 for the year ended December 31, 2000 as compared to 1999 primarily due to increased secured borrowings and a higher outstanding balance of the TOP during 2000.

Loan servicing and asset management fees increased approximately $480,000 for the year ended December 31, 2000 due to new acquisitions and the corresponding increase in the Revenue Bond portfolio serviced. General and administrative expenses increased approximately $737,000 for the year ended December 31, 2000, primarily due to an increase in legal costs related in part to bond modifications, an increase in the amortized cost related to stock options, an increase in other fees and an increase in expense reimbursements to the Manager and affiliates due to the 2000 and 1999 Revenue Bond acquisition.

Amortization increased approximately $195,000 for the year ended December 31, 2000 as compared to 1999 primarily due to an increase in amortization of deferred costs relating to the TOP and issuance of preferred shares of subsidiary.

For the year ended December 31, 2000, the Company recognized a gain on the repayment of Revenue Bonds of approximately $645,000 as compared to a loss on repayment of Revenue Bonds of approximately $463,000 recognized for the year ended December 31, 1999.

Income allocated to preferred shareholders of subsidiary for the year ended December 31, 2000 increased approximately $5,600,000, related to the Preferred Offerings executed on June 29, 1999 and July 21, 2000. Minority interest in income of subsidiary increased approximately $4,500,000 for the year ended December 31, 2000 as compared to 1999 primarily due to a higher outstanding balance of the TOP during 2000.

INCOME TAXES

CharterMac is organized as a Delaware Business Trust and, for tax purposes, is classified as a partnership. Almost all of the Company's recurring income is tax-exempt and from time to time CharterMac may sell or securitize various assets which may result in capital gains and losses. This tax structure allows CharterMac to have the pass-through income characteristics as a partnership for both taxable and tax-exempt income. CharterMac does not pay tax at the partnership level. Instead, the distributive share of CharterMac's income, deductions and credits reported to each shareholder for inclusion on their respective income tax return. The tax-exempt income derived from most of CharterMac's Revenue Bonds remains tax-exempt as it is passed through to shareholders. Any cash dividends received by CharterMac from subsidiaries, organized as corporations, will be recorded as dividend income for tax purposes (such subsidiaries, created in 2001, distributed no dividends during 2001). Approximately 96%, 96% and 97% of CharterMac's tax basis income for the years ended December 31, 2001, 2000 and 1999, respectively, was tax-exempt for federal income tax purposes.

During 2001, the Company restructured its operations into two segments, an investing segment and an operating segment. The investing segment invests primarily in tax-exempt Revenue Bonds. The operating segment, which is directly and wholly owned by CharterMac, generates taxable investment and fee income through direct investment or through its PWF subsidiary. The Company provides 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 bases of assets and liabilities.

The Company derives a substantial portion of its income from ownership of first mortgage "Private Activity Bonds." The interest from these bonds is generally tax-exempt from regular Federal income tax. However, the Tax Reform Act of 1986 classifies the interest earned on Private Activity Bonds issued after August 7, 1986 as a tax preference item for alternative minimum tax purposes ("AMT"). The percentage of the Company's tax-exempt interest income subject to AMT for the years ended December 31, 2001, 2000 and 1999 was approximately 79%, 86% and 76% respectively. AMT is a mechanism within the Internal Revenue Code to ensure that all taxpayers pay at least a minimum amount of taxes. All taxpayers are subject to the AMT calculation requirements although the vast majority of taxpayers will not actually pay AMT. As a result of AMT, the percentage of the Company's income that is exempt from federal income tax may be different for each shareholder depending on that shareholder's individual tax situation.



RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" (SFAS 141) and Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). These statements establish new standards for accounting and reporting for business combinations and for goodwill and intangible assets resulting from business combinations. SFAS 141 applies to all business combinations initiated after June 30, 2001; the Company implemented SFAS 142 on January 1, 2002. The Company has determined that the amount it has currently capitalized as goodwill from business combinations prior to PWF (approximately $3.2 million at December 31, 2001) will meet the criteria in SFAS 141 for recognition as an intangible asset apart from goodwill and, accordingly, continue to be amortized over its expected useful life, subject to impairment testing. The goodwill capitalized as part of the PWF acquisition (approximately $9.8 million) will not be amortized, but will be reviewed annually to determine whether or not any impairment exists. Thus, implementation of these statements did not have a material impact on the Company's financial statements.

In June of 2001, the FASB issued SFAS No, 143, "Accounting for Asset Retirement Obligations" (effective January 1, 2003) and, in August of 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets" (effective January 1, 2002). SFAS No. 143 requires the recording of the fair value of a liability for an asset retirement obligation in the period in which it is incurred. SFAS No. 144 supercedes existing accounting literature dealing with impairment and disposal of long-lived assets, including discontinued operations. It addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of, and expands current reporting for discontinued operations to include disposals of a "component" of an entity that has been disposed of or is classified as held for sale. Management believes the implementation of these two statements will not have a material impact on the Company's financial statements.

FORWARD-LOOKING STATEMENTS

Certain statements made in this report may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include statements regarding the intent, belief or current expectations of the Company and its management and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the following: general economic and business conditions, which will, among other things, affect the availability and creditworthiness of prospective tenants, lease rents and the terms and availability of financing for properties financed by Revenue Bonds owned by the Company; adverse changes in the real estate markets including, among other things, competition with other companies; risks of real estate development and acquisition; governmental actions and initiatives; and environment/safety requirements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

INFLATION

Inflation did not have a material effect on the Company's results for the periods presented.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company invests in certain financial instruments, primarily Revenue Bonds and other bond related investments that are subject to various forms of market risk, including real estate risk, interest rate risk, credit and liquidity risk and prepayment risk. The Company seeks to prudently and actively manage such risks to earn sufficient compensation to justify the undertaking of such risks and to maintain capital levels which are commensurate with the risks the Company undertakes.

REAL ESTATE RISK

The Company derive income by investing in Revenue Bonds secured by multifamily residential properties. Investing in such Revenue Bonds collateralized by such properties subjects the Company to various types and degrees of risk that could adversely affect the value of the Company's assets and the Company's ability to generate revenue. The factors that may reduce the Company's revenues, net income and cash available for distributions to shareholders include the following: the property securing a Revenue Bond may not generate income sufficient to meet its operating expenses and debt service on its related Revenue Bond; economic conditions, either local, regional or national, may limit the amount of rent that can be charged for rental units at the properties, and may result in a reduction in timely rent payments or a reduction in occupancy levels; occupancy and rent levels may be affected by construction of additional housing units and national, regional and local politics, including current or future rent stabilization and rent control laws and agreements; federal LIHTC and city, state and federal housing subsidy or similar programs which apply to many of the properties, could impose rent limitations and adversely affect the ability to increase rents to maintain the properties in proper condition during periods of rapid inflation or declining market value of such properties; and, if a Revenue Bond defaults, the value of the property securing such Revenue Bond (plus, for properties that have availed themselves of the federal LIHTC, the value of such credit) may be less than the face amount of such Revenue Bond.

All of these conditions and events may increase the possibility that a property owner may be unable to meet its obligations to the Company under its mortgage Revenue Bond. This could affect the Company's net income and cash available for distribution to shareholders. The Company manages these risks through diligent and comprehensive underwriting, asset management and ongoing monitoring of loan performance.



The Company may be adversely affected by periods of economic or real estate downturns that result in declining property performance or property values. Any material decline in property values used as collateral for the Company's Revenue Bonds increases the possibility of a loss in the event of default. Additionally, some of the Company's income may come from additional interest received from the participation of a portion of the cash flow, sale or refinancing proceeds on Underlying Properties. The collection of such additional interest may decrease in periods of economic slowdown due to lower cash flows or values available from the properties. In a few instances, the Revenue Bonds are subordinated to the claims of other senior interest and uncertainties may exist as to a borrower's ability to meet principal and interest payments. Because of 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 the Company's investments and the instruments used to raise capital for their acquisition expose the Company 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 the control of the Company.

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 the TOP program and on the secured borrowings under the P-FLOAT program vary based on market interest rates based on the Bond Market Association ("BMA") index and are re-set weekly.

The Company, through its CM Corp. subsidiary, has floating rate debt related to the acquisition financing of PWF. 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). As 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 the Company's various series of Cumulative Preferred Shares, carry a fixed dividend rate and so are not impacted by changes in market interest rates.

A rising interest rate environment could reduce the demand for multifamily tax-exempt and taxable financing, which could limit the Company's 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 multifamily housing.

An effective interest rate management strategy can be complex and no strategy can insulate the Company from all potential risks associated with interest rate changes. Various financial vehicles exist which would allow Company management to mitigate the impact of interest rate fluctuations on the Company's cash flows and earnings. Prior to December 31, 2000, management did not engage in any of these hedging strategies after careful analysis and due to its low leverage. However, beginning in 2001, and upon management's analysis of the interest rate environment and the costs and risks of such strategies, the Company entered into interest rate swaps in order to hedge against increases in the floating interest rate on its TOP and P-Floats programs.

On January 5, 2001, the Company entered into a five-year interest swap that fixes the BMA index to 3.98% on a notional amount of $50.0 million. On February 5, 2001, the Company entered into a three-year interest swap that fixes the BMA index to 3.64% on a notional amount of an additional $100.0 million. Interest rate swap agreements are subject to risk of early termination by the Company or the counterparty, possibly at times unfavorable to the Company 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 the Company 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 the Company 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, the Company seeks to enter into such agreements with reputable and investment grade rated counterparties to mitigate this risk.

With respect to the portion of the Company's floating rate financing programs which are not hedged, a change in the BMA rate would result in increased or decreased payments under these financing programs, without a corresponding change in cash flows from the investments in Revenue Bonds. For example, based on the unhedged $392 million ($542 million outstanding under these financing programs at December 31, 2001, less the $150 million notional amount subsequently hedged and assuming a perfect hedge correlation) the Company estimates that an increase of 1.0% in the BMA rate would decrease the Company's annual net income by approximately $3,920,000. Conversely, a decrease in market interest rates would generally benefit the Company in the same amount described above, as a result of decreased allocations to the minority interest and interest expense without corresponding decreases in interest received on Revenue Bonds.

The Company adopted statement of Financial Accounting Standards No. 133, as amended and interpreted, on January 1, 2001. Accordingly, the Company has documented its established policy for risk management and its objectives and strategies for the use of derivative instruments to potentially mitigate such risks. Currently, the Company has a strategy to reduce its interest rate risk through the use of interest rate swaps. At inception, the Company 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 other comprehensive income to the extent that the



hedge is effective in achieving offsetting cash flows. The Company assesses, 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 recorded in earnings. There was no ineffectiveness in the hedging relationship during 2001, and the Company expects 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, 2001, the combined fair market value of the two interest rate swaps was a liability of $2,957,663, included in interest rate swaps on the consolidated balance sheet. Interest paid or payable under the terms of the swaps, of $1,685,774, is included in interest expense for the year ended December 31, 2001.

Changes in market interest rates would also impact the estimated fair value of the Company's portfolio of Revenue Bonds. The Company estimates the fair value for each Revenue Bond as the present value of its expected cash flows, using a discount rate for comparable tax-exempt investments. Therefore, as market interest rates for tax-exempt investments increase, the estimated fair value of the Company's Revenue Bonds will generally decline, and a decline in interest rates would be expected to result in an increase in their estimated fair values. For example, the Company projects that a 1% increase in market rates for tax-exempt investments would decrease the estimated fair value of its portfolio of Revenue Bonds from its December 31, 2001 value of $1,137,715,000 to approximately $1,049,092,150. A 1% decline in interest rates would increase the value of the December 31, 2001 portfolio to approximately $1,126,337,850. Changes in the estimated fair value of the Revenue Bonds do not impact the Company's reported net income, earnings per share, distributions or cash flows, but are reported as components of other comprehensive income and affect reported shareholders' equity.

Changes in interest rates would also affect both the PWF acquisition loan with Fleet and the PWF warehouse lines. Each loan is tied to LIBOR. A 1% change in LIBOR would affect the Company's annual net income by approximately $566,000 (based on the outstanding balances at December 31, 2001 of approximately $27.3 million for the PWF acquisition loan and $29.3 million for the warehouse line.

In using this valuation model, the Company incorporated assumptions that market participants would use in estimating future net servicing income. The Company estimates the term of servicing for each loan by assuming that servicing would not end prior to the yield maintenance date, at which point the prepayment penalty expires. The Company provides an estimated default amount to be deducted in each year based on the borrower's debt service ratio. The debt service ratio is a measurement of the amount of excess cash flow a borrower has to make monthly mortgage payments. Purchased servicing rights are measured initially at the price paid, which approximates fair value. Mortgage servicing rights ("MSR's") are amortized in proportion to, and over the period of, estimated net servicing income.

The assumptions related to the foregoing discussion of market risk involve judgments involving future economic market conditions, future corporate decisions and other interrelating factors, many of which are beyond the control of the Company and all of which are difficult or impossible to predict with accuracy. Although the Company believes that the assumptions underlying the forward-looking information are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking information included herein will prove to be accurate. Due to the significant uncertainties inherent in forward-looking information, the inclusion of such information should not be regarded as a representation of the Company that the objectives and plans of the Company would be achieved.

LIQUIDITY RISK

The Company's investments generally lack a regular trading market, particularly during turbulent market conditions or if any of the Company's tax-exempt Revenue Bonds become taxable or are in default. There is no limitation as to the percentage of investments that may be illiquid and the Company does not expect to invest a substantial portion of its assets in liquid investments. There is a risk involved in investing in illiquid investments, particularly in the event that the Company needs additional cash. In a situation requiring additional cash, the Company could be forced to liquidate some of its investments on unfavorable terms that could substantially impact the Company's balance sheet and reduce the amount of distributions available and payments made in respect of the Company's shares.

RISK ASSOCIATED WITH SECURITIZATION

Through securitizations, the Company seeks to enhance its overall return on its investments and to generate proceeds that, along with equity offering proceeds, facilitate the acquisition of additional investments. In the Company's debt securitizations, an investment bank and/or credit enhancer provides liquidity to the underlying trust and credit enhancement to the bonds, which enables the senior interests to be sold to certain accredited third party investors seeking investments rated "AA" or better. The liquidity facilities are generally for one-year terms and are renewable annually. To the extent that the credit enhancer is downgraded below "AA", either an alternative credit enhancement provider would be substituted to reinstate the desired investment rating or the senior interests would be marketed to other accredited investors. In either case, it is anticipated that the return on the residual interests would decrease, which would negatively impact the Company's income. If the Company is unable to renew the liquidity or credit enhancement facilities, the Company would be forced to find alternative liquidity or credit enhancement facilities, repurchase the underlying bonds or liquidate the underlying bonds and its investment in the residual interests. If the Company is forced to liquidate its investment, the Company would recognize gains or losses on the liquidation, which may be significant depending on market conditions. As of December 31, 2001, $542 million of the senior interests were subject to annual "rollover" renewal for liquidity and credit enhancement, respectively. Of the $542 million, $350 million is credit enhanced by a longer-term facility by MBIA. The Company continues to review alternatives that would reduce and diversify risks associated with securitization.



Item 8. Financial Statements and Supplementary Data.


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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
And Shareholders of
Charter Municipal Mortgage Acceptance Company
New York, New York

We have audited the accompanying consolidated balance sheets of Charter Municipal Mortgage Acceptance Company and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedule listed in Item 14(a)2. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Charter Municipal Mortgage Acceptance Company and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

DELOITTE & TOUCHE LLP
New York, New York

March 6, 2002



CHARTER MUNICIPAL MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | DECEMBER 31, | |
|---|---|---|
| | 2001 | 2000 |

| | | |
|---|---|---|
| ASSETS | | |
| Revenue Bonds-at fair value | $1,137,715,000 | $845,405,056 |
| Investment in ARCap | 18,949,530 | -- |
| Guaranteed investment contracts | 18,406,159 | -- |
| Mortgage servicing rights | 35,645,823 | -- |
| Cash and cash equivalents | 105,363,728 | 36,116,481 |
| Cash and cash equivalents-restricted | 4,669,670 | -- |
| Interest receivable, net | 6,457,600 | 5,202,999 |
| Promissory notes and mortgages receivable | 45,022,547 | 9,909,933 |
| Deferred costs, net | 31,796,414 | 24,201,342 |
| Goodwill, net | 12,996,402 | 3,792,959 |
| Other assets | 3,103,170 | 607,095 |
| Total assets | $1,420,126,043 | $925,235,865 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Financing arrangements | $ 541,796,333 | $385,026,031 |
| Notes payable | 56,586,357 | -- |
| Interest rate swaps | 2,957,663 | -- |
| Accounts payable, accrued expenses and other liabilities | 13,820,023 | 2,835,144 |
| Due to Manager and affiliates | 2,265,781 | 1,598,921 |
| Due to FNMA | 18,406,159 | -- |
| Distributions payable to preferred shareholders of subsidiary | 3,693,019 | 2,961,625 |
| Deferred tax liability | 10,250,789 | -- |
| Reserve for possible DUS losses | 1,937,480 | -- |
| Distributions payable to Convertible CRA Shareholders | 564,708 | 558,250 |
| Distributions payable to common shareholders | 10,447,756 | 6,242,046 |
| Total liabilities | 662,726,068 | 399,222,017 |
| Preferred shares of subsidiary (subject to mandatory repurchase) | 218,500,000 | 169,000,000 |
| Minority interest in consolidated subsidiary | 3,652,281 | -- |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Beneficial owners' equity - Convertible CRA shareholders (1,882,364 and 2,590,000 shares, issued and outstanding in 2001 and 2000 respectively) | 25,521,546 | 34,397,168 |
| Beneficial owner's equity-manager | 1,068,972 | 715,342 |
| Beneficial owners' equity-other common shareholders (50,000,000 shares authorized; 34,834,308 issued and 34,825,908 outstanding and 22,706,739 issued and 22,698,329 outstanding in 2001 and 2000, respectively) | 511,456,298 | 344,870,761 |
| Treasury shares of beneficial interest (8,400 shares) | (103,359) | (103,359 |
| Accumulated other comprehensive loss | (2,695,763) | (22,866,064 |
| Total shareholders' equity | 535,247,694 | 357,013,848 |

| | | |
|---|---|---|
| Total liabilities and shareholders' equity | $1,420,126,043 | $925,235,865 |

See accompanying notes to financial statements



CHARTER MUNICIPAL MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| Revenues: | | | |
| Interest income: | | | |
| Revenue Bonds | $71,499,711 | $55,708,904 | $38,444,530 |
| Temporary investments | 1,278,941 | 2,379,976 | 1,289,669 |
| Promissory notes | 1,183,649 | 1,001,681 | 702,991 |
| Other income | 662,275 | -- | -- |
| Equity in earnings of ARCap | 456,005 | -- | -- |
| Total revenues | 75,080,581 | 59,090,561 | 40,437,190 |
| Expenses: | | | |
| Interest expense | 13,640,843 | 14,290,623 | 7,351,489 |
| Recurring fees relating to the Private Label Tender Option Program | 2,490,810 | 2,197,557 | 1,416,756 |
| Bond servicing | 2,454,137 | 1,817,270 | 1,337,738 |
| General and administrative | 2,754,671 | 2,167,862 | 1,430,798 |
| Amortization | 865,448 | 577,388 | 382,027 |
| Loss on impairment of assets | 400,000 | -- | 1,859,042 |
| Total expenses | 22,605,909 | 21,050,700 | 13,777,850 |
| Income before (loss) gain on repayment of Revenue Bonds | 52,474,672 | 38,039,861 | 26,659,340 |
| (Loss) gain on repayment of Revenue Bonds | (911,604) | 645,151 | (463,147 |
| Income before allocation to preferred shareholders of subsidiary | 51,563,068 | 38,685,012 | 26,196,193 |
| Income allocated to preferred shareholders of subsidiary | (12,577,894) | (8,593,956) | (3,014,375 |
| Net income | $38,985,174 | $30,091,056 | $23,181,818 |
| Allocation of net income to: | | | |
| Special distribution to Manager | $ 3,620,923 | $ 2,743,465 | $ 2,018,822 |

| | | | |
|---|---|---|---|
| Manager | $ 353,643 | $ 273,476 | $ 211,630 |
| Common shareholders | $32,558,758 | $25,500,984 | $20,951,366 |
| Convertible CRA Shareholders | 2,451,850 | 1,573,131 | 0 |
| Total for shareholders | $35,010,608 | $27,074,115 | $20,951,366 |
| Net income per share: | | | |
| Basic | $ 1.14 | $ 1.22 | $ 1.02 |
| Diluted | $ 1.14 | $ 1.22 | $ 1.02 |
| Weighted average shares outstanding: | | | |
| Basic | 30,782,161 | 22,140,576 | 20,580,756 |
| Diluted | 30,837,340 | 22,152,239 | 20,580,756 |

See accompanying notes to financial statements

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| | BENEFICIAL OWNERS' EQUITY- CONVERTIBLE CRA SHARE- HOLDERS | BENEFICIAL OWNER'S EQUITY- MANAGER | BENEFICIAL OWNERS' EQUITY- OTHER SHAREHOLDERS | TREASURY SHARES OF BENEFICIAL INTEREST | COM SIVE |
|---|---|---|---|---|---|
| Balance at January 1, 1999 | $ -- | $ 230,259 | $312,307,115 | $ (103,359) | |
| Comprehensive income: | | | | | |
| Net income | -- | 2,230,452 | 20,951,366 | -- | 23, |
| Other comprehensive loss: | | | | | |
| Net unrealized loss on Revenue Bonds | | | | | |
| Net unrealized holding loss arising during the period | | | | | (14, |
| Add: Reclassification adjustment for losses included in net income | | | | | 2, |
| Other comprehensive loss | | | | | (12, |
| Comprehensive income | | | | | 10, |
| Issuance of Common Shares | -- | -- | 20,000 | -- | |
| Distributions | -- | (2,018,833) | (20,478,101) | -- | |
| Balance at December 31, 1999 | -- | 441,878 | 312,800,380 | (103,359) | |
| Comprehensive income: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Net income | 1,573,131 | 3,016,941 | 25,500,984 | -- | 30, |
| Other comprehensive loss: | | | | | |
| Net unrealized loss on Revenue Bonds | | | | | |
| Net unrealized holding loss arising during the period | | | | | (24, |
| Add: Reclassification adjustment for net gain included in net income | | | | | ( |
| Other comprehensive loss | | | | | (25, |
| Comprehensive income | | | | | 4, |
| | | | | | ==== |
| Issuance of Common Shares | -- | -- | 29,174,649 | -- | |
| Issuance of Convertible CRA Shares | 34,192,657 | | | | |
| Distributions | (1,368,620) | (2,743,477) | (22,605,252) | -- | |



| | BENEFICIAL OWNERS' EQUITY- CONVERTIBLE CRA SHARE- HOLDERS | BENEFICIAL OWNER'S EQUITY- MANAGER | BENEFICIAL OWNERS' EQUITY- OTHER SHAREHOLDERS | TREASURY SHARES OF BENEFICIAL INTEREST | COM SIVE |
|---|---|---|---|---|---|
| Balance at December 31, 2000 | 34,397,168 | 715,342 | 344,870,761 | (103,359) | |
| Comprehensive income: | | | | | |
| Net income | 2,451,850 | 3,974,566 | 32,558,758 | -- | 38, |
| Other comprehensive (gain) loss: | | | | | |
| Net unrealized loss on interest rate swaps | | | | | (2, |
| Net unrealized gain on Revenue Bonds: | | | | | |
| Net unrealized holding loss arising during the period | | | | | 26, |
| Add: Reclassification adjustment for net gain included in net income | | | | | |
| | | | | | (3, |
| | | | | | ---- |
| | | | | | 20, |
| | | | | | ---- |
| Comprehensive income | | | | | $59, |
| | | | | | ==== |
| Retirement of convertible CRA shares | (8,986,977) | | | | |
| Issuance of Common Shares | | | 168,293,854 | | |
| Distributions | (2,340,495) | (3,620,936) | (34,267,075) | | |
| Balance at December 31, 2001 | $25,521,546 | $ 1,068,972 | $511,456,298 | $ (103,359) | |

See accompanying notes to financial statements

| | YEARS ENDED DECEMBER | |
|---|---|---|
| | 2001 | 2000 |
| Cash flows from operating activities: | | |
| Net income | $ 38,985,174 | $ 30,091,056 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| (Gain) loss on repayments of Revenue Bonds | 911,604 | (645,151) |
| Loss on impairment of assets | 400,000 | -- |
| Other amortization | 865,448 | 577,388 |
| Amortization of goodwill | 474,995 | 364,653 |
| Amortization of bond selection costs | 3,726,967 | 938,319 |
| Accretion of deferred income and purchase accounting adjustment | (144,482) | (163,129) |
| Income allocated to preferred shareholders of subsidiary | 12,577,894 | 8,593,956 |
| Equity in earnings of ARCap, in excess of distributions received | (456,005) | -- |
| Changes in operating assets and liabilities: | | |
| Interest receivable | (1,254,601) | (2,279,045) |
| Other assets | (2,667,195) | 51,357 |
| Accounts payable, accrued expenses and other liabilities | 11,188,262 | 212,093 |
| Deferred costs -- other | (68,471) | -- |
| Increase in reserves for possible DUS losses | 1,937,480 | |
| Deferred tax liability | 10,250,789 | |
| Due to Manager and affiliates | 629,043 | (705,149) |
| Net cash provided by operating activities | 77,356,902 | 37,036,348 |
| Cash flows from investing activities: | | |
| Proceeds from repayments of Revenue Bonds | 24,227,000 | 22,400,000 |
| Proceeds from repayment of promissory note receivable | 2,540,000 | -- |
| Periodic principal payments of Revenue Bonds | 1,583,591 | 378,563 |
| Purchase of Revenue Bonds | (295,962,380) | (276,011,265) |
| Increase in deferred bond selection costs | (9,100,059) | (6,499,035) |
| Increase in deferred financing costs -- PWF | (484,694) | -- |
| Investment in preferred shares of ARCap | (18,493,525) | 45,541,000 |
| Increase in guaranteed investment contracts | (18,406,159) | |
| Increase in due to FNMA | 18,406,159 | |
| Increase in mortgage servicing rights | (35,645,823) | |
| Increase in notes receivable | (29,324,645) | |
| Increase in notes payable | 27,261,712 | -- |
| Increase in minority interest in subsidiary | 3,652,281 | |
| (Increase) decrease in other assets | -- | 1,000 |
| Increase in goodwill | (9,842,064) | |
| Increase in other deferred costs | -- | (545,632) |
| Loans made to properties | (11,122,000) | (200,000) |
| Principal payments received from loans made to properties | 2,794,031 | 438,127 |
| Cash acquired in ATEBT merger | -- | 837,958 |
| Net cash used in investing activities | (347,916,575) | (213,659,284) |
| Cash flows from financing activities: | | |
| Proceeds from financing arrangements | 253,596,090 | 377,348,725 |
| Principal repayments of financing arrangements | (96,825,788) | (92,310) |

| | | |
|---|---|---|
| Decrease (increase) in cash and cash equivalents-restricted | -- | 1,028,209 |
| Distributions paid to the Manager and Common shareholders | (33,455,685) | (24,343,782) |
| Distributions paid to preferred shareholders of subsidiary | (11,846,500) | (7,122,956) |
| Distributions paid to Convertible CRA shareholders | (2,334,036) | (810,370) |

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| | YEARS ENDED DECEMBER | |
|---|---|---|
| | 2001 | 2000 |
| Repayment of minority interest | -- | (250,000,000) |
| Increase in notes payable-warehouse lines | 29,324,645 | -- |
| Increase in deferred costs relating to the Private Label Tender Option Program | (873,196) | (2,300,639) |
| Issuance of Common Shares | 168,263,854 | -- |
| Retirement of Convertible CRA Shares | (8,986,977) | -- |
| Issuance of preferred stock of subsidiary | 49,500,000 | 79,000,000 |
| Deferred costs relating to the issuance of preferred stock of subsidiary | (1,885,817) | (2,813,620) |
| Increase in other deferred costs | -- | -- |
| Issuance of Convertible CRA Shares | -- | 34,192,657 |
| Net cash provided by financing activities | 344,476,590 | 204,085,914 |
| Net increase (decrease) in cash and cash equivalents | 73,916,917 | 27,462,978 |
| Cash and cash equivalents at the beginning of the year | 36,116,481 | 8,653,503 |
| Cash and cash equivalents at the end of the year | $ 110,033,398 | $ 36,116,481 |
| Supplemental information: | | |
| Interest paid | $ 4,492,800 | $ 4,108,958 |

Supplemental disclosure of noncash activities:

Merger and issuance of shares:

| | | |
|---|---|---|
| Increase in other assets | $ -- | $ (150) |
| Increase in Revenue Bonds | -- | (28,729,000) |
| Increase in interest receivable | -- | (120,676) |
| Increase in accounts payable, accrued expenses and other liabilities | -- | 356,502 |
| Increase in due to affiliates | -- | 1,013,987 |
| Increase in goodwill, net | -- | (1,482,986) |
| Issuance of shares of common stock | -- | 29,154,649 |
| Decrease in deferred costs | -- | 645,632 |

| | | |
|---|---|---|
| Cash acquired in ATEBT merger | $ -- | $ 837,958 |

Acquisition of PW Funding Inc.

| | |
|---|---|
| Increase in investment in subsidiary | $ 34,948,485 |
| Increase in guaranteed investment contracts | (18,406,159) |
| Increase in mortgage servicing rights | (35,645,823) |
| Increase in promissory notes receivable | (29,324,645) |
| Increase in other assets | (2,499,712) |
| Increase in notes payable | 29,324,645 |
| Increase in due to FNMA | 18,406,159 |
| Increase in accounts payable, accrued expenses and other liabilities | 9,807,257 |
| Increase in reserves for possible DUS losses | 1,937,480 |
| Increase in minority interest in subsidiary | 3,652,281 |
| Increase in deferred tax liability | 10,250,789 |
| Increase in goodwill | (9,842,064) |
| Cash acquired in PWF purchase | $ 12,608,693 |

See accompanying notes to financial statements



CHARTER MUNICIPAL MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Organization and Significant Accounting Policies

Charter Municipal Mortgage Acceptance Company (the "Company") is a Delaware business trust principally engaged in the acquisition and ownership (directly or indirectly) of tax-exempt multifamily housing Revenue Bonds ("Revenue Bonds") and other investments that produce tax-exempt income issued by various state or local governments, agencies, or authorities. Revenue Bonds are primarily secured by participating and non-participating first mortgage loans on underlying properties ("Underlying Properties").

The Company was formed on October 1, 1997 as the result of the merger (the "Merger") of three publicly registered limited partnerships, Summit Tax Exempt Bond Fund, L.P., Summit Tax Exempt L.P. II and Summit Tax Exempt L.P. III (the "Partnerships"). One of the general partners of the Partnerships was an affiliate of Related Capital Company ("Related"), a nationwide, fully integrated real estate financial services firm. Pursuant to the Merger, the Company issued shares of beneficial interest ("Common Shares") to all partners in each of the Partnerships in exchange for their proportionate interests.

In July 2001, the Company placed a substantial portion of its taxable bond investments in CharterMac Corporation ("CM Corp."), a wholly-owned, consolidated taxable subsidiary of CharterMac. CM Corp. allows the Company to better diversify its business lines to include mortgage origination and servicing to third parties and the guarantee of mortgage loans for a fee. CM Corp. will hold most of taxable investments, conduct any fee-generating activities in which the Company may engage and provide management services to Charter Municipal Mortgage Acceptance Company and its other subsidiaries. CM Corp. isolates a substantial portion of the taxable income and expenses of the Company and is subject to Federal income tax. Any distributions of net income from CM Corp. to CharterMac are taxable and are passed through to the shareholders of CharterMac in its dividend.

In December 2001, the Company acquired 80% of the common stock of PW Funding Inc. ("PWF") and it is anticipated that the Company will acquire the remaining 20% of the issued and outstanding stock of PWF within two to three years. PWF is a national mortgage banking firm and, with its subsidiaries, specializes in providing financing and ancillary service to the multifamily housing industry, including construction and permanent debt financing mortgage loan servicing and asset management.

The Company is governed by a board of trustees comprised of three independent managing trustees and five managing trustees who are affiliated with Related. The Company has engaged Related Charter LP (the "Manager"), an affiliate of Related, to manage its day-to-day affairs.

BASIS OF PRESENTATION

The consolidated financial statements of the Company are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires the Manager to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the financial statements include the valuation of the Company's investments in Revenue Bonds and interest rate swap agreements.

The consolidated financial statements include the accounts of the Company and four majority owned subsidiary business trusts which it controls: CM Holding Trust, CharterMac Equity Issuer Trust, CharterMac Origination Trust I and CharterMac Owner Trust I(see Notes 6 and 7), and one wholly-owned corporation, CM Corp. CM Corp, in turn, owns 80% of PWF and its subsidiaries, Larsen Financial Services, Inc. and Cambridge Healthcare Funding. All intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise indicated, the "Company", as hereinafter used, refers to Charter Municipal Mortgage Acceptance Company and its consolidated subsidiaries.

RECLASSIFICATIONS

Certain amounts from prior years have been reclassified to conform to the 2001 presentation. The most significant of these reclassifications involves the presentation of the Company's borrowings under its Private Label Tender Option Program (see Note 5). In prior years, the Company had presented these borrowings as a separate line item on its consolidated balance sheet between liabilities and equity, called "minority interest in subsidiary (subject to mandatory redemption)," and the income allocated to the holders of the interests in the associated trust was classified as "minority interest in income of subsidiary" on the consolidated statement of income. During 2001, Company management determined that the borrowings under the Private Label Tender Option Program should be classified with the Company's other financing arrangements, and the associated income allocations classified with interest expense, to more clearly reflect the economic substance of the borrowing arrangement and to conform to the treatment afforded these items for debt and trust agreement compliance calculations. The reclassification of prior year amounts to conform to this presentation did not impact the Company's previously reported net income, net income per share, shareholders' equity or cash flows.

INVESTMENT IN REVENUE BONDS AND PROMISSORY NOTES RECEIVABLE

The Company accounts for its investments in Revenue Bonds as available-for-sale debt securities under the provisions of Statement of Financial Accounting

Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115").



In most cases the Company has a right to require redemption of the Revenue Bonds prior to their maturity, although it can and may elect to hold them up to their maturity dates unless otherwise modified. As such, SFAS 115 requires the Company to classify these investments as "available-for-sale." Accordingly, investments in Revenue Bonds are carried at their estimated fair values, with unrealized gains and losses reported in other comprehensive income. Unrealized gains or losses do not affect the cash flow generated from property operations, distributions to shareholders, the characterization of the tax-exempt income stream or the financial obligations under the Revenue Bonds.

The Company periodically evaluates its credit risk exposure associated with its Revenue Bonds to determine whether other than temporary impairments exist. Impairment is indicated if, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the existing contractual terms of the Revenue Bond. The cost basis of a Revenue Bond with other than temporary impairment is written down to its then estimated fair value, with the amount of the write-down accounted for as a realized loss.

Because Revenue Bonds have a limited market, the Company estimates fair value for each bond as the present value of its expected cash flows using a discount rate for comparable tax-exempt investments. This process is based upon projections of future economic events affecting the real estate collateralizing the bonds, such as property occupancy rates, rental rates, operating cost inflation, market capitalization rates and upon determination of an appropriate market rate of interest, all of which are based on good faith estimates and assumptions developed by the Manager. Changes in market conditions 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.

Occasionally, the Company has advanced funds to owners of certain Underlying Properties in order to preserve the underlying asset due to difficulties including construction completion, past due real estate taxes and/or deferred maintenance. Such advances are typically secured by promissory notes and/or second mortgages and are carried at cost less a valuation allowance as periodically deemed appropriate.

For Revenue Bonds and promissory notes, interest income is recognized at the stated rate as it accrues and when collectibility of future amounts is reasonably assured. Contingent interest is recognized when received. Interest income from Revenue Bonds with modified terms or where the collectibility of future amounts is uncertain is recognized based upon expected cash receipts. Certain construction Revenue Bonds carry a higher interest rate during the construction period, which declines to a lower rate for the balance of the term. In these cases, the Company calculates the effective yield on the Revenue Bond and uses that rate to recognize interest over the life of the bond.

INVESTMENT IN ARCAP

The Company's preferred equity investment in ARCap Investors, L.L.C. ("ARCap") is accounted for using the equity method because the Company has the ability to exercise significant influence, but not control, over ARCap's operating and financial policies (see Note 3).

MORTGAGE BANKING ACTIVITIES

Fannie Mae Program - The Company, through its PWF subsidiary, is approved by the Federal National Mortgage Association ("Fannie Mae") as a Delegated Underwriter and Servicer ("DUS"). Under the Fannie Mae DUS product line, the Company originates, underwrites and services mortgage loans on multifamily residential properties and sells the loans directly to Fannie Mae. The Company assumes responsibility for a portion of any loss that may result from borrower defaults, based on the Fannie Mae loss sharing formulas, Levels I, II, or III. As of December 31, 2001, all but one of the Company's loans consisted of Level I loans. For such loans, the Company is responsible for the first 5% of the unpaid principal balance and a portion of any additional losses to a maximum of 20% of the original principal balance. Level II and Level III loans carry a higher loss sharing percentage. Fannie Mae sustains any remaining loss.

Under the terms of the Master Loss Sharing Agreement between Fannie Mae and the Company, the Company is responsible for funding 100% of mortgagor delinquency (principal and interest) and servicing (taxes, insurance and foreclosure costs) advances until the amounts advanced exceed 5% of the unpaid principal balance at the date of default. Thereafter, for Level I loans, the Company may request interim loss sharing adjustments which allow the Company to fund 25% of such advances until final settlement under the Master Loss Sharing Agreement. No interim sharing adjustments are available for Level II and Level III loans.

Since the inception of the Fannie Mae DUS product line in 1988, PWF has closed over $2.4 billion of mortgage loans. At December 31, 2001, the Company had approximately $1.6 billion of such loans in its servicing portfolio. In addition, as of December 31, 2001, the Company received commitments from Fannie Mae on two loans totaling approximately $4 million. A substantial portion of the underlying properties subject to these mortgages are located in California. The Company also services approximately $104 million under other Fannie Mae non-risk sharing programs.

The Company maintains on allowance for loan losses for loans originated under the Fannie Mae DUS product line at a level that, in management's judgment, is adequate to provide for estimated losses. This judgment is based upon various risk assessments including the value of the collateral, the operating results of the properties, the borrower's financial condition and the Company's loss experience.



FHA Program - The Company, through PWF and its subsidiaries, is approved by the U.S. Department of Housing and Urban Development ("HUD")/Federal Housing Administration ("FHA") as nonsupervised mortgagees. The Company, through a PWF subsidiary, is also approved by the Government National Mortgage Association ("GNMA") as a GNMA seller/servicer. As of December 31, 2001, the Company serviced approximately $362 million of loans under the FHA 223(f), 232, and 242 Programs, of which approximately $120 million had GNMA securities outstanding.

Freddie Mac Program - The Company, through PWF and its subsidiaries, is an approved Federal Home Loan Mortgage Corporation ("Freddie Mac") seller/servicer of mortgage loans. At December 31, 2001, the Company had approximately $595 million of such loans in its portfolio. A substantial portion of the underlying properties subject to these mortgages are located in New Jersey.

Other Programs - The Company's PWF subsidiary also originates, underwrites and services multifamily and commercial mortgages for insurance companies, and banks. The servicing for these loans is generally retained by the Company. At December 31 2001, the Company had approximately $305 million of such loans in its portfolio.

Mortgage banking fee revenues earned from arranging financings under the Fannie Mae DUS product line Freddie Mac, FHA, insurance and banking or other programs are recorded at the point the financing commitment is accepted by the mortgagor and the interest rate of the mortgage loan thereafter is fixed. Revenue from servicing the loan portfolio is recognized on an accrual basis.

GUARANTEED INVESTMENT CONTRACTS

The Company is participating in the Fannie Mae "Guaranteed Investment Agreement Rate Lock Loan Financing" program for four properties which are currently in the construction phase. Under this program, Fannie Mae commits to a fixed interest rate on a permanent loan, which will be closed at the completion of the construction phase of the project. The rate lock forward commitment provided by Fannie Mae exists for a maximum period of twenty-four months. Fannie Mae loans the Company the amount of the future permanent loan, which is required to be deposited in a guaranteed investment contract during the construction phase. In exchange for such loan, the Company issues Fannie Mae a promissory note whose interest will be paid from the interest on the guaranteed investment contract and the negative arbitrage paid by the borrower. The interest rate on the note will be equivalent to the fixed rate committed to on the permanent loan. At the close of the construction phase, the Company will unwind the guaranteed investment contract to repay the note to Fannie Mae. The Company will originate the permanent loan to the borrower at the rate locked amount, which will be subsequently purchased from the Company by Fannie Mae. The Company has commitments from Fannie Mae under this program of approximately $18.1 million as of December 31, 2001.

MORTGAGE SERVICING RIGHTS

The Company recognizes as assets the rights to service mortgage loans for others, whether the servicing rights are acquired through a separate purchase or through loan origination, by allocating total costs incurred between the loan and the servicing rights retained based on their relative fair value. Mortgage servicing rights are being carried at their estimated fair values based on the purchase price paid by CM Corp for its 80% share of PWF.

SFAS No. 140 also requires an entity to measure the impairment of servicing rights based on the difference between the carrying amount of the servicing rights and their current fair value. Impairment of servicing rights is recognized in the Consolidated Statement of Operations during the applicable period through additions to a valuation allowance. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights exceed their fair value. Subsequent to the initial measurement of impairment, the valuation allowance is adjusted to reflect changes in the measurement of impairment. Fair value in excess of the amount capitalized as mortgage servicing rights (net of amortization ), however, is not recognized. For the purpose of evaluating and measuring impairment of capitalized mortgage servicing rights, the Company stratify those rights based on the predominant risk characteristics of the underlying loans.

TEMPORARY INVESTMENTS

Temporary investments consist of puttable floating option tax-exempt receipts, short-term senior securities which bear interest at a floating rate that is reset weekly and other short-term investments that generate tax-exempt and taxable interest income. These investments are recorded at cost which is generally equal to market value.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in banks and investments in short-term instruments with an original maturity of three months or less. Certain amounts of cash and cash equivalents are restricted and serve as additional collateral for borrowings under securitizations (see Note 5).

DEFERRED COSTS

Fees paid for activities performed to originate Revenue Bonds, including their evaluation and selection, negotiation of mortgage loan terms, coordination of property developers and government agencies, and other direct expenditures of acquiring or investing in Revenue Bonds, are capitalized and amortized as a reduction to interest income over the terms of the Revenue Bonds. Direct costs relating to unsuccessful acquisitions and all indirect costs relating to the Revenue Bonds are charged to operations.



Costs incurred in connection with the Company's Private Label Tender Option Program (see Note 5), such as legal, accounting, documentation and other direct costs, have been capitalized and are being amortized using the straight-line method over 10 years, which approximates the average remaining term to maturity of the Revenue Bonds in this program.

Costs incurred in connection with the issuance of cumulative preferred shares of subsidiary (see Note 7), such as legal, accounting, documentation and other direct costs, have been capitalized and are being amortized using the straight line method over the period to the mandatory repurchase date of the shares, approximately 50 years.

Costs incurred in connection with the issuance of Convertible CRA Shares (see Note 8), such as legal, accounting, documentation and other direct costs, have been accounted for as an offset to beneficial owners' equity of such shares.

FINANCIAL RISK MANAGEMENT AND DERIVATIVES

During 2001, the Company entered into two interest rate swaps (see Note 18), which are accounted for under the Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Standards No. 133". At the inception, the Company designated these interest rate swaps as cash flow hedges on the variable interest payments in 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 other comprehensive income to the extent the hedges are effective in achieving offsetting cash flows. These hedges have been highly effective, so these has been no ineffectiveness included in earnings. Net amounts receivable or payable under the swap agreements are recorded as adjustments to interest expense. At December 31, 2001, the combined fair market value of the two interest rate swaps has a liability of $2,957,663, included in interest rate swaps on the consolidated balance sheet. Interest paid or payable under the terms of the swaps of $1,685,774, is included in interest expense for the year ended December 31, 2001.

GOODWILL

For financial accounting and reporting purposes, the Merger was accounted for using the purchase method of accounting. Under this method, Summit Tax Exempt L.P. II was deemed to be the acquirer. As the surviving entity for accounting purposes, the assets and liabilities of Summit Tax Exempt L.P. II were recorded at their historical cost, with the assets and liabilities of the other Partnerships recorded at their estimated fair values.

The application of purchase accounting initially resulted in the Company recording a deferred credit for the excess of the fair value of the net assets acquired over their cost. The accrual of the estimated value of the Counsel Fee Shares (see Note 11) at October 1, 1998 was considered to be a purchase price adjustment resulting in the reversal of the carrying value of the excess of acquired net assets over cost ($2,982,708) and the recognition of goodwill at October 1, 1998 in the amount of $4,805,828. In April 1999, the Company successfully negotiated a Discounted Cash Settlement (see Note 12) in lieu of the issuance of Common Shares which resulted in a decrease in the liability for Counsel Fee Shares and in goodwill in the amount of $1,698,986. Goodwill is being amortized to interest income from Revenue Bonds using the straight-line method over nine years, the approximate average remaining term to maturity of the Revenue Bonds acquired in the Merger at that time.

The application of purchase accounting to the merger also resulted in certain Revenue Bonds being initially recorded at a discount or premium to their face amounts. These discounts and premiums are included in the applicable bond's cost basis and amortized into interest income over the bond's remaining term to maturity. Discounts are not amortized, however, if collectibility of amounts in excess of the bond's amortized cost is doubtful.

The merger with American Tax-Exempt Bond Trust ("ATEBT") in 2000 (see Note 11) resulted in the capitalization of an additional $1,482,986 of goodwill. This goodwill is being amortized to interest income from Revenue Bonds using the straight-line method over 10 years, the approximate average term to maturity of the four Revenue Bonds acquired in this transaction.

The Company has determined that the amounts currently capitalized as goodwill from the business combinations discussed above, meet the criteria in SFAS 141 (see "New Pronouncements" below) for recognition as intangible assets apart from goodwill, and accordingly will continue to amortize these amounts over the remaining expected useful lives. This intangible asset is periodically reviewed for impairment, based on the performance of the Revenue Bonds that were acquired in the applicable merger, and would be written down if impairment was indicated.

The acquisition of PWF was accounted for using the purchase method of accounting, as required under SFAS 141 (see New Pronouncements below).

FAIR VALUE OF FINANCIAL INSTRUMENTS

As described above, the Company's investments in Revenue Bonds and its liability under the interest rate swaps are carried at estimated fair values. The Company has determined that the fair value of its remaining financial instruments, including its temporary investments, cash and cash equivalents, promissory notes receivable and secured borrowings approximate their carrying values at December 31, 2001 and 2000.



INCOME TAXES

Prior to 2001, no provision or benefits for income taxes have been included in these financial statements since the income or loss passes through to, and is reportable by, the shareholders on their respective income tax returns. Effective July 1, 2001, the Company began operation of a new wholly-owned, taxable subsidiary -- CM Corp., which on December 31, 2001, purchased PWF. CM Corp will own the taxable Revenue Bonds and other taxable investments acquired by the Company. The Company provides 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. At December 31, 2001, the net tax basis of the Company's assets and liabilities exceeded the net book basis by approximately $230,969,000.

SEGMENT INFORMATION

SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", requires enterprises to report certain financial and descriptive information about their reportable operating segments, and certain enterprise-wide disclosures regarding products and services, geographic areas and major customers.

As a result of the December 2001 acquisition of PWF, the Company has two reportable business segments: an investing segment and an operating segment. The investing segment consists of subsidiaries holding investments in Revenue Bonds producing primarily tax-exempt interest income. The operating segment generates taxable interest and fee income, through the ownership of taxable bonds, loans and other investments, loan servicing and origination fees, and fees for credit enhancement and guaranty services.

Prior to the year ended December 31, 2001, all the Company's operations were attributable to the investing segment. Because the acquisition of PWF took place on December 31, 2001, there was no impact on the Company's net income, revenues or expenses. Of the total assets for the Company at December 31, 2001, approximately $1.32 billion are attributable to the investing segment and approximately $100 million are attributable to the operating segment.

NEW PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" (SFAS 141) and Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). These statements establish new standards for accounting and reporting for business combinations and for goodwill and intangible assets resulting from business combinations. SFAS 141 applies to all business combinations initiated after June 30, 2001; the Company implemented SFAS 142 on January 1, 2002. The Company has determined that the amount it has currently capitalized as goodwill from business combinations prior to PWF (approximately $3.2 million at December 31, 2001) will meet the criteria in SFAS 141 for recognition as an intangible asset apart from goodwill and, accordingly, continue to be amortized over its expected useful life, subject to impairment testing. The goodwill capitalized as part of the PWF acquisition (approximately $9.8 million) will not be amortized, but will be reviewed annually to determine whether or not any impairment exists. Thus, implementation of these statements did not have a material impact on the Company's financial statements.

In June of 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (effective January 1, 2003) and, in August of 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets" (effective January 1, 2002). SFAS No. 143 requires the recording of the fair value of a liability for an asset retirement obligation in the period in which it is incurred. SFAS No. 144 supercedes existing accounting literature dealing with impairment and disposal of long-lived assets, including discontinued operations. It addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of, and expands current reporting for discontinued operations to include disposals of a "component" of an entity that has been disposed of or is classified as held for sale. Management believes the implementation of these two statements will not have a material impact on the Company's financial statements.



NOTE 2 - Revenue Bonds

The following table provides certain information with respect to each of the Revenue Bonds owned by the Company and its consolidated subsidiaries:

| PROPERTY | LOCATION | NOTES | DATE CLOSED | STATED INTEREST RATE(1) | CALL DATE | MATURITY DATE | B |
|---|---|---|---|---|---|---|---|
| TAX-EXEMPT FIRST MORTGAGE BONDS | | | | | | | |
| Stabilized Portfolio | | | | | | | |
| Bristol Village | Bloomington, MN | E,J | Jul-87 | 7.500% | Jan-10 | Dec-27 | 17 |
| Carrington Point | Los Banos, CA | E,J,K | Sep-98 | 6.375% | Oct-17 | Sep-40 | 3 |
| Casa Ramon | Orange County, CA | E,J,K | Jul-00 | 7.500% | Oct-16 | Sep-35 | 4 |
| Cedar Creek | McKinney, TX | E,J,Q | Dec-86 | 7.430% | Oct-10 | Oct-20 | 8 |
| Cedar Pointe | Nashville, TN | D,I | Apr-87 | 7.000% | Nov-06 | Apr-17 | 9 |
| Cedarbrook | Hanford, CA | E,J,K | Apr-98 | 7.125% | May-17 | May-40 | 2 |
| Clarendon Hills | Hayward, CA | D,I,R | Dec-86 | 5.520% | Dec-03 | Dec-03 | 17 |
| Crowne Pointe | Olympia, WA | E,J,R,T | Dec-86 | 7.250% | | Aug-29 | 5 |
| Cypress Run | Tampa, FL | D,I,Q | Aug-86 | 5.500% | Dec-29 | Dec-29 | 15 |
| Del Monte Pines | Fresno, CA | E,J,K | May-99 | 6.800% | May-17 | May-36 | 11 |
| Douglas Pointe | Miami, FL | C,H,K | Sep-99 | 7.000% | Oct-26 | Sep-41 | 7 |
| Fort Chaplin | Washington, DC | E,J,K | Dec-99 | 6.900% | Jan-16 | Jan-36 | 25 |
| Franciscan Riviera | Antioch, CA | C,H,K | Aug-99 | 7.125% | Apr-16 | Aug-36 | 6 |
| Garfield Park | Washington, DC | D,I | Aug-99 | 7.250% | Aug-17 | Aug-31 | 3 |
| Greenbriar | Concord, CA | E,J,K | May-99 | 6.875% | May-17 | May-36 | 9 |
| Highland Ridge | St. Paul, MN | E,J,R | Dec-86 | 7.250% | Jun-10 | Jun-18 | 15 |
| Highpointe | Harrisburg, PA | A,L,M,T | Jul-86 | 8.500% | | Jun-06 | 8 |
| Highpointe | Harrisburg, PA | B,L | Nov-00 | 9.000% | Jun-06 | Jun-06 | 3 |
| Lakepoint | Atlanta, GA | C,G,R | Nov-87 | 6.000% | Jul-05 | Jun-17 | 15 |
| Lakes Edge at Walden | Miami, FL | C,G | Jun-99 | 6.900% | Jun-13 | May-35 | 14 |
| Lakes, The | Kansas City, MO | D,I,R | Dec-86 | 4.870% | Dec-06 | Dec-06 | 13 |
| Lewis Place | Gainesville, FL | C,G,K | Jun-99 | 7.000% | Jun-16 | Jun-41 | 4 |
| Lexington Square | Clovis, CA | D,I,K | Aug-98 | 6.375% | Sep-17 | Aug-40 | 3 |
| Lexington Trails | Houston, TX | B | Nov-00 | 9.000% | May-07 | May-22 | 4 |
| Loveridge | Pittsburg, CA | D,I | Nov-86 | 7.500% | Jun-04 | Nov-06 | 8 |
| Mansions, The | Independence, MO | E,J | May-86 | 7.250% | Jan-11 | Apr-25 | 19 |
| Newport Village | Tacoma, WA | E,J,R,T | Feb-87 | 7.250% | | Aug-29 | 13 |



| PROPERTY | LOCATION | NOTES | DATE CLOSED | STATED INTEREST RATE(1) | CALL DATE | MATURITY DATE | B |
|---|---|---|---|---|---|---|---|
| North Glen | Atlanta, GA | E,J | Sep-86 | 7.500% | Jul-05 | Jun-17 | 12 |
| Ocean Air | Norfolk, VA | E,J,K | Apr-98 | 7.250% | Jan-16 | Nov-30 | 10 |
| Orchard Hills | Tacoma, WA | E,J,R | Dec-86 | 7.250% | Jun-04 | Aug-29 | 5 |
| Orchard Mill | Atlanta, GA | E,J,K | May-89 | 7.500% | Jul-05 | Jun-17 | 10 |
| Pelican Cove | St. Louis, MO | E,J | Feb-87 | 7.250% | Oct-10 | Oct-20 | 18 |
| Phoenix | Stockton, CA | E,J,K | Apr-98 | 7.125% | Nov-16 | Oct-29 | 3 |
| Reflections | Casselberry, FL | E,J,R | Nov-00 | 9.000% | Dec-05 | Dec-25 | 10 |
| River Run | Miami, FL | E,J,R,T | Aug-87 | 8.000% | | Aug-07 | 7 |
| Shannon Lake | Atlanta, GA | A,R | Jun-87 | 7.000% | Jul-05 | Jun-17 | 12 |
| Silvercrest | Clovis, CA | E,J,K | Sep-98 | 7.125% | Oct-17 | Sep-40 | 2 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| South Congress | Austin, TX | E,J,K | May-00 | 7.500% | Oct-16 | Sep-36 | 6 |
| Standiford | Modesto, CA | E,J,K | Sep-99 | 7.125% | Apr-16 | Aug-36 | 9 |
| Stonecreek | Clovis, CA | E,J,K | Apr-98 | 7.125% | May-17 | Apr-40 | 8 |
| Sunset Creek | Lancaster, CA | C,G,S | Mar-88 | 5.477% | Dec-09 | Dec-19 | 8 |
| Sunset Downs | Lancaster, CA | D,I,S | Feb-87 | 5.477% | Dec-09 | Dec-19 | 15 |
| Sunset Terrace | Lancaster, CA | D,I,S | Feb-87 | 5.477% | Dec-09 | Dec-19 | 10 |
| Sunset Village | Lancaster, CA | C,G,S | Mar-88 | 5.477% | Dec-09 | Dec-19 | 11 |
| Sycamore Woods | Antioch, CA | E,J,K | May-99 | 6.875% | May-17 | May-36 | 9 |
| Tallwood | Virginia Beach, VA | C,H,K | Sep-99 | 7.250% | Nov-17 | Oct-41 | 6 |
| Thomas Lake | Eagan, MN | E,J | Sep-86 | 7.500% | Jan-10 | Dec-27 | 12 |
| Village Green | Merced, CA | E,J,K | Aug-00 | 7.500% | * | Aug-14 | |
| Village Green | Merced, CA | E,J,K | Aug-00 | 7.500% | Jan-17 | Jan-37 | 3 |
| Walnut Park Plaza | Philadelphia, PA | E,J,K | Apr-00 | 7.500% | - | Oct-18 | 5 |
| Williams Run | Dallas, TX | C,G | Dec-00 | 7.650% | Jan-11 | Nov-40 | 12 |
| Willow Creek | Ames, IA | E,J | Feb-87 | 7.250% | Jul-08 | Jun-22 | 6 |
| Subtotal-Revenue Bonds Secured by Stabilized Properties | | | | | | | 489 |

Lease-up Portfolio

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Barnaby Manor | Washington, DC | C,G,K | Nov-99 | 7.375% | May-17 | May-32 | 4 |
| | League City, TX | D,K | Aug-00 | 7.500% | Aug-17 | Aug-42 | 10 |
| Chapel Ridge at Little Rock | Little Rock, AR | E,J,K | Aug-99 | 7.125% | Aug-15 | Aug-39 | 5 |
| Chapel Ridge at Texarkana | Texarkana, AR | E,J,K | Sep-99 | 7.375% | Oct-16 | Sep-41 | 5 |



| PROPERTY | LOCATION | NOTES | DATE CLOSED | STATED INTEREST RATE(1) | CALL DATE | MATURITY DATE | B |
|---|---|---|---|---|---|---|---|
| College Park | Naples, FL | E,J | Jul-98 | 7.250% | Jul-25 | Jul-40 | 10 |
| Columbia at Bells Ferry | Cherokee Co., GA | E,J | Apr-00 | 7.400% | Apr-17 | Apr-42 | 13 |
| Falcon Creek | Indianapolis, IN | E,J,K | Sep-98 | 7.250% | Sep-16 | Aug-38 | 6 |
| Forest Hills | Garner, NC | C,H,K | Dec-98 | 7.125% | Jun-16 | Jun-34 | 5 |
| Gulfstream | Dania, FL | E,J,K | Jul-98 | 7.250% | Apr-16 | Jul-38 | 3 |
| Hamilton Gardens | Hamilton, NJ | C,H,K | Mar-99 | 7.125% | Mar-17 | Mar-35 | 6 |
| Jubilee Courtyards | Florida City, FL | E,J,K | Sep-98 | 7.125% | Oct-25 | Sep-40 | 4 |
| Lake Jackson | Lake Jackson, TX | E,J,K | Dec-98 | 7.000% | Jan-18 | Jan-41 | 10 |
| Lake Park | Turlock, CA | E,J,K | Jun-99 | 7.250% | Oct-15 | Sep-35 | 3 |
| Lakemoor | Durham, NC | C,H | Dec-99 | 7.250% | Jan-17 | Dec-41 | 9 |
| Lenox Park | Gainesville, GA | C,G,K | Jul-99 | 6.800% | Aug-21 | Jul-41 | 13 |
| Madalyn Landing | Palm Bay, FL | E,J,K | Nov-98 | 7.000% | Dec-17 | Nov-40 | 14 |
| Marsh Landing | Portsmouth, VA | E,J,K | May-98 | 7.250% | Jul-17 | Jul-30 | 6 |
| Millpond Village | East Windsor, CT | C,G | Dec-00 | 7.550% | - | Dec-31 | 14 |
| Mountain Ranch | Austin, TX | C,H,K | Dec-98 | 7.125% | Jan-18 | Jan-41 | 9 |
| Newark Commons | New Castle, DE | E,J,K | May-00 | 7.300% | May-18 | May-43 | 14 |
| Northpointe Village | Fresno, CA | E,J,K | Aug-98 | 7.500% | Sep-17 | Aug-40 | 13 |
| Park Sequoia | San Jose, CA | E,J,K | Oct-00 | 7.500% | Mar-17 | Mar-37 | 6 |
| San Marcos | San Marcos, TX | D,I,K | May-00 | 7.375% | Mar-17 | Mar-42 | 7 |
| Summer Lake | Davie, FL | D,I,K | Mar-00 | 7.400% | Apr-27 | Mar-42 | 5 |
| Walnut Creek | Austin, TX | E,J | May-00 | 7.500% | Oct-16 | Sep-36 | 3 |
| Walnut Creek | Austin, TX | E,J | May-00 | 7.500% | * | May-14 | |
| Subtotal-Revenue Bonds Secured by properties in lease-up stage | | | | | | | 205 |

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Construction Bond Portfolio

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Arbors at Creekside | Austin, TX | C,K,N,P,U | Jun-01 | 8.000% | Jun-18 | May-41 | 8 |
| Armstrong Farm | Jeffersonville, IN | C,H,K,N,P | Oct-00 | 7.500% | Oct-17 | Oct-40 | 8 |
| Belmont Heights Estates | Tampa, FL | C,H,K,V | Jun-01 | 8.150% | Jun-18 | Jun-43 | 7 |
| Bluffview | Denton, TX | C,H,K,W | May-01 | 8.600% | May-18 | May-41 | 10 |
| Blunn Creek | Austin, TX | C,H,K,X | Aug-01 | 7.900% | Jul-18 | Jul-41 | 15 |
| Chandler Creek | Round Rock, TX | C,H,N,P,Y | Oct-00 | 8.500% | Dec-17 | Nov-42 | 15 |

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| PROPERTY | LOCATION | NOTES | DATE CLOSED | STATED INTEREST RATE(1) | CALL DATE | MATURITY DATE |
|---|---|---|---|---|---|---|
| Chapel Ridge at Claremore | Claremore, OK | C,K,N,P | Oct-00 | 7.500% | Oct-17 | Oct-42 |
| Chapel Ridge at Lowell | Lowell, AR | C,G,K | May-01 | 5.500% | Oct-01 | May-02 |
| Cobb Park | Ft. Worth, TX | A,Z | Jul-01 | 7.900% | Aug-18 | Jul-41 |
| Grace Townhomes | Ennis, TX | D,I,N,P | May-00 | 7.500% | Jun-17 | Jun-42 |
| Grandview Forest | Durham, NC | D,I,K,N,P,AA | Dec-00 | 8.500% | Feb-18 | Jan-43 |
| Greenbridge at Buckingham | Richardson, TX | C,H,N,P | Nov-00 | 7.400% | Mar-17 | Nov-40 |
| Hidden Grove | Miami, FL | C,H,K,N,P | Sep-00 | 7.400% | Oct-17 | Oct-42 |
| Hillside | Dallas, TX | C,K,N,P,BB | Dec-01 | 7.900% | Nov-18 | Dec-41 |
| Knollwood Villas | Denton, TX | C,H,K,CC | May-01 | 8.600% | May-18 | May-41 |
| Lakeline | Leander, TX | C,N,P,DD | Nov-01 | 8.100% | Aug-18 | Aug-43 |
| Lakewood Terrace | Belton, MO | D,I,N,P,EE | Aug-01 | 7.900% | Feb-19 | Aug-41 |
| Magnolia Arbors | Covington, GA | C,H,N,P | Apr-01 | 7.500% | May-18 | Apr-23 |
| Midtown Square | Columbus, GA | A,N,P | Jun-01 | 7.400% | Jun-21 | May-43 |
| Oak Hollow | Dallas, TX | C,K,N,P,HH | Dec-01 | 7.900% | Nov-18 | Dec-41 |
| Oaks at Hampton | Dallas, TX | C,G,K | Apr-00 | 7.200% | Mar-27 | Mar-40 |
| Palm Terrace | Auburn, CA | C,G,K,N,P,KK | Aug-01 | 8.400% | Aug-18 | Jul-44 |
| Palm Terrace | Auburn, CA | C,G,K,N,P | Aug-01 | 9.500% | - | Apr-03 |
| Parks at Westmoreland | DeSoto, TX | C,H,K,N,P | Jul-00 | 7.500% | Jul-17 | Jul-40 |
| Princess Anne House | Virginia Beach, VA | C,H,K,N,P | Apr-00 | 7.500% | Apr-25 | Apr-42 |
| Red Hill Villas | Round Rock, TX | C,K,LL | Dec-00 | 8.400% | Dec-17 | Dec-40 |
| River's Edge | Green Island, NY | C,MM | Nov-01 | 7.700% | Jun-16 | Nov-43 |
| Riverside Meadows | Austin, TX | C,K,NN | Dec-01 | 7.500% | Nov-20 | Dec-41 |
| Running Brook | Miami, FL | C,K,N,P | Sep-00 | 7.400% | Jan-27 | Dec-42 |
| Southwest Trails | Austin, TX | D,I,K,N,P | Aug-00 | 7.350% | Jun-17 | Jun-42 |
| West Meadows | Colorado Spgs., CO | C,K,N,P | Dec-01 | 7.250% | Aug-18 | Nov-41 |
| Westlake Village | Jackson, NJ | C,K,N,P | Nov-01 | 7.200% | May-19 | Nov-41 |
| Westlake Village | Jackson, NJ | C,K,N,P | Nov-01 | 8.000% | - | Feb-04 |
| White Rock | San Antonio, TX | C,N,P,QQ | Dec-01 | 7.750% | Dec-18 | Dec-41 |
| Woods Edge | Charlottesville, VA | D,I,N,P,RR | Nov-00 | 7.800% | Nov-17 | Nov-40 |

Subtotal-Revenue Bonds Secured by Properties in Construction

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| PROPERTY | LOCATION | NOTES | DATE CLOSED | STATED INTEREST RATE(1) | CALL DATE | MATURITY DATE | BO A |
|---|---|---|---|---|---|---|---|
| Rehabilitation Bond Portfolio | | | | | | | |
| Autumn Ridge | San Marcos, CA | E,J,K | Aug-00 | 7.650% | Aug-27 | Jul-37 | 9, |
| King's Village | Pasadena, CA | E,J,K | Jul-00 | 7.500% | Dec-16 | Dec-36 | 17, |
| Mecca Vineyards | Indio, CA | C,K,FF | Nov-01 | 7.750% | May-18 | May-38 | 13, |
| Mecca Vineyards | Indio, CA | C,K | Nov-01 | 7.250% | - | Jul-14 | 1, |
| Merchandise Mart | St. Louis, MO | C,K,O,P,GG | Oct-01 | 8.000% | Oct-19 | Sep-41 | 25, |
| Oakwood Manor | Little Rock, AR | C,H,K,II | Jun-01 | 8.500% | Dec-17 | Nov-37 | 5, |
| Oakwood Manor | Little Rock, AR | C,H,K | Jun-01 | 7.650% | - | Nov-11 | |
| Ocean Ridge | Federal Way, WA | C,K,JJ | Dec-01 | 7.750% | Nov-18 | Nov-38 | 6, |
| Sherwood Lake | Tampa, FL | C,G,K,OO | Apr-01 | 8.450% | Nov-17 | Sep-37 | 4, |
| Silverwood | Lakewood, WA | C,K,PP | Dec-01 | 8.000% | Nov-18 | Nov-38 | 3, |
| Valley View & Ridgecrest | Little Rock, AR | C,G,K | Oct-01 | 8.000% | - | Dec-27 | 9, |
| | | | | | | - | ----- |
| Subtotal-Revenue Bonds Secured by properties undergoing rehabilitation | | | | | | | 95 |
| Subtotal- Tax-Exempt First Mortgage Revenue Bonds | | | | | | | 1,123 |
| TAXABLE FIRST MORTGAGE BONDS | | | | | | | |
| Chandler Creek | Round Rock, TX | F,N,P,SS | Oct-00 | 9.750% | | Dec-42 | |
| Cobb Park | Ft. Worth, TX | F | Jul-01 | 9.500% | | Nov-10 | |
| Greenbriar | Concord, CA | F,K | May-99 | 9.000% | | May-36 | 2, |
| Greenbridge at Buckingham | Richardson, TX | F,N,P | Nov-00 | 10.000% | | Feb-07 | |
| Hillside | Dallas, TX | F,K,N,P | Dec-01 | 9.250% | | Oct-09 | |
| Lake Park | Turlock Park, CA | F,K | Jun-99 | 9.000% | | Sep-35 | |
| Lakeline | Leander, TX | F,N,P | Dec-01 | 9.650% | | May-09 | |
| Lakes Edge at Walden | Miami, FL | F | Jun-99 | 11.000% | | Aug-10 | 1, |
| Magnolia Arbors | Covington, GA | F,N,P | Apr-01 | 8.950% | | Jul-18 | 1, |
| Mecca Vineyards | Indio, CA | F,K | Nov-01 | 9.000% | | Apr-07 | |
| Midtown Square | Columbus, GA | F,N,P | Jun-01 | 8.950% | | Feb-14 | |
| Oaks at Hampton | Dallas, TX | F,K | Apr-00 | 9.000% | | May-10 | |
| Oakwood Manor | Little Rock, AR | F,K | Jun-01 | 9.500% | | Jan-09 | |
| Ocean Ridge | Federal Way, WA | F,K | Dec-01 | 8.750% | | Sep-23 | 2, |

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| PROPERTY | LOCATION | NOTES | DATE CLOSED | STATED INTEREST RATE(1) | CALL DATE | MATURITY DATE | BOND AMO |
|---|---|---|---|---|---|---|---|
| Parks at Westmoreland | DeSoto, TX | F,K,N,P | Jul-00 | 9.000% | | Nov-09 | 455 |
| Princess Anne House | Virginia Beach, VA | F,K,N,P | Apr-00 | 9.500% | | Jan-06 | 125 |
| Red Hill Villas | Round Rock, TX | F,K | Dec-00 | 9.500% | | Jul-01 | 400 |
| Riverside Meadows | Austin, TX | F,K | Dec-01 | 8.750% | | May-09 | 200 |
| Silverwood | Lakewood, WA | F,K | Dec-01 | 8.750% | | Aug-17 | 525 |
| White Rock | San Antonio, TX | F,N,P | Dec-01 | 9.500% | | Aug-08 | 430 |
| Williams Run | Dallas, TX | F | Dec-00 | 9.250% | | Jul-04 | 200 |
| | | | | | | | --------- |
| Subtotal-Taxable Bonds | | | | | | | 13,270 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total First Mortgage Bonds | | | | | | | 1,137,173 |
| OTHER TAX-EXEMPT SUBORDINATE BONDS | | | | | | | |
| Draper Lane | Silver Spring, MD | C,H | Feb-01 | 10.000% | Mar-06 | Mar-40 | 11,000 |
| Museum Tower | Philadelphia, PA | C,G | Nov-00 | 8.250% | | Dec-26 | 6,000 |
| Park at Landmark | Alexandria, VA | C,G | Sep-00 | 8.750% | | Dec-29 | 9,500 |
| Subtotal-Subordinate Bonds | | | | | | | 26,500 |
| Total Revenue Bonds | | | | | | | 1,163,673 |

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1. The stated interest rate represents the coupon rate of the Revenue Bond at December 31, 2001.

2. The Revenue Bonds are deemed to be available-for-sale debt securities and, accordingly, are carried at their estimated fair values at December 31, 2001.

A. Owned by the Company, not including its consolidated subsidiaries.

B. Owned by CM Holding, a consolidated subsidiary of the Company (see Merger)

C. Owned by CharterMac Equity Issuer Trust, a consolidated subsidiary of the Company (see Merger)

D. Owned by CharterMac Origination Trust I, a consolidated subsidiary of the Company (see Merger)

E. Owned by CharterMac Owner Trust I, a consolidated subsidiary of the Company (see Merger)

F. Owned by CharterMac Corporation, a consolidated subsidiary of the Company.

G. Held by Merrill Lynch as collateral for secured borrowings (see Financing Arrangements below).

H. Held by Merrill Lynch as collateral in connection with the Merrill Lynch P-FLOATS/RITESSM Program (see Financing Arrangements below).

I. Held as collateral in connection with the TOP (see Private Label Tender Option Program below).

J. Transferred to CharterMac Owner Trust I in connection with the TOP (see Private Label Tender Option Program below).

K. The obligors of these Revenue Bonds are partnerships in which affiliates of the Manager are partners that own a controlling interest.

L. The original owner of the Underlying Property and obligor of the Revenue Bond has been replaced with an affiliate of the Manager.

M. The minimum par rate is the cash flow of the property.

N. In the event the construction of the Underlying Property is not completed in a timely manner, the Company may "put" the Revenue Bond to the construction lender at par.

O. In the event the rehabilitation of the Underlying Property is not completed in a timely manner, the Company may "put" the Revenue Bond to the construction lender at par.

P. All of the "puts" (see N and O above) are secured by a letter of credit issued by the construction lender to the Company.

Q. The Revenue Bond is currently awaiting approval from the Issuer for modification. The Company is confident that the modification will occur and has therefore shown the terms of the Revenue Bond as per a forbearance agreement which mirrors the terms of the Revenue Bond modification.

R. The Company received participating interest during 2001.

S. A third party has the option to acquire these Revenue Bonds for an aggregate price of $35,250,000. The notice to exercise the option, on or about March 18, 2002, was received by the Company on February 15, 2002.

T. The Company is permitted to call the Revenue Bond with six months written notice.

U. The interest rate for this Revenue Bond is 8.5% through September 1, 2002 and 7.5% thereafter.

V. The interest rate for this Revenue Bond is 8.15% through March 1, 2003 and 7.6% thereafter.

W. The interest rate for this Revenue Bond is 8.6% through August 1, 2002 and 7.6% thereafter.

X. The interest rate for this Revenue Bond is 7.9% through November 1, 2002 and 7.4% thereafter.

Y. The interest rate for this Revenue Bond is 8.5% through November 1, 2002 and 7.6% thereafter.

Z. The interest rate for this Revenue Bond is 7.9% through December 1, 2002 and 7.4% thereafter.

AA. The interest rate for this Revenue Bond is 8.5% through January 1, 2003 and 7.5% thereafter.

BB. The interest rate for this Revenue Bond is 7.9% through March 1, 2003 and 7.0% thereafter.

CC. The interest rate for this Revenue Bond is 8.6% through August 1, 2002 and 7.6% thereafter.



DD. The interest rate for this Revenue Bond is 8.1% through November 1, 2003 and 7.7% thereafter.

EE. The interest rate for this Revenue Bond is 7.9% through October 1, 2002 and 7.4% thereafter.

FF. The interest rate for this Revenue Bond is 7.75% through February 1, 2003 and 7.25% thereafter.

GG. The interest rate for this Revenue Bond is 8.0% through February 1, 2002 and 7.5% thereafter.

HH. The interest rate for this Revenue Bond is 7.9% through March 1, 2003 and 7.0% thereafter.

II. The interest rate for this Revenue Bond is 8.5% through September 1, 2002 and 7.65% thereafter.

JJ. The interest rate for this Revenue Bond is 7.75% through November 1, 2002 and 6.95% thereafter.

KK. The interest rate for this Revenue Bond is 8.4% through January 1, 2003 and 7.4% thereafter.

LL. The interest rate for this Revenue Bond is 8.4% through December 1, 2002 and 7.4% thereafter.

MM. The interest rate for this Revenue Bond is 7.7% through December 1, 2003 and 7.2% thereafter.

NN. The interest rate for this Revenue Bond is 7.5% through April 1, 2003 and 7.0% thereafter.

OO. The interest rate for this Revenue Bond is 8.45% through October 1, 2002 and 7.45% thereafter.

PP. The interest rate for this Revenue Bond is 8.0% through September 1, 2002 and 7.2% thereafter.

QQ. The interest rate for this Revenue Bond is 7.75% through April 1, 2003 and 7.7% thereafter.

RR. The interest rate for this Revenue Bond is 7.8% through November 1, 2002 and 7.5% thereafter.

SS. The interest rate for this Revenue Bond is 9.75% through November 1, 2002 and 9.25% thereafter.



| Reconciliation of Revenue Bonds: | 2001 | 2000 |
|---|---|---|
| Balance at beginning of period | $845,405,056 | $587,892,000 |
| Acquisitions | 295,962,380 | 304,740,265 |
| Proceeds from repayments of bonds | (24,227,000) | (22,400,000) |
| Periodic principal repayments of bonds | (1,583,592) | (378,563) |
| Carrying amount of bonds in excess (less than) of proceeds from the repayment | (681,904) | 719,308 |
| Loss on impairment of assets | (400,000) | -- |
| Net change in fair value of bonds | 23,135,335 | (25,291,326) |
| Accretion of deferred income and purchase accounting adjustment | 104,725 | 123,372 |
| Balance at close of period | $1,137,715,000 | $845,405,056 |

The weighted average interest rates recognized on the face amount of the portfolio of Revenue Bonds for the years ended December 31, 2001, 2000 and 1999 were 7.4%, 7.74% and 7.26%, respectively, based on weighted average face amounts of approximately $965,865,000, $710,544,000 and $525,092,000, respectively.

The amortized cost basis of the Company's portfolio of Revenue Bonds at December 31, 2001 and 2000 was $1,137,453,098 and $868,278,491, respectively. The net unrealized gain on Revenue Bonds in the amount of $261,902 at December 31, 2001 consisted of gross unrealized gains and losses of $20,212,713 and $19,940,811, respectively. The net unrealized loss on Revenue Bonds in the amount of $22,873,435 at December 31, 2000 consisted of gross unrealized gains and losses of $6,835,510 and $29,708,945, respectively.

The principal and interest payments on each Revenue Bond are payable only from the cash flows of the Underlying Properties, including proceeds from a sale of an Underlying Property or the refinancing of the mortgage loan securing such Revenue Bonds (the "Mortgage Loans"). None of the Revenue Bonds constitutes a general obligation of any state or local government, agency or authority. The structure of each Mortgage Loan mirrors the structure of the corresponding Revenue Bond that it secures. In order to protect the tax-exempt status of the Revenue Bonds, the owners of the Underlying Properties are required to enter into certain agreements to own, manage and operate such Underlying Properties in accordance with requirements of the Internal Revenue Code of 1986, as amended.

No single Revenue Bond provided interest income that exceeded 10% of the Company's total revenue for the years ended December 31, 2001, 2000 or 1999. Based on the face amount of Revenue Bonds at December 31, 2001, approximately 24% of the Underlying Properties are located in California, 11% are located in Florida, and 24% are located in Texas. No other state comprises more than 10% of the total face amount at December 31, 2001. Based on the face amount of Revenue Bonds at December 31, 2000, approximately 23.1% of the Underlying Properties were located in California, 13.6% were located in Florida, and 17.2% were located in Texas. No other state comprised more than 10% of the total face amount at December 31, 2000.

Revenue Bonds generally bear a fixed base interest rate and, to the extent permitted by existing regulations, may or may not also provide for contingent interest and other features. Terms are expected to be five to 35 years, although the Company may have the right to cause repayment prior to maturity through a mandatory redemption feature (five to seven years with up to six month's notice). In some cases, the bonds call for amortization or "sinking fund" payments, generally at the completion of rehabilitation or construction, of principal based on thirty to forty year level debt service amortization schedules.

Revenue Bonds are generally not subject to optional prepayment during the first 5-10 years of the Company's ownership of the bonds and may carry prepayment penalties thereafter beginning at 5% of the outstanding principal balance, declining by 1% per annum. Certain Revenue Bonds may be purchased at a discount from their face value. Up to 15% of the Total Market Value of the Company (as defined in its trust agreement) may be invested in Revenue Bonds secured by Underlying Properties in which affiliates of the Manager have a controlling interest, equity interest or security interest. The 15% limit is not applicable to properties to which the Manager or its affiliates have taken title for the benefit of the Company and only applies to Revenue Bonds acquired after the Merger. In selected circumstances and generally only in connection with the acquisition of tax-exempt Revenue Bonds, the Company may acquire a small amount of taxable bonds (i) which the Company may be required to acquire in order to satisfy state regulations with respect to the issuance of tax-exempt bonds and (ii) to fund certain costs associated with the issuance of Revenue Bonds, that under current law cannot be funded by the Revenue Bond itself.

Certain Revenue Bonds provide for "participating interest" which is equal to a percentage of net property cash flow of the net sale or refinancing proceeds. Both the stated and participating interest on the Revenue Bonds are exempt from federal income taxation. During the years ended December 31, 2001, 2000 and 1999, participating interest was collected amounting to approximately $1,496,000, $1,716,000 and $728,000, respectively. Revenue Bonds that contain provisions for contingent interest are referred to as "participating"; Revenue Bonds lacking this provision are "non-participating".

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From time to time the Company has advanced funds to owners of certain Underlying Properties in order to preserve the underlying asset including completion of construction and/or when Underlying Properties have experienced operating difficulties including past due real estate taxes and/or deferred maintenance. Promissory notes and/or second mortgages typically secure such advances. As of December 31, 2001, the face amount of such advances was $12,625,000, with rates ranging from 8% to 13% and a carrying value of $7,166,000, (net of purchase accounting adjustments), and a reserve for collectibility of $138,000. Included in such amounts were advances to obligors which are affiliates of the Manager at an aggregate face amount of approximately $5,029,000, rates ranging from 8% to 10%.

2001 TRANSACTIONS

| | FACE AMOUNT | AGGREGATE PURCHASE PRICE | WEIGHT CONS |
|---|---|---|---|
| Non-participating Revenue Bonds | | | |
| Construction/rehabilitation properties | $284,962,381 | $291,053,618 | |
| Subordinated non-participating Revenue Bonds | 11,000,000 | 11,260,970 | |
| Other Investments | | | |
| Bridge and mezzanine loans | 13,897,017 | | |

Revenue Bond and notes repaid and RITES terminated during 2001 are summarized below:

| | FACE AMOUNT | COST | REALIZED GAINS/(LOSSE |
|---|---|---|---|
| Participating Revenue Bonds | | | |
| Stabilized | $17,775,000 | $18,735,343 | $(761,8 |
| Non-participating Revenue Bonds | | | |
| Stabilized | 6,255,000 | 6,400,979 | (145,9 |
| Construction/rehabilitation (RITES) | 5,000 | 8,766 | (3,7 |
| Notes | | | |
| Stabilized | 2,540,000 | 2,540,000 | |

2001 BOND MODIFICATIONS

On June 1, 2001, the Company agreed to a modification of the terms of the Revenue Bond secured by the Loveridge Apartments Project. The stated interest rate was reduced from 8% to 7.5% and the call date was extended to June 1, 2004. As of December 31, 2001, this bond had a carrying value and fair value of approximately $6.9 million and $7.4 million, respectively.

2001 BOND IMPAIRMENT

During the second quarter of 2001, the borrowers of Lexington Trails failed to make regular interest payments. As a result, the Company determined the bond was impaired, and wrote down the bond to its estimated fair value of approximately $5.5 million and took a loss on impairment of $400,000.

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2000 TRANSACTIONS

Revenue Bonds acquired, including those in the ATEBT merger (see Note 11), during 2000 are summarized below:

| | FACE AMOUNT | AGGREGATE PURCHASE PRICE | WEIGHT CONS |
|---|---|---|---|
| Participating Revenue Bonds | | | |
| Stabilized properties | $ 15,625,000 | $ 18,880,000 | |
| Non-participating Revenue Bonds | | | |
| Stabilized properties | 31,219,000 | 23,575,084 | |
| Construction/rehabilitation properties | 237,467,265 | 242,453,590 | |
| Subordinated non-participating Revenue Bonds | 15,500,000 | 15,810,000 | |

(a) Includes bonds acquired as part of the ATEBT merger.

Revenue Bonds repaid and RITES (see Note 4) terminated during 2000 are summarized below:

| | FACE AMOUNT | COST | REALIZED GAINS/(LOSSE |
|---|---|---|---|
| Participating Revenue Bonds | | | |
| Stabilized | $22,400,000 | $21,719,635 | $680,36 |
| Non-participating Revenue Bonds | | | |
| Construction/rehabilitation (RITES) | 10,000 | 10,000 | (35,21 |

In connection with these dispositions, the Company recognized $645,151 in net realized gains and $1,941,703 in accrued but unpaid interest.

2000 BOND MODIFICATIONS

In connection with the sale of two of the Underlying Properties, Cedar Creek and Pelican Cove, the Company has agreed to a modification of the terms of the respective Revenue Bonds. Subject to Issuer approval, the stated interest rate of the Cedar Creek and Pelican Cove Revenue Bonds will be modified to a stated interest rate of 7.43% and 7.25%, respectively, and the maturity and call dates will be extended to October 1, 2010 and October 1, 2020, respectively.

The original obligors and owners of the Underlying Properties of the Cedar Creek, Highpointe, Pelican Cove and Loveridge Revenue Bonds have been replaced with affiliates of the Manager who have not made equity investments. These affiliates have assumed the day-to-day responsibilities and obligations of the Underlying Properties. On September 29, 2000, the affiliates of the Manager sold 49% of Pelican Cove and Cedar Creek. During 2001 the remaining 51% of Pelican Cove and Cedar Creek were purchased by the same buyers who purchased the initial 49%. Also in 2001, ownership of the property underlying the Loveridge Revenue Bond was transferred to Loveridge L.P., also an affiliate of the Manager. A buyer is being sought for the remaining Underlying Property-Highpointe. Highpointe is generally paying as interest an amount equal to the net cash flow generated by operations, which is less than the stated rate of the Revenue Bond. The Company has no present intention of declaring default on this Revenue Bond. The aggregate carrying value of Highpointe at December 31, 2001 and December 31, 2000 was approximately $5,728,000 and $5,591,000, respectively, and the income earned from Highpointe for the years ended December 31, 2001 and 2000 was approximately $315,000 and $420,000, respectively.

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NOTE 3 - Investment in ARCap

On October 18, 2001, the Company, through CM Corp., purchased 739,741 units of Series A Convertible Preferred Membership Interests in ARCap Investors, LLC at the price of $25.00 per unit, with a preferred return of 12.00%.

ARCap Investors, LLC was formed in January, 1999 by REM/CAP and Apollo Real Estate Investors to invest exclusively in subordinated CMBS. Since then, ARCap has changed its focus and has begun to provide portfolio management services for third parties.

Summarized financial information for ARCap as of December 31, 2001 and the year then ended is as follows:

| | ($'s in millions) |
|---|---|
| Investment securities - trading | $ 565 |
| Other assets | 31 |
| Total assets | $ 596 |
| Repurchase agreements and long-term debt | $ 322 |
| Other liabilities | 50 |
| Members' equity | 224 |
| Total liabilities and equity | $ 596 |
| Total revenues | $ 63 |
| Total expenses | 50 |
| Net income | $ 13 |

NOTE 4 - Deferred Costs

The components of deferred costs are as follows:

| | DECEMBER 31, 2001 | 2000 |
|---|---|---|
| Deferred bond selection costs | $25,355,551 | $16,260,545 |
| Deferred costs relating to the Private Label Tender Option Program (see Note 5) | 6,788,462 | 5,915,266 |
| Deferred costs relating to the issuance of preferred shares of subsidiary (see Note 7) | 8,376,806 | 6,490,989 |
| Deferred financing costs PWF acquisition and warehouse debt | 332,285 | - |
| | 40,853,104 | 28,666,800 |
| Less: Accumulated amortization | (9,056,690) | (4,465,458 |
| | $31,796,414 | $24,201,342 |

NOTE 5 - Financing Arrangements

P-FLOATS/RITES PROGRAM

To raise additional capital to acquire Revenue Bonds, the Company has securitized certain Revenue Bonds through the Merrill Lynch Pierce Fenner & Smith Incorporated ("Merrill Lynch") P-FLOATS/RITES-SM- program. Under this program, the Company transfers certain Revenue Bonds to Merrill Lynch. Merrill Lynch deposits each Revenue Bond into an individual special purpose trust together with a credit enhancement guarantee ("Guarantee"). Two types of securities are then issued by each trust, (1) Puttable Floating Option Tax-Exempt Receipts ("P-FLOATS"), a short-term senior security which bears interest at a floating rate that is reset weekly and (2) Residual Interest Tax Exempt Securities ("RITES"), a subordinate security which receives the residual interest payment after payment of P-FLOAT interest and ongoing transaction fees. The P-FLOATS are sold to third party investors and the RITES are generally sold back to the Company. The Company has the right, with 14 days notice to the trustee, to purchase the outstanding P-FLOATS and withdraw the underlying Revenue Bonds from the trust. When the Revenue Bonds are deposited into the P-FLOAT Trust, the Company receives the proceeds from the sale of the P-FLOATS less certain transaction costs. In certain other cases, Merrill Lynch may directly buy the Revenue Bonds from local issuers, deposit them in the trust, sell the P-FLOAT security to investors and then the RITES to the Company.

For financial reporting purposes, due to the repurchase right, the Company accounts for the net proceeds received upon the transfer of its Revenue Bonds through the P- P-FLOATS/RITES-SM- program as secured borrowings and, accordingly, continues to account for the Revenue Bonds as assets. When Merrill Lynch purchases Revenue Bonds directly and sells the RITES to the Company, the RITES are included in other assets and accounted for at fair value as available-for-sale debt securities.

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In order to facilitate the securitization, the Company has pledged certain additional Revenue Bonds as collateral for the benefit of the credit enhancer or liquidity provider. At December 31, 2001, the total carrying amount of such additional Revenue Bonds, cash and cash equivalents and temporary investments pledged as collateral was approximately $148 million.

During the year 2001, the Company transferred 13 Revenue Bonds with an aggregate face amount of approximately $142 million to the P-FLOATS/RITES program and received proceeds of approximately $135 million. Additionally, the Company repurchased five Revenue Bonds with an aggregate face value of approximately $55 million.

The Company's cost of funds relating to its secured borrowings under the Merrill Lynch P-FLOATS/RITES-SM- program (calculated as interest expense as a percentage of the weighted average amount of the secured borrowings) was approximately 3.72%, 4.96% and 4.8%, annualized, for the years ended December 31, 2001 and 2000 and the period June 29, 1999 (inception of this program) through December 31, 1999, respectively.

PRIVATE LABEL TENDER OPTION PROGRAM

The Company also utilizes its Private Label Tender Option Program ("TOP") to raise additional capital to acquire Revenue Bonds. As of December 31, 1999, the maximum amount of capital that could be raised under the TOP was $400 million. On December 7, 2000, the Company refined the structure of the TOP for the primary purpose of segregating Revenue Bonds issued by governmental entities in California from the remainder of the Revenue Bonds under the TOP and to increase the maximum amount of capital available under the program to $500 million.

As of December 31, 2001, the Company has contributed 64 issues of Revenue Bonds in the aggregate par amount of approximately $578 million to CharterMac Origination Trust I (the "Origination Trust"), a wholly owned, indirect subsidiary of the Company. The Origination Trust then contributed 47 of its Revenue Bonds, with an aggregate par amount of approximately $428 million, to CharterMac Owner Trust I (the "Owner Trust") which is controlled by the Company. The Owner Trust contributes selected bonds to specific "Series Trusts" in order to segregate Revenue Bonds issued by governmental entities selected by state of origin. As of December 31, 2001, four such Series Trusts were created: two California only series and two National (non-state specific) series.

Each Series Trust issues two equity certificates: (i) a Senior Certificate, which has been deposited into another Delaware business trust (a "Certificate Trust") which issued and sold certificates with a floating interest rate ("Floater Certificates") representing proportional interests in the Senior Certificate to new investors and (ii) a Residual Certificate representing the remaining beneficial ownership interest in each Series Trust, which has been issued to the Origination Trust. At December 31, 2001, the two California only and two National Series Trusts had Floater Certificates with an outstanding amount of $124 million and $305 million, respectively.

The Revenue Bonds remaining in the Origination Trust (aggregate principal amount of approximately $150 million) are an additional collateral pool for the Owner Trust's obligations under the Senior Certificate. In addition, the Owner Trust obtained a municipal bond insurance policy from MBIA to credit enhance Certificate distributions for the benefit of the holders of the Floater Certificates and has also arranged for a liquidity facility, issued by a consortium of highly rated European banks, with respect to the Floater Certificates. The Company owns no beneficial interest in, and does not control, the Certificate Trusts.

The effect of the TOP structure is that a portion of the interest received by the Owner Trust on the Revenue Bonds it holds is distributed through the Senior Certificate to the holders of the Floater Certificates with the residual interest remitted to the Origination Trust (and thus to the benefit of the Company) via the Residual Certificate. The effect of the December 7, 2000, refinement of the TOP structure was to segregate the California related Floater

Certificates as they generally will pay distributions at lower rates than National (non-state specific) Floater Certificates and thus the yield on the Residual Certificates owned by the Origination Trust is increased.

For financial accounting and reporting purposes, the Owner Trust, which is controlled by the Company, is consolidated. Income earned by the Owner Trust is allocated to the minority interest in an amount equal to the distributions through the Senior Certificate to the holders of the Floater Certificates.

The Company's cost of funds relating to the TOP (calculated interest expense plus recurring fees as a percentage of the weighted average amount of the outstanding Senior Certificate) was approximately 3.5%, 5.4% and 4.5% for the years ended December 31, 2001, 2000 and 1999, respectively.

The following table shows the components of the financing arrangements.

| | AMOUNT FINANCED | |
|---|---|---|
| FINANCING ARRANGEMENT | DECEMBER 31, 2001 | DECEMBER 31, |
| P-FLOATS/RITES | $191,796,333 | $110,026, |
| Private Label Tender Offer Program | 350,000,000 | 275,000, |
| Total | $541,796,333 | $385,026, |



NOTE 6 -- Notes Payable

In connection with the acquisition of PWF, the Company entered into a loan commitment (the "PWF acquisition loan"). The PWF Acquisition Loan has a term of five years with an interest rate of LIBOR plus 2.25%. The loan is interest only for the first twelve months. Beginning in month thirteen and through the remaining loan term, quarterly straight-line principal amortization on the Initial Advance is paid based on a ten-year amortization period. Additionally, after receiving the Final Advance, additional quarterly straight-line principal amortization payments on the Final Advance will be made based on the remaining years of the amortization period for the Initial Advance.

At December 31, 2001, there was approximately $27.3 million outstanding on this loan, included in notes payable in the accompanying financial statements.

PWF also has another $50 million multi-family revolving warehouse facility, which will expire on May 31, 2002. At December 31, 2001, the facility was temporarily increased to $160 million and had outstanding borrowings of $ 29.3 million at an interest rate of 30-day LIBOR plus 1.00%, which resets daily, with a LIBOR floor of 3%. At December 31, 2001, the interest rate was 4.0%. Borrowings under the line of credit are collateralized by PWF's ownership interests in the original mortgage notes. At December 31, 2001, PWF was in compliance with all covenants of the facility.

PWF is the guarantor for a $35 million loan and security agreement for Larson, which will expire on May 31, 2002. The interest rate for the agreement is the lower of 30 day LIBOR plus 209 basis points or the 30 day Treasury Bill rate plus 205 basis points. At December 31, 2001, there were no outstanding borrowings under the agreement. At December 31, 2001, the Company and Larson were in compliance with all covenants of the agreement.

PWF has a $100 million secured, revolving mortgage warehouse facility, subject to annual renewal during December of each year. CM Corp is a guarantor of this warehouse facility. The interest rate for each warehouse advance must be selected by the Company from the following two alternatives: LIBOR (for the estimated duration of the advance) plus 125 basis points or Prime plus 12.5 basis points (the default rate). At December 31, 2001 there were no outstanding borrowings under the facility. At December 31, 2001 the Company were in compliance with all covenants of the facility.

NOTE 7 - Preferred Shares of Subsidiary

Since June 1999, the Company, through a consolidated subsidiary, has issued multiple series of "Cumulative Preferred Shares".

| PREFERRED SERIES | DATE OF ISSUANCE | MANDATORY TENDER | MANDATORY REPURCHASE | NUMBER OF SHARES | LIQUIDATION PREFERENCE PER SHA |
|---|---|---|---|---|---|
| Series A | 6/29/99 | 6/30/09 | 6/30/49 | 45 | $2,000,000 |
| Series A-1 | 7/21/00 | 6/30/09 | 6/30/49 | 48 | 500,000 |
| Series A-2 | 10/9/01 | 6/30/09 | 6/30/49 | 62 | 500,000 |
| Series B | 7/21/00 | 11/30/10 | 11/30/50 | 110 | 500,000 |
| Series B-1 | 10/9/01 | 11/30/10 | 11/30/50 | 37 | 500,000 |

In connection with the offerings of these Cumulative Preferred Shares, the Company caused 100% of the ownership of the Origination Trust to be transferred to CharterMac Equity Issuer Trust (the "Issuer"), a Delaware business trust and an indirectly-owned subsidiary in which the Company owns 100% of the common equity. The Issuer then issues the Cumulative Preferred Shares and, as a result, the Issuer became the direct and indirect owner of the entire outstanding issue of Revenue Bonds held by the Origination Trust and Owner Trust and its directly-owned and indirectly-owned subsidiaries (see discussion of Private Label Tender Option Program, above). In addition to contributing the ownership of the Origination Trust, the Company also contributed certain additional Revenue Bonds to the Issuer.

Each series of Cumulative Preferred Shares has an annual preferred dividend payable quarterly in arrears upon declaration thereof by the Board of Trustees, but only to the extent of tax-exempt net income for the particular quarter. All series of Cumulative Preferred Company's Shares are subject to mandatory tender by the holders thereof for remarketing and purchase on their respective mandatory tender dates and each remarketing date thereafter at their respective liquidation preference per share plus an amount equal to all distributions accrued but unpaid.

Holders of Cumulative Preferred Shares may elect to retain their shares upon remarketing, with a distribution rate to be determined immediately prior to the remarketing date by the remarketing agent. Each holder of Cumulative Preferred Shares will be required to tender its shares to the Issuer for mandatory repurchase on the mandatory repurchase date, unless the Company decides to remarket the shares on such date. Cumulative Preferred Shares are not convertible into Common Shares of the Company.

The Series A, A-1 and A-2 Cumulative Preferred Shares rank, with respect to payment of distributions and amounts upon liquidation, dissolution or winding-up of the Company, senior to all classes or series of Convertible CRA Shares, Series B and B-1 Cumulative Preferred Shares and Common Shares of the of the Company. The Series B and B-1 Subordinate Cumulative Preferred Shares rank, with respect to payment of distributions and amounts upon liquidation, dissolution or winding-up of the Company, senior to the Company's Common Shares and the Company's Convertible CRA Shares and junior to the Issuer's Series A, A-1 and A-2 Cumulative Preferred Shares.



Since issuance of the Cumulative Preferred Shares, all quarterly distributions have been declared at each stated annualized dividend rate for each respective series and all distributions due have been paid.

For financial accounting and reporting purposes, Cumulative Preferred Shares are classified as "Preferred shares of subsidiary (subject to mandatory repurchase)" in the accompanying consolidated balance sheets. Net income earned by the Issuer and its two subsidiaries is allocated to the holders of Cumulative Preferred Shares in an amount equal to the distributions to such holders. Such allocation of income is classified as "Income allocated to preferred shareholders of subsidiary" in the accompanying consolidated statements of income.

NOTE 8 - Income Taxes

Until December 30, 2001, PWF elected for both Federal and State income tax purposes to be treated as an S corporation. As an S corporation, the net earnings of PWF were taxed directly to its stockholders rather than to PWF. As of December 31, 2001, the sale of 80% of PWF resulted in a change in tax status from an S corporation to a C corporation.

As a result of the termination of PWF's S corporation election effective December 31, 2001, PWF has provided a deferred tax liability for cumulative temporary differences between financial statement and income tax bases of PWF's assets and liabilities by recording an expense of $7.2 million in its consolidated statement of income for the year. However, as a result of CM Corp.'s acquisition of PWF effective December 31, 2001 this liability was reflected as a component of the purchase price allocation. Such deferred tax liabilities were based on the cumulative temporary differences that existed on December 31, 2001 (principally allowance for loan losses and originated mortgage servicing rights).

PWF's effective rate of 39.01% is due to State income taxes net of Federal benefit.

The components of the deferred tax (asset) liability are as follows:

| | PWF | CM CORP. |
|---|---|---|
| Allowance for loan losses | $(1,363,000) | $ -- |
| Deferred construction servicing fees | -- | (1,301,823) |
| Valuation reserve | -- | 137,272 |
| Originated mortgage service rights | 11,614,000 | -- |
| Deferred bond selection fees | -- | 1,164,551 |
| Total deferred tax liability | $ 10,251,000 | $ -- |

CM Corp has cumulative temporary differences between financial statement and income tax bases of its assets and liabilities at December 31, 2001, principally deferred income relating to construction servicing fee income and bond selection fees that are capitalized and amortized over the construction period and call date, respectively for financial statement purposes. CM Corp. has determined that a portion of the deferred tax asset may not be realizable, so has taken a valuation reserve against that asset.

NOTE 9 - Convertible Community Reinvestment Act Preferred Share Offerings

On May 10, 2000, the Company completed a $27,497,000 private placement of Convertible Community Reinvestment Act Preferred Shares ("Convertible CRA Shares") to three financial institutions (1,946,000 Convertible CRA Shares priced at $14.13 per share.) The Company incurred an initial purchasers' discount of approximately $1,109,000 and other related costs of approximately $610,000, resulting in net proceeds (less expenses) of $25,778,000. On December 14, 2000, the Company completed an additional $9,100,000 private placement of Convertible CRA Shares to three additional financial institutions (644,000 Convertible CRA Shares priced at $14.13 per share). After an initial purchasers' discount of approximately $367,000 and other related costs of approximately $318,000, the Company received net proceeds (less expenses) of $8,414,000. On May 24, 2001, the Company bought back 707,636 Convertible CRA Shares, issued May 10, 2000, at $12.70 per share for a total purchase price of $8,986,977. As of December 31, 2001, the Company had outstanding, 1,882,364 Convertible CRA Shares, which are convertible at the holders option into 1,764,663 Common Shares.

The Convertible CRA Shares enable financial institutions to receive certain regulatory benefits in connection with their investment. The Company has developed a proprietary method for specially allocating these regulatory benefits to specific financial institutions that invest in the Convertible CRA Shares. Other than the preferred allocation of regulatory benefits, the preferred investors receive the same economic benefits as Common Shareholders of the Company, including receipt of the same dividends per share as those paid to Common Shareholders. The Convertible CRA Shares have no voting rights, except on matters relating to the terms of the Convertible CRA Shares or to amendments to the Company's Trust Agreement which would adversely affect the Convertible CRA Shares. The Company's earnings are allocated pro rata among the Common Shares and the Convertible CRA Shares, and the Convertible CRA Shares rank on parity with the Common Shares with respect to rights upon liquidation, dissolution or winding up of the Company.

The investors, at their option, have the ability to convert their Convertible CRA Shares into Common Shares at a predetermined conversion price. Upon conversion, the investors will no longer be entitled to a special allocation of the regulatory benefit. The conversion price is the greater of (i) the Company's book value per Common Share as set forth in the Company's most recently is-

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sued annual or quarterly report filed with the SEC prior to the respective Convertible CRA Share issuance date or (ii) 110% of the closing price of a Common Share on the respective Convertible CRA Share's pricing date. The conversion price for each Convertible CRA Share offering is indicated on the following table:

| ISSUANCE DATE | CONVERSION PRICE | CONVERSION RATIO |
|---|---|---|
| May 10, 2000 | $15.33 | 0.9217 |
| December 20, 2000 | $14.60 | 0.9678 |

NOTE 10 - Related Parties

Pursuant to the Management Agreement and other servicing agreements with subsidiaries, the Manager receives (inclusive of fees paid directly to the Manager by subsidiaries of the Company) certain fees for its ongoing management and operations of the Company:

| Fees/Compensation | Amount |
|---|---|
| I. Bond selection fee | 2% of the face amount of each asset invested in or acquired b |
| II. Special distribution/Investment Management fee | 0.375% per annum of the total invested assets of the Company |
| III. Loan servicing fee | 0.25% per annum of the outstanding face amount of Revenue Bon by the Company |
| IV. Liquidation fee | 1.5% of the gross sales price of assets sold by the Company |
| V. Operating expense Reimbursements | For direct expenses incurred by the Manager or CM Corp. $556,331 per annum (subject to increases based on increases i annual increases based upon increases in the Consumer Price i |
| VI. Incentive share options | The Manager may receive options to acquire additional shares incentive share option plan to the extent distributions in an share, and the compensation committee of the Company's board such options |

Fees payable to the Manager are based on Revenue Bonds or assets of the Company. In addition, the Manager receives bond placement fees directly from the borrower in an amount equal to 1% to 1.5% of the principal amount of each Revenue Bond or other instrument acquired or invested in by the Company. In addition, affiliates of the Manager are part of a joint venture that has a development services agreement with the owners of certain Underlying Properties.

The term of each of CharterMac's management agreements is one year. The term of each of CharterMac's subsidiaries' management agreements is five years; provided that if CharterMac's management agreement with Related Charter LP is terminated or not renewed, each of the management agreements with such subsidiaries would terminate as of such date. Each of the management agreements may be renewed, subject to evaluation of the performance of the manager by the relevant entity's board of trustees. Each management agreement may be terminated (i) without cause by the manager, or (ii) for cause by a majority of the applicable entity's independent trustees, in each case without penalty and upon 60 days prior written notice to the non-terminating party.



The costs, expenses and the special distributions incurred to the Manager and its affiliates for the years ended December 31, 2001, 2000 and 1999 were as follows:

| | YEAR ENDED DECEMBER 31, 2001 | | Y E DEC |
|---|---|---|---|
| Bond selection fees | $ 7,852,916 | (1) | $ |
| Special distribution/Investment Management fee | 3,620,923 | | |
| Bond servicing fees | 2,454,136 | | |
| Expense reimbursement | 637,337 | | |
| | $14,565,312 | | $ 1 |

(1) Included in the Bond Selection Fee for 2001 is approximately $588,000 paid to Related Capital Company related to the purchase of PWF.

On December 31, 2001, the Company completed a credit enhancement transaction with Merrill Lynch Capital Services, Inc. ("MLCS") pursuant to which CM Corp. initially will receive an annual fee of approximately $1.2 million in return for assuming MLCS's $46.9 million first loss position on a $351.9 million pool of tax-exempt weekly variable rate multifamily mortgage loans originated by CreditRe Mortgage Capital, LLC, an affiliate of Credit Suisse First Boston and the Related Companies, L.P. The Related Companies, L.P. has provided CM Corp. with an indemnity covering 50% of any losses that are incurred by CM Corp. as part of this transaction.

As of December 31, 2001, the obligors of certain Revenue Bonds (see footnote K to table in Note 2) are local partnerships in which investment partnerships, whose general partners are affiliates of the Manager, own a controlling partnership interest. With respect to one of the above Revenue Bonds, the Company owns the RITES (see Note 5). These affiliate entities could have interests that do not coincide with, and may be adverse to, the interests of the Company. Negotiations, if any, with respect to modifications of Revenue Bonds between the Company and obligors who are affiliates may be affected by these conflicts as the Manager determines the appropriate terms and conditions of modifications or otherwise opts for some other remedy including foreclosure.

As of December 31, 2001, the owners of the Underlying Properties and obligors of the Highpointe, and Loveridge Revenue Bonds are affiliates of the Manager who have not made equity investments. These entities have assumed the day-to-day responsibilities and obligations of the Underlying Properties. Buyers are being sought who would make equity investments in the Underlying Properties and assume the nonrecourse obligations for the Revenue Bond or otherwise buy the property and payoff all or most of the Revenue Bond obligation.

On April 11, 2000, Related Capital Company entered into an agreement to purchase $500,000 of the outstanding face amount of the Walnut Park bonds, in $100,000 increments annually beginning April 1, 2001. Related Capital Company has agreed, pursuant to an Intercreditor Agreement, that its right to payment on the purchased bonds is subordinate to the right to payment on the bonds held by the Company.

NOTE 11 - ATEBT Merger

On November 2, 1999, the Company and ATEBT, whose manager was an affiliate of the Manager of the Company, entered into an Agreement and Plan of Merger providing for the merger of ATEBT into and with the Company as the surviving trust in the merger (the "ATEBT Merger"). The ATEBT Merger was approved by the ATEBT shareholders on September 27, 2000 and consummated on November 14, 2000.

On the ATEBT Merger consummation date, ATEBT had total assets of approximately $29,700,000 and net assets of approximately $28,300,000. ATEBT had four Revenue Bonds financing properties in four states, with an aggregate outstanding face amount of $23,775,000, and with individual interest rates of 9.0%.

Pursuant to the Merger Agreement, each share of beneficial ownership in ATEBT issued and outstanding was converted into 1.43112 Common Shares of the Company. Following the ATEBT Merger, previous ATEBT shareholders own 2,115,722 Common Shares (representing approximately 9.3% of the then outstanding Common Shares) of the Company.

The ATEBT Merger was accounted for as a purchase, with the value of the Company's Common Shares issued, plus transaction costs allocated to the net assets acquired, based on their relative fair values. The excess of the purchase price over the fair value of the net assets acquired, $1,482,986, was recorded as goodwill. Interest income on the acquired Revenue Bonds is recorded from the acquisition date.

NOTE 12 - Earnings Per Share, Profit and Loss Allocations and Distributions

Pursuant to the Company's Trust Agreement and the Management Agreement with the Manager, the Manager is entitled, in its capacity as the general partner of the Company, to a special distribution equal to .375% per annum of the Company's total invested



assets (which equals the face amount of the Revenue Bonds), payable quarterly. After payment of the special distribution, distributions are made to the shareholders in accordance with their percentage interests.

Income is allocated first to the Manager in an amount equal to the special distribution. The net remaining profits or losses, after a special allocation of 1% to the Manager, are then allocated to shareholders in accordance with their percentage interests.

Net income per share is computed in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings Per Share. Basic income per share is calculated by dividing income allocated to Common and Convertible CRA Shareholders ("Shareholders") (See Note 9) by the weighted average number of Common and Convertible CRA Shares outstanding during the period. The Convertible CRA shareholders are included in the calculation of shares outstanding as they share the same economic benefits as Common Shareholders, including receipt of the same dividends per share as Common Shareholders. Diluted income per share is calculated using the weighted average number of shares outstanding during the period plus the additional dilutive effect of common stock equivalents. The dilutive effect of outstanding stock options is calculated using the treasury stock method. Because each Convertible CRA Share is convertible into less than one common share, the potential conversion would be antidilutive.

| | FOR THE YEAR E | |
|---|---|---|
| | INCOME NUMERATOR | D |
| Net income allocable to shareholders (Basic EPS) | $35,010,595 | |
| Effect of Dilutive securities - 228,262 stock options | - | |
| Diluted net income allocable to shareholders (Diluted EPS) | $35,010,595 | |

| | FOR THE YEAR E |
|---|---|
| | INCOME NUMERATOR |
| Net income allocable to shareholders (Basic EPS) | $27,074,115 |
| Effect of Dilutive securities - 297,830 stock options | - |
| Diluted net income allocable to shareholders (Diluted EPS) | $27,074,115 |

| | FOR THE YEAR E |
|---|---|
| | INCOME NUMERATOR |
| Net income allocable to shareholders (Basic EPS) | $20,951,366 |
| Effect of Dilutive securities- None | |
| Diluted net income allocable to shareholders (Diluted EPS) | $20,951,366 |

*includes Convertible CRA Shares

NOTE 13 - Capital Stock and Share Option Plan

The Company has adopted an incentive share option plan (the "Incentive Share Option Plan"), the purpose of which is to (i) attract and retain qualified persons as trustees and officers and (ii) to provide incentive and more closely align the financial interests of the Manager and its employees and officers with the interests of the shareholders by providing the Manager with substantial financial interest in the Company's success. The Compensation Committee of the Company's Board of Trustees administers the Incentive Share Option Plan. Pursuant to the Incentive Share Option Plan, if the Company's distributions per Common Share in the immediately preceding calendar year exceed $0.9517 per Common Share, the Compensation Committee has the authority to issue options to purchase, in the aggregate, that number of Common Shares which is equal to three percent of the shares (including Common Shares and Convertible CRA Shares) outstanding as of December 31 of the immediately preceding calendar year, provided that the Compensation Committee may only issue, in the aggregate, options to purchase a maximum number of Common Shares over the life of the Incentive Shares Option Plan equal to 10% of the Common Shares outstanding on October 1, 1997 (2,058,748 Common Shares).

Subject to the limitations described in the preceding paragraph, if the Compensation Committee does not grant the maximum number of options in any year, then the excess of the number of authorized options over the number of options granted in such year will be added to the number of authorized options in the next succeeding year and will be available for grant by the Compensation Committee in such succeeding year.

All options granted by the Compensation Committee have an exercise price equal to or greater than the fair market value of the Common Shares on the date of the grant. The maximum option term is ten years from the date of grant. All Common Share options granted pursuant to the Incentive Share Option Plan may vest immediately upon issuance or in accordance with the determination of the Compensation Committee. For 1998 the Company did not grant any options as its distributions per Share did not exceed the minimum threshold of $0.9517 per share. In 2001, 2000 and 1999, the Company distributed $1.14, $1.07, and $0.995, respectively, per Share, thus enabling the Compensation Committee, at their discretion, to issue options. Three percent of the Common Shares outstanding as of December 31, 2001, 2000 and 1999 is equal to a maximum option grant of 1,044,777, 680,950 and 617,430 Common Shares, respectively. Since this total exceeds the maximum 10% of Common Shares outstanding on October 1, 1999 by 2,058,748, this is now the total number of options available to be issued.

On May 1, 2000, options to purchase 297,830 Common Shares (which reduces the number of options available to be granted to 1,760,918) were granted to officers of the Company and certain employees of an affiliate of the Manager, none of whom are employees of the Company. The exercise price of each option is $11.5625 per share with a term of ten years, and vesting in equal installments on May 1, 2001, 2002 and 2003. The Company has adopted the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" for its share options issued to non-employees. Accordingly, compensation cost is accrued based on the estimated fair value of the options issued, and amortized over the vesting period. Because vesting of the options is contingent upon the recipient continuing to provide services to the Company until the vesting date, the Company estimates the fair value of the non-employee options at each period end up to the vesting date, and adjusts expensed amounts accordingly. The weighted average grant date fair value at December 31, 2000, for options granted during 2000, was $268,047. No additional options were granted during 2001. The 297,830 options granted on May 1, 2000 had an estimated fair value at December 31, 2001 of $1.23 per option grant, or a total of $445,752. The fair value of each option grant is estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2001: dividend yield of 7.38%, expected volatility of 24%, and expected lives of ten years. On May 1, 2001, one-third, or 99,276 of the options vested, of which 69,568 were exercised, leaving a balance of 228,262 options. The Company recorded compensation cost of $168,936 for the year ended December 31, 2001 relating to these option grants.

The following table shows the number of options outstanding granted, exercised and exercisable and the exercise price of those options.

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2001 | | |
| | OPTIONS | EXERCISE PRICE | OPTIONS |
| Options outstanding at Beginning of Year | 297,830 | $11.5625 | |
| Options granted during the year | -- | $ -- | 297 |
| Options exercised during the year | 69,568 | $11.5625 | |
| Options outstanding at End of Year | 228,262 | $11.5625 | 297 |
| Options exercisable at End of Year | 29,708 | $11.5625 | |

Through calendar year 1999, each independent trustee was entitled to receive annual compensation for serving as a trustee in the aggregate amount of $15,000 payable in cash (maximum of $5,000 per year) and/or Common Shares based on the fair market value at the date of issuance. Beginning in calendar year 2000, the annual compensation for the two original independent trustees was increased from $15,000 to $17,500 and the maximum payable in cash was increased from $5,000 to $7,500. In 2000, a third independent trustee was appointed and such trustee will receive annual compensation in the aggregate amount of $30,000 payable in cash (maximum of $20,000 per year) and/or Common Shares. As of December 31, 2001 and 2000, 5,553 and 3,552 Common Shares, respectively, having an aggregate value at the date of issuance of $75,000 and $45,000, respectively, have been issued to the independent trustees. An additional 1,830 shares, with an aggregate value of $30,000 at issuance, were issued to the independent trustees in January, 2002 as compensation for their 2001 service.

Effective May 3, 2000, the Company implemented a dividend reinvestment and Common Share purchase plan (the "Plan"). Under the Plan, Common Shareholders may elect to have their distributions from the Company automatically reinvested in additional Common Shares at a purchase price equal to the average of the high and low market price from the previous day's trading. If a Common Shareholder participates in the Plan, such shareholder may also purchase additional Common Shares through quarterly voluntary cash payments with a minimum contribution of $500. There are no commissions for Common Shares purchased under the Plan. Participation in the Plan is voluntary and a Common Shareholder may join or withdraw at any time. The opportunity for participation in the Plan began with the distributions paid in August 2000.

On October 9, 1998, the Board of Trustees authorized the implementation of a Common Share repurchase plan, enabling the Company to repurchase, from time to time, up to 1,500,000 of its Common Shares. The repurchases will be made in the open market and the timing is dependant on the availability of Common Shares and other market conditions. As of both December 31, 2000 and 1999, the Company had acquired 8,400 of its Common Shares for an aggregate purchase price of $103,359 (including commissions and service charges). Repurchased Common Shares are accounted for as treasury shares of beneficial interest.

The Company was created as part of the settlement in 1997 of class action litigation against, among others, the sponsors of the Partnerships which were consolidated to form the Company. As part of that settlement, counsel ("Class Counsel") for the partners of



the Partnerships had the right to petition the United States District Court for the Southern District of New York (the "Court") for additional attorneys' fees ("Counsel's Fee Shares") in an amount to be determined in the Court's sole discretion. The Counsel's Fee Shares were based upon a percentage (which Class Counsel proposed to be 25%) of the increase in value of the Company, ("the Added Value") if any, as of October 1, 1998 based upon the difference between (i) the trading prices of the Company's Common Shares of beneficial interest during the six month period ended October 1, 1998 and (ii) the trading prices of the limited partnership units and the asset values of the Partnerships prior to October 1, 1997. As of October 1, 1998, 25% of the Added Value amounted to $7,788,536 and, in accordance with an Order and Stipulation of Settlement by the Court on February 18, 1999 (the "Order"), Class Counsel was entitled to receive 608,955 Common Shares of beneficial interest in the Company. On April 15, 1999, the Company successfully negotiated a discounted cash settlement (the "Discounted Cash Settlement") of $6,089,550 with Class Counsel in lieu of the issuance of Common Shares. On April 26, 1999, the Board of Trustees approved the Discounted Cash Settlement and it was paid on May 3, 1999.

NOTE 14 - Selected Quarterly Financial Data (unaudited)

| | 2001 QUARTER ENDED | | |
|---|---|---|---|
| | MARCH 31 | JUNE 30 | SEPTEMBER 30 |

| | | | |
|---|---|---|---|
| Revenues: | | | |
| Interest income: | | | |
| Revenue Bonds | $ 16,340,627 | $ 16,360,699 | $ 18,818,704 |
| Temporary investments | 224,578 | 390,899 | 270,184 |
| Promissory notes | 256,934 | 232,834 | 168,411 |
| Equity in earnings of ARCap | -- | -- | -- |
| Other income | 35,073 | 506,532 | 50,042 |
| Total revenues | 16,857,212 | 17,490,964 | 19,307,341 |
| Expenses: | | | |
| Interest expense | 3,413,858 | 3,889,828 | 3,009,772 |
| Recurring fees relating to the Private Label Tender Option Program | 564,573 | 569,702 | 623,288 |
| Loan servicing and management fees | 541,886 | 595,453 | 618,035 |
| General and Administrative | 742,279 | 729,772 | 523,424 |
| Amortization | 198,574 | 202,545 | 221,900 |
| Loss on impairment of Revenue Bond | -- | 400,000 | -- |
| Total Expenses | 5,461,170 | 6,387,300 | 4,996,419 |
| Income before loss on repayment of Revenue Bonds | 11,396,042 | 11,103,664 | 14,310,922 |
| Gain (loss) on repayment of Revenue Bonds | 101,791 | -- | -- |
| Income before allocation to preferred shareholders of subsidiary | 11,497,833 | 11,103,664 | 14,310,922 |
| Income allocated to preferred shareholders of subsidiary | (2,961,625) | (2,961,625) | (2,961,625 |
| Net Income | $ 8,536,208 | $ 8,142,039 | $ 11,349,297 |
| Allocation of income to: | | | |
| Special distribution to manager | $ 827,652 | $ 866,412 | $ 898,966 |
| Manager | $ 77,086 | $ 72,756 | $ 104,504 |
| Common shareholders | $ 6,849,905 | $ 6,548,069 | $ 10,165,756 |
| Convertible CRA shareholders | 781,565 | 654,802 | 180,071 |
| Total shareholders | $ 7,631,470 | $ 7,202,871 | $ 10,345,827 |
| Net income per share (Basic and diluted) | $ 0.30 | $ 0.24 | $ 0.31 |
| Weighted average shares outstanding | | | |
| Basic | 25,289,651 | 29,607,203 | 32,986,483 |
| Diluted | 25,350,314 | 29,664,418 | 33,038,075 |

| | 2000 QUARTER ENDED | | |
|---|---|---|---|
| | MARCH 31 | JUNE 30 | SEPTEMBER 30 |
| Revenues: | | | |
| Interest income: | | | |
| Revenue Bonds | $ 11,341,104 | $ 12,554,464 | $ 14,392,775 |
| Temporary investments | 467,654 | 656,738 | 861,495 |
| Promissory notes | 242,211 | 240,633 | 266,637 |
| Total revenues | 12,050,969 | 13,451,835 | 15,520,907 |
| Expenses: | | | |
| Interest expense | 2,607,575 | 3,781,942 | 3,740,189 |
| Recurring fees relating to the Private Label Tender Option Program | 426,978 | 529,478 | 619,086 |
| Bond servicing | 396,504 | 429,305 | 468,980 |
| General and administrative | 448,199 | 472,187 | 684,689 |
| Amortization | 110,699 | 126,230 | 139,650 |
| Total expenses | 3,989,955 | 5,339,142 | 5,652,594 |
| Income before gain on repayment of Revenue Bonds | 8,061,014 | 8,112,693 | 9,868,313 |
| Gain on repayment of Revenue Bonds | -- | -- | -- |
| Income before allocation to preferred shareholders of subsidiary | 8,061,014 | 8,112,693 | 9,868,313 |
| Income allocated to preferred shareholders of subsidiary | (1,490,625) | (1,490,625) | (2,651,081 |
| Net income | $ 6,570,389 | $ 6,622,068 | $ 7,217,232 |
| Allocation of net income to: | | | |
| Special distribution to Manager | $ 594,756 | $ 641,425 | $ 706,000 |
| Manager | $ 59,756 | $ 59,806 | $ 65,112 |
| Common shareholders | $ 5,915,877 | $ 5,626,157 | $ 5,889,308 |
| Convertible CRA Shareholders | 0 | 294,680 | 556,809 |
| Total for shareholders | $ 5,915,877 | $ 5,920,837 | $ 6,446,117 |
| Net income per share (basic and diluted) | $ .29 | $ .27 | $ .29 |

| | | | |
|---|---|---|---|
| | ============ | ============ | ============ |
| Weighted average share outstanding | | | |
| Basic | 20,581,805 | 20,582,617 | 22,528,617 |
| Diluted | 20,581,805 | 21,694,617 | 22,569,179 |

The results for the quarter ended December 31, 2000 reflect net gains totaling $645,151 resulting from the repayment of Revenue Bonds (see Note 2).

NOTE 15 - Credit Enhancement Transaction

On December 31, 2001, the Company completed a credit enhancement transaction with Merrill Lynch Capital Services, Inc. ("MLCS") pursuant to which CM Corp. initially will receive an annual fee of approximately $1.2 million in return for assuming MLCS' $46.9 million first loss position on a $351.9 million pool of tax-exempt weekly variable rate multifamily mortgage loans originated by CreditRe Mortgage Capital, LLC, an affiliate of Credit Suisse First Boston and The Related Companies, L.P. (See Note 16). As of December 31, 2001, no liability or losses have been recognized as the guaranteed pool has performed according to terms. The maximum contingent liability for this credit enhancement transaction as of December 31, 2001 to the Company is $23.5 million because The Related Companies, L.P., has indemnified CM Corp. for 50% of its first loss position.



NOTE 16 - Commitments and Contingencies

PW FUNDING INC

Through PWF, the Company originates and services multifamily mortgage loans for Fannie Mae, Freddie Mac and FHA. PWF and its subsidiaries' mortgage lending business is subject to various governmental and quasi-governmental regulation. PWF and/or its subsidiaries, collectively, are licensed or approved to service and/or originate and sell loans under Fannie Mae, Freddie Mac, Ginnie Mae and FHA programs. FHA and Ginnie Mae are agencies of the Federal government and Fannie Mae and Freddie Mac are federally-chartered investor-owned corporations. These agencies require PWF and its subsidiaries to meet minimum net worth and capital requirements and to comply with other requirements. Mortgage loans made under these programs are also required to meet the requirements of these programs. In addition, under Fannie Mae's DUS program, PWF has the authority to originate loans without a prior review by Fannie Mae and is required to share in the losses on loans originated under this program.

The DUS program is Fannie Mae's principal loan program. Under the Fannie Mae DUS Product Line, the Company originates, underwrites and services mortgage loans on multifamily residential properties and sells the project loans directly to Fannie Mae. The Company assumes responsibility for a portion of any loss that may result from borrower defaults, based on the Fannie Mae loss sharing formulas, Levels I, II or III. At December 31, 2001, all but one of the Company's loans consisted of Level I loans. For such loans, the Company is responsible for the first 5% of the unpaid principal balance and a portion of any additional losses to a maximum of 20% of the original principal balance. Level II and Level III loans carry a higher loss sharing percentage. Fannie Mae bears any remaining loss.

Under the terms of the Master Loss Sharing Agreement between Fannie Mae and the Company, the Company is responsible for funding 100% of mortgagor delinquency (principal and interest) and servicing (taxes, insurance and foreclosure costs) advances until the amounts advanced exceed 5% of the unpaid principal balance at the date of default. Thereafter, for Level I loans, the Company may request interim loss sharing adjustments which allow the Company to fund 25% of such advances until final settlement under the Master Loss Sharing Agreement. No interim loss sharing adjustments are available for Level II and Level III loans.

The Company maintains an allowance for loan losses for loans originated under the Fannie Mae DUS product line at a level that, in management's judgment, is adequate to provide for estimated losses. At December 31, 2001, that reserve was approximately $3.5 million. Unlike loans originated for Fannie Mae, PWF does not share the risk of loss for loans it originates for Freddie Mac or FHA.

CREDIT ENHANCEMENT - MERRILL LYNCH CAPITAL SERVICES - (SEE NOTE 15)

On December 31, 2001, the Company completed a credit enhancement transaction with Merrill Lynch Capital Services, Inc. ("MLCS") pursuant to which CM Corp. initially will receive an annual fee of approximately $1,247,000 in return for assuming MLCS's $46.9 million first loss position on a $351.9 million pool of tax-exempt weekly variable rate multifamily mortgage loans originated by CreditRe Mortgage Capital, LLC, an affiliate of Credit Suisse First Boston and the Related Companies, L.P. The Related Companies, L.P. has provided CM Corp. with an indemnity covering 50% of any losses that are incurred by CM Corp. as part of this transaction. As the loans mature or prepay, the first loss exposure and the fees paid to CM Corp. will both be reduced. The latest maturity date on any loan in the portfolio occurs in 2009. The remainder of the real estate exposure after the $46.9 million first loss position has been assumed by Fannie Mae and Freddie Mac. In connection with the transaction, CharterMac has guaranteed the obligations of CM Corp., and as a security therefor, have posted collateral, initially in an amount equal to 50% of the first loss amount, which may be reduced to 40% if certain post closing conditions are met. The Related Companies, L.P. is an affiliate of Related Capital.

CM Corp. performed due diligence on each property in the pool, including an examination of loan-to-value and debt service coverage both on a current and "stressed" basis. CM Corp. analyzed the portfolio on a "stressed" basis by increasing capitalization rates and assuming an increase in the low floater bond rate. As of December 31, 2001, the credit enhanced pool of properties are performing according to their contractual obligations and the Company does not anticipate any losses to be incurred on its guaranty.

NON-CANCELABLE LEASES

Minimum annual rentals under non-cancelable leases for office space are as follows:

| | |
|---|---|
| 2002 | $504,000 |
| 2003 | 501,000 |
| 2004 | 397,000 |
| 2005 | 311,000 |
| 2006 | 291,000 |
| 2007 | 50,000 |
| | $2,054,000 |

The Company is subject to routine litigation and administrative proceedings arising in the ordinary course of business. Management does not believe that such matters will have a material adverse impact on the Company's financial position, results of operations or cash flows.



NOTE 17 - Acquisition of PW Funding, Inc.

On December 31, 2001, CM Corp. acquired 80% of the outstanding capital stock of PWF, for approximately $34.9 million, of which, approximately $21.6 million was financed and $7.6 million was paid in cash. Additionally, the Company repaid a $5.7 million loan on behalf of PWF. It is anticipated that CM Corp. will acquire the remaining 20% of the issued and outstanding capital stock of PWF over the next 24 to 36 months. Under the agreement, the stockholders of PWF were granted the right to put their remaining 20% stock interest to CM Corp. after an initial period of 24 to 36 months. The agreement also grants CM Corp. the right to call the remaining 20% stock interest of PWF from PWF's stockholders after the same initial period of 24 to 36 months.

CharterMac is entitled to a cumulative preferential distribution from PWF's cash available for distribution equal to 10% of its invested capital. The remaining cash available for distribution will be distributed approximately 80% to CharterMac and 20% to the other stockholders. CharterMac will also be entitled to an additional cumulative priority return equal to 4.3% of its invested capital prior to the purchase payments to PWF's stockholders on exercise of the put or call options. The fee income generated by PWF will be taxable income. However, CM Corp. incurs tax-deductible expenses which will be used to offset a portion of this taxable income.

The acquisition of PWF was accounted for using the purchase method of accounting, with approximately $7.9 million of the purchase price allocated to mortgage service rights, based on their estimated fair value. Because the acquisition was effective December 31,2001, it had no impact on the Company's operations.

NOTE 18 - Financial Risk Management and Derivatives

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated in a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income (OCI) and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. The adoption of SFAS 133 did not have a significant impact on the financial position or results of operations of the Company.

The Company's Revenue Bonds generally bear fixed rates of interest income. However, the P-FLOATS and TOP financing programs incur interest expense at variable rates, which are reset weekly. Therefore, the Company is exposed to interest rate risks. Various financial vehicles exist which would allow Company management to hedge against the impact of interest rate fluctuations on the Company's cash flows and earnings. Prior to December 31, 2000, the

Company, upon management's analysis of the interest rate environment and the costs and risks of such strategies, has not engaged in any of these hedging strategies.

During 2001, the Company entered into interest rate swaps in order to reduce the Company's growing exposure to increases in the floating interest rate on its TOP and P-FLOATS programs. Under such interest rate swap agreements, the Company is required to pay the counterparty a fixed rate on a notional amount of debt. In return, the counterparty will pay the Company a floating rate equivalent to the BMA Municipal Swap Index, an index of weekly tax-exempt variable rate issues on which the Company's variable rate financing programs are based. On January 5, 2001, the Company entered into a five-year interest rate swap that fixes the BMA index to 3.98% on a notional amount of $50.0 million. On February 5, 2001, the Company entered into a three-year interest rate swap that fixes the BMA index to 3.64% on an additional notional amount of $100.0 million.

The average BMA rate for 2001 and 2000 was 2.61% and 4.12%, respectively. Net swap payments received by the Company, if any, will be taxable income to the Company and any resultant dividends paid to shareholders. A possible risk of such swap agreements is the possible inability of the Counterparty to meet the terms of the contracts with the Company; however, there is no current indication of such an inability.

The Company has designated these interest rate swaps as cash flow hedges of the variable interest payments on its floating rate financing. Accordingly, the interest rate swaps will be recorded at their fair market values each accounting period, with changes in market values being recorded in other comprehensive income to the extent that the hedge is effective in achieving offsetting cash flows. Any ineffectiveness in the hedging relationship will be recorded in earnings. The Company believes that these hedging relationships were perfectly effective and that there was no ineffectiveness.

As of December 31, 2001 the estimated fair value of both swaps is a liability of $2,957,663 and is recorded as interest rate swaps in the financial statements. The total of interest paid or payable for the year ended December 31, 2001 was $1,685,774, and is included in interest expense in the financial statements.

The Company estimates that approximately $1.2 million of net derivative loss included in accumulated other comprehensive income will be reclassified into interest expense within the next twelve months.



NOTE 19 - Segment Information

SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information", requires enterprises to repost certain financial and descriptive information about their reportable business segments and certain other disclosures regarding products and services, geographic areas and major customers.

As a result of the December 2001 acquisition of PWF, the Company has two reportable business segments: an investing segment and an operating segment. The investing segment consists of subsidiaries holding investments in Revenue Bonds producing primarily tax-exempt interest income. The operating segment generates taxable interest and fee income, through the ownership of taxable bonds, loans and other investments, loan servicing and origination fees, and fees for credit enhancement and guaranty services.

Prior to the year ended December 31, 2001, all the Company's operations were attributable to the investing segment. Because the acquisition of PWF took place on December 31, 2001, there was no impact on the Company's net income, revenues or expenses. Of the total assets for the Company at December 31, 2001, approximately $1.32 billion are attributable to the investing segment and approximately $100 million are attributable to the operating segment.

NOTE 20 - Subsequent Events

On February 21, 2002, the Company sold to the public 6.3 million Common Shares at a price of $15.47 per share. The net proceeds from this offering, approximating $92.5 million, will be used primarily to fund additional investments in Revenue Bonds and for general corporate purposes.

On February 1, 2002, the Company acquired a $10.1 million tax-exempt Revenue Bond secured by West Oaks, a 168-unit multifamily affordable housing apartment complex located in Houston, Texas. The bond matures in January 2042 and has an interest rate of 7.5% until construction is completed when the interest rate changes to 7.2%.

On February 1, 2002, the Company acquired a $9.3 million tax-exempt bond and a $1.9 million taxable bond secured by Circle s Apartments, a 200-unit multifamily affordable housing complex located in Austin, Texas. The tax-exempt bond matures in January 2042 and has an interest rate of 7.5% until construction is completed when the interest rate changes to 7.15%. The taxable bond matures in October 2023 and bears interest at 8.75%.

On January 18, 2002, the Clarendon Revenue Bond and associated note payable were repaid. The Company received $17.6 million representing the face amount of the bond, plus approximately $1.8 million in contingent interest from the net proceeds of the sale of the underlying property. The secured mortgage was repaid at the face amount of $6.6 million. The Revenue Bond and note had carrying values of approximately $14.7 million and $6.6 million respectively at the time of repayment.

During January 2002, the Company entered into an 8% interest rate cap on a notional amount of $30 million to mitigate the floating 1 month LIBOR risk associated with the PWF acquisition loan and the PWF warehouse line.

During February 2002, the Company received notice and the required $250,000 deposit, that the borrower of the four Sunset Revenue Bonds (Sunset Creek, Sunset Downs, Sunset Terrace and Sunset Village) intended to exercise its option to purchase the bonds for the option price of $35,250,000. At December 31, 2001, these four bonds had an aggregate carrying value of approximately $34.2 million.

In February 2002, the letter of credit bank, the construction lender , for Chandler Creek, notified us that the property would not be completed by the expected completion date. The Company exercised its right to put the bonds under the letter of credit. The Company recovered the entire original face amount of both the taxable and tax-exempt Revenue Bonds of $350,000 and $15,850,000, respectively.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Company.

Trustees and Officers

The Board of Trustees directs the management of the business of CharterMac, but retains CharterMac Corporation ("CM Corp."), the Company's wholly owned subsidiary, and Related Charter, LP ("RCLP") to manage the Company's day-to-day affairs. CM Corp. and RCLP provide CharterMac services pursuant to management agreements between (i) CM Corp. and CharterMac and (ii) RCLP and CharterMac. Collectively, they are referred to as the "Manager". The Manager has subcontracted its obligations to Related Capital Company ("Related") and uses Related's resources and real estate investment expertise to advise the Company. See "Management Agreements" below. The Board of Trustees has delegated certain responsibilities to the Manager including, among other things, overseeing the Company's portfolio of assets and acquiring and disposing of investments. During 2001, the Board of Trustees held fifteen meetings, the compensation committee did not hold any meetings and the audit committee held four meetings. The average attendance in the aggregate of the total number of Board and committee meetings was 80%.

The Trustees and Executive Officers of CharterMac are as follows:

| Name | Age | Office Held | Year First Became Officer/Trustee |
|---|---|---|---|
| Stephen M. Ross | 61 | Managing Trustee, Chairman of the Board | 1999 |
| Stuart J. Boesky | 45 | Managing Trustee, President, and Chief Executive Officer | 1997 |
| Alan P. Hirmes | 47 | Managing Trustee, Executive Vice President, Secretary | 1997 |
| Peter T. Allen | 56 | Managing Trustee | 1997 |
| Arthur P. Fisch | 60 | Managing Trustee | 1997 |
| Charles L. Edson | 67 | Managing Trustee | 2001 |
| Michael J. Brenner | 56 | Managing Trustee | 2000 |
| Thomas W. White | 64 | Managing Trustee | 2000 |
| Michael I. Wirth | 43 | Chief Financial Officer and Chief Accounting Officer | 2000 |

STEPHEN M. ROSS is Chairman of the Board of Trustees of CharterMac and is a Member of the sole general partner of the Manager. Mr. Ross is the founder, Chairman, CEO and Managing General Partner of the Related Companies, L.P. ("TRCLP") Mr. Ross began his career working for the accounting firm of Coopers & Lybrand in Detroit as a tax attorney. Later, he moved to New York where he worked for two large Wall Street investment banking firms in their real estate and corporate finance departments before founding TRCLP in 1972. Mr. Ross graduated from the University of Michigan School of Business Administration with a Bachelor of Science degree and from Wayne State School of Law with a Juris Doctor degree. He then received a Master of Law degree in Taxation from New York University School of Law. Mr. Ross endowed the Stephen M. Ross Professor of Real Estate at the University of Michigan. Mr. Ross is also on the Board of Directors of Insignia Financial Group, Inc.

STUART J. BOESKY is a Managing Trustee, the President and Chief Executive Officer of CharterMac and the President, Chief Executive Officer and Member of the sole general partner of the Manager. Mr. Boesky is also a Partner and Senior Managing Director of Related Capital Company ("Related"), the financial services arm of TRCLP, where he is primarily responsible for the creation, design and implementation of Related's debt and equity finance programs. Prior to joining Related in 1986, Mr. Boesky practiced real estate and tax law with the law firm of Shipley & Rothstein and the Boston office of Stroock and Stroock and Lavan. Previously, Mr. Boesky was a consultant at the accounting firm of Laventhol & Horwath. Mr. Boesky received a Bachelor of Arts degree with high honors from Michigan State University, a Juris Doctor degree from Wayne State University School of Law and a Master of Law degree in Taxation from Boston University School of Law. Mr. Boesky also serves on the Board of Directors of Aegis Realty, Inc. ("Aegis") and the Board of Trustees of American Mortgage Acceptance Company ("AMAC"), both of which are managed by affiliates of RCLP.



ALAN P. HIRMES is a Managing Trustee, the Executive Vice President and the Secretary of CharterMac and is a Senior Vice President and a Member of the sole general partner of the Manager. Mr. Hirmes is also a Partner and a Senior Managing Director of Related, where he is responsible for overseeing the finance, accounting and portfolio management departments and the joint venture development program. Mr. Hirmes has been a Certified Public Accountant in New York since 1978. Prior to joining Related in October 1983, Mr. Hirmes was employed by Weiner & Co., certified public accountants. Mr. Hirmes graduated from Hofstra University with a Bachelor of Arts degree. Mr. Hirmes also serves on the Board of Directors of Aegis and the Board of Trustees of AMAC.

PETER T. ALLEN is a Managing Trustee of CharterMac and is President of Peter Allen & Associates, Inc., a real estate development and management firm, in which capacity he has been responsible for the leasing, refinancing and development of major commercial properties. Mr. Allen has also been an Adjunct Professor of the Graduate School of Business at the University of Michigan since 1981. Mr. Allen received a Bachelor of Arts Degree in history/economics from DePauw University and a Masters Degree in Business Administration with Distinction from the University of Michigan. Mr. Allen has been an Independent Trustee since 1997 and is a member of the Audit and Compensation Committees. Mr. Allen also serves on the Board of Directors of Aegis and on the Board of Trustees of AMAC.

ARTHUR P. FISCH is a Managing Trustee of CharterMac and is an attorney in private practice specializing in real property and securities law since October 1987, with Arthur P. Fisch, P.C. and Fisch & Kaufman. From 1975-1987, Mr. Fisch was employed by E.F. Hutton & Company, serving as First Vice President in the Direct Investment Department from 1981-1987 and associate general counsel from 1975-1980 in the legal department. As First Vice President, he was responsible for the syndication and acquisition of residential real estate. Mr. Fisch received a B.B.A. from Bernard Baruch

College of the City University of New York and a Juris Doctor degree from New York Law School. Mr. Fisch is admitted to practice law in New York and Pennsylvania. Mr. Fisch has been an Independent Trustee since 1997 and is a member of the Audit and Compensation Committees. Mr. Fisch also serves on the Board of Directors of Aegis and the Board of Trustees of AMAC.

CHARLES L. EDSON is a Managing Trustee of CharterMac. Mr. Edson is a retired partner of the law firm Nixon Peabody LLP where he focused on all aspects of housing development, management finance and taxation. He served as counsel to several governmental, trade and public interest entities and groups on housing and legislative matters and continues as the Co-Editor-in-Chief for the Housing and Development Reporter, a news and information service published by The West Group. Mr. Edson is an Adjunct Professor of Law at Georgetown University Law Center where he teaches a seminar on federally assisted housing programs. During his career, he has served as the Transition Director for the Department of Housing and Urban Development on President Carter's transition staff and has also held the position of Chief in the Public Housing Section at the Office of General Counselor at the Department of Housing and Urban Development. Mr. Edson received a Bachelor of Arts, magna cum laude, from Harvard College and a Juris Doctor degree from Harvard Law School.

MICHAEL J. BRENNER is a Managing Trustee of CharterMac, and is the Executive Vice President and Chief Financial Officer of The Related Companies, LP TRCLP. Prior to joining TRCLP in 1996, Mr. Brenner was a partner with Coopers & Lybrand, having served as managing partner of its Industry Programs and Client Satisfaction initiatives from 1993-1996, managing partner of the Detroit group of offices from 1986-1993 and Chairman of its National Real Estate Industry Group from 1984-1986. Mr. Brenner graduated summa cum laude from the University of Detroit with a Bachelors degree in Business Administration and from the University of Michigan with a Masters of Business Administration, with distinction. Mr. Brenner also serves on the Board of Directors of Aegis.

THOMAS W. WHITE is a Managing Trustee of CharterMac. Mr. White retired as a Senior Vice President of Fannie Mae in the multifamily activities department, where he was responsible for the development and implementation of policies and procedures for all Fannie Mae multifamily programs, including the delegated underwriting and servicing program, prior approval program and negotiated swap and negotiated cash purchases product lines. He was also responsible for asset management of multifamily loans in portfolio or Mortgage-Backed Securities. Mr. White joined Fannie Mae in November 1987 as director of multifamily product management. He was elected Vice President for multifamily asset acquisition in November 1998 and assumed his position of Senior Vice President in November 1990. Prior to joining Fannie Mae, he served as an investment banker with Bear Stearns, Inc. He also was the executive vice president of the National Council of State Housing Agencies; chief underwriter for the Michigan State Housing Development Authority; and served as a state legislator in the state of Michigan. Mr. White currently serves as a consultant to CharterMac.

MICHAEL I. WIRTH is the Chief Financial Officer and Chief Accounting Officer of CharterMac and is a Senior Vice President and Chief Financial Officer of the general partner of the Manager. Mr. Wirth is also a Senior Vice President of Related. Mr. Wirth joined Related in August, 2000. Prior to Related, Mr. Wirth was a Vice President in the Real Estate Group at CGA Investment Management where he was responsible for the underwriting, investment and management of all commercial real estate debt investments made by the company. Prior to CGA, Mr. Wirth spent 4 years as a senior manager at Deloitte & Touche in the Realty Consulting Group and Technology Solutions practice and 5 years as a senior manager and national director to the financial services industry at The Roulac Group of Deloitte & Touche. Mr.

Wirth received a Bachelors in Business Administration from Georgia State University. He has been a Certified Public Accountant since 1986.

Committees of the Board of Trustees

The Board of Trustees has standing Audit and Compensation Committees. The Audit Committee's duties include the review and oversight of all transactions with affiliates of CharterMac, the periodic review of CharterMac's financial statements and meetings



with CharterMac's independent auditors. The Audit Committee is comprised of Messrs. Allen, Fisch and Edson and had four meetings during CharterMac's fiscal year ended December 31, 2001.

The Compensation Committee's duties include the determination of compensation, if any, of CharterMac's executive officers and of the Manager and the administration of CharterMac's Incentive Share Option Plan (the "Share Option Plan"). The Compensation Committee is comprised of Messrs. Allen and Fisch and did not hold any meetings during CharterMac's fiscal year ended December 31, 2001. The Compensation Committee must have at least two members, each of which must be Independent Trustees.

Related Charter, LP

The directors and executive officers of Related Charter LLC ("Related Charter"), the sole general partner of RCLP, are set forth below. These officers of the sole general partner of RCLP may also provide services to CharterMac on behalf of RCLP. The executive officers of RCLP are the exact same as the executive officers of CM Corp.

Related Charter LLC

| Name | Age | Offices Held | Year First Becam Officer/Membe |
|---|---|---|---|
| Stuart J. Boesky | 45 | Member, President and Chief Executive Officer | 1997 |
| Alan P. Hirmes | 47 | Member, Senior Vice President | 1997 |
| Stephen M. Ross | 61 | Member | 1997 |
| Michael I. Wirth | 43 | Senior Vice President and Chief Financial Officer | 2000 |
| James D. Spound | 41 | Executive Vice President | 1998 |
| Denise L. Kiley | 42 | Senior Vice President | 1997 |
| Marc D. Schnitzer | 40 | Senior Vice President | 1997 |
| John J. Sorel | 41 | Senior Vice President | 1999 |
| Steven B. Wendel | 39 | Senior Vice President | 2001 |

| | | | |
|---|---|---|---|
| Mark J. Schlacter | 51 | Vice President | 1997 |
| Max E. Schlopy | 65 | Vice President | 1998 |
| Gary Parkinson | 52 | Controller | 2000 |
| Teresa Wicelinski | 36 | Secretary | 1998 |

Biographical information with respect to Messrs. Boesky, Ross, Hirmes and Wirth is set forth above.

JAMES D. SPOUND is an Executive Vice President of Related Charter, LLC with primary responsibility for bond originations. He joined Related from First Union Capital Markets, in February 1998, where he was a Vice President specializing in affordable housing finance. From 1992 to 1996, Mr. Spound served as an investment banker in the Housing Finance Department at Merrill Lynch & Co., where he was a Vice President at the time of his departure. Previously, Mr. Spound was also a Senior Consultant at Kenneth Leventhal & Company where he focused on debt restructurings in the real estate industry. In addition, he served for three years as a Project Manager at New York City's Economic Development Corporation where he was responsible for underwriting and administering incentive loans to support the City's economic development goals. Mr. Spound received a Bachelor of Arts degree from Brown University and a Masters of Science in Management from the Sloan School at MIT.

DENISE L. KILEY is a Senior Vice President of Related Charter, LLC. Ms. Kiley is also a Partner and a Managing Director of Related where she is responsible for the underwriting and asset management groups. Ms. Kiley oversees the investment underwriting and approval of all multifamily residential properties invested in Related sponsored corporate, public and private equity and debt funds. Prior to joining Related in 1990, Ms. Kiley had experience acquiring, financing and managing the assets of multifamily residential properties. From 1981 through 1985 she was an auditor with a national accounting firm. Ms. Kiley holds a Bachelor of Science degree in Accounting from Boston College and is a Member of the Affordable Housing Roundtable.

MARC D. SCHNITZER is a Senior Vice President of Related Charter, LLC. Mr. Schnitzer is also a Partner and a Managing Director of Related where he is responsible for the Tax Credit Acquisitions and Corporate Funds Groups. Mr. Schnitzer received a Master of Business Administration degree from The Wharton School of The University of Pennsylvania in December 1987, and joined Related in January, 1988. From 1983 to 1986, Mr. Schnitzer was a Financial Analyst in the Fixed Income Research Department of The First



Boston Corporation in New York. Mr. Schnitzer received a Bachelor of Science degree, summa cum laude, in Business Administration from the School of Management at Boston University.

JOHN SOREL is a Senior Vice President of Related Charter, LLC and is a Senior Vice President of Related. Mr. Sorel is responsible for overseeing construction risk management for CharterMac. Prior to joining Related in November, 1999, Mr. Sorel was a Vice President for BankBoston in their real estate department from 1993-1999, where he originated and managed over $150 million of corporate and construction loan facilities for the low income housing tax credit industry. From 1991-1993, Mr. Sorel worked as an Assistant

Vice President for Recoll Management. Mr. Sorel holds a Bachelor of Arts degree in Economics from Syracuse University.

STEVEN B. WENDEL is a Senior Vice President of Related Charter, LLC and a Senior Vice President of Related Capital, focusing on taxable mortgage financing for multifamily properties. Prior to joining Related in June, 1999, Mr. Wendel was a Managing Director of the commercial loan origination and securitization program at ContiFinancial Corporation, which originated approximately $2.6 billion of commercial loans. From 1989-1992, Mr. Wendel was a senior associate of the structured finance/MBA rotational program at Coopers & Lybrand. From 1987-1989, he was a consultant at Martin E. Segal Company, and from 1984-1987, he was a pricing analyst at Metropolitan Life Insurance Company. Mr. Wendel received his Bachelor of Arts in economics from the University of Pennsylvania and his Masters in Business Administration from the Stern School of Business Administration at New York University.

MARK J. SCHLACTER is a Vice President of Related Charter, LLC. Mr. Schlacter is a Vice President of Related and has been with Related since June 1989. Mr. Schlacter is primarily responsible for the origination and acquisition of taxable mortgage products. Prior to joining Related, Mr. Schlacter garnered 16 years of direct real estate experience covering retail and residential construction, single and multifamily mortgage origination and servicing, commercial mortgage origination and servicing, property acquisition and financing, and mortgage lending program underwriting and development. He was a Vice President with Bankers Trust Company from 1986 to June 1989, and held prior positions with Citibank, Anchor Savings Bank and the Pyramid Companies covering the 1972-1986 period. Mr. Schlacter holds a Bachelor of Arts degree in Political Science from Pennsylvania State University.

MAX E. SCHLOPY is a Vice President of Related Charter, LLC. An attorney, Mr. Schlopy practiced corporate and commercial real estate law in Buffalo, New York for many years, where he was a partner with the law firm of Duke, Holzman, Yeager and Schlopy. He served as Vice President - General Counsel for Marc Equity Corporation, a diversified real estate development company with operations in several states and later as a Vice President of the general partner for the Summit Tax Exempt Bond Funds. More recently, Mr. Schlopy was President of MK Industries, Inc., an Orlando, Florida-based company involved in the research and development of high technology military and biomedical products and processes. He presently practices law and offers consulting services to the real estate industry from his offices in Park City, Utah. Mr. Schlopy was educated at Cornell and San Francisco State Universities, and received his Juris Doctor degree, cum laude, from the School of Law, State University of New York at Buffalo.

GARY PARKINSON is the Controller of Related Charter, LLC. Mr. Parkinson has been a Certified Public Accountant in New York since 1987. Prior to joining Related in September 2000, Mr. Parkinson was employed by American Real Estate Partners, L.P. from July 1991 to September 2000, Integrated Resources, Inc. from August 1988 to July 1991 and Ernst & Young from September 1984 to August 1988. Mr. Parkinson graduated from Northeastern University and The Johnson Graduate School of Business at Cornell University.

TERESA WICELINSKI is the Secretary of Related Charter, LLC. Ms. Wicelinski joined Related in June 1992, and prior to that date was employed by Friedman, Alprin & Green, certified public accountants. Ms. Wicelinski graduated from Pace University with a Bachelor of Arts Degree in Accounting.

MANAGEMENT AGREEMENT

Although the Board of Trustees has continuing exclusive authority over the management of CharterMac, the conduct of its affairs and the management and disposition of CharterMac's assets, the Board of Trustees has initially delegated to the Manager, subject to the supervision and review of the Board of Trustees and consistent with the provisions of the Trust Agreement, the power and duty to: (i) manage the day-to-day operations of CharterMac; (ii) acquire, retain or sell CharterMac's assets; (iii) seek out, present and recommend investment opportunities consistent with CharterMac's investment policies and objectives, and negotiate on behalf of CharterMac with respect to potential investments or the dispositions thereof; (iv) when appropriate, cause an affiliate to serve as the mortgagee of record for mortgage investments of CharterMac and in that capacity hold escrow on behalf of mortgagors in connection with the servicing of mortgages; (v) obtain for CharterMac such services as may be required in acquiring and disposing of investments, disbursing and collecting the funds of CharterMac, paying the debts and fulfilling the obligations of CharterMac, and handling, prosecuting and settling any claims of CharterMac, including foreclosing and otherwise enforcing mortgages and other liens securing investments; (vi) obtain for CharterMac such services as may be required for property management, mortgage brokerage and servicing, and other activities relating to the investment portfolio of CharterMac; (vii) evaluate, structure and negotiate prepayments or sales of CharterMac's mortgage investments and mortgage securities; (viii) monitor operations and expenses of CharterMac; and (ix) from time to time, or as requested by the Board of Trustees, make reports to CharterMac as to its performance of the foregoing services.

The terms of each of the management agreements is one year. Both of the management agreements may be renewed, subject to evaluation of the performance of the Manager by CharterMac's Board of Trustees. Both agreements may be terminated (i) without cause by the Manager; or (ii) for cause by a majority of CharterMac's Board of Trustees, in each case without penalty and each upon 60 days prior written notice to the non-terminating party.

The Manager has subcontracted its obligations under the management agreements to Related Capital Company.



Pursuant to the terms of the Management Agreement, the Manager is entitled to receive the fees and other compensation set forth below:

| FEE/COMPENSATION* | AMOUNT |
|---|---|
| Bond Selection Fee | 2.00% of the face amount of each asset invested in or acquired by CharterMac or its subsidiaries. |
| Special Distribution/Investment Management Fee | 0.375% per annum of the total invested assets of CharterMac or its subsidiaries. |
| Loan Servicing Fee | 0.25% per annum based on the outstanding face amount of Revenue Bonds and other investments owned by CharterMac or its subsidiaries. |
| Operating | Expense Reimbursements For direct |

| | |
|---|---|
| | expenses incurred by the Manager or CM Corp. in an amount not to exceed $556,331 per annum (subject to increase based on increases in CharterMac's and its subsidiaries' assets and to annual increases based upon increases in the Consumer Price Index). |
| Incentive Share Options | The Manager may receive options to acquire additional Common Shares pursuant to the Share Option Plan only if CharterMac's distributions in any year exceed $0.9517 per Common Share and the Compensation Committee of the Board of Trustees determines to grant such options. |
| Liquidation Fee | 1.50% of the gross sales price of the assets sold by CharterMac in connection with a liquidation of CharterMac assets supervised by the Manager. |

* The Manager is also permitted to earn miscellaneous compensation which may include, without limitation, construction fees, escrow interest, property management fees, leasing commissions and insurance brokerage fees. The payment of any such compensation is generally limited to the competitive rate for the services being performed. A bond placement fee of 1.0% to 1.5% of the face amount of each asset invested in or acquired by CharterMac or its subsidiaries is payable to the Manager by the borrower and not by us or our subsidiaries.

Affiliates of the Manager may provide certain financial guarantees to facilitate leveraging by CharterMac, for which they could be paid market rate fees. In addition, affiliates of the Manager may provide certain financial guarantees to the owner (or partners of the owners) of the underlying properties securing CharterMac's Revenue Bonds, for which they could be paid market rate fees.

The Manager may engage in other business activities related to real estate, mortgage investments or other investments whether similar or dissimilar to those made by CharterMac, or act as manager to any other person or entity having investment policies whether similar or dissimilar to those of CharterMac. Before the Manager, the officers and directors of the Manager and all persons controlled by the Manager and its officers and directors may take advantage of an opportunity for their own account or present or recommend it to others, they are obligated to present such investment opportunity to CharterMac if (i) such opportunity is of a character which could be taken by CharterMac, (ii) such opportunity is compatible with CharterMac's investment objectives and policies and (iii) CharterMac has the financial resources to take advantage of such opportunity.

The Trust Agreement and Management Agreement provide that CharterMac will indemnify the Manager and its affiliates under certain circumstances.

The Manager is entitled to subcontract its obligations under the Management Agreement to an affiliate. In accordance with the foregoing, the Manager has assigned its rights and obligations to Related.

RCLP has been designated the "Tax Matters Partner" to manage administrative tax proceedings conducted at CharterMac's level by the IRS with respect to company matters. RCLP will also serve as the general partner of CharterMac for tax purposes.

Item 11. Executive Compensation

TRUSTEES AND MANAGEMENT

CharterMac has three executive officers and eight Trustees (three of whom are Independent Trustees). CharterMac does not pay or accrue any fees, salaries or other forms of compensation to its officers other than options which may be received under the Share Option Plan. Independent Trustees receive compensation for serving as Independent Trustees. Mr. Edson receives compensation at the rate of $30,000 per year, payable $20,000 in cash (or, at Mr. Edson's option, Common Shares) and Common Shares having an aggregate value of $10,000, based on the fair market value at the date of issuance, in addition to an expense reimbursement for attending meetings of the Board of Trustees. Messrs. Allen and Fisch receive compensation at the rate of $17,500 per year payable



$7,500 in cash (or, at Messrs. Allen's or Fisch's option, Common Shares) and Common Shares having an aggregate value of $10,000, based on the fair market value at the date of issuance, in addition to an expense reimbursement for attending meetings of the Board of Trustees.

The Manager, at its expense, provides all personnel necessary to conduct CharterMac's regular business. The Manager receives various fees for advisory and other services performed under the Management Agreement, as further described in Item 10. An affiliate of the Manager pays all salaries, bonuses and other compensation (other than options which may be received under the Share Option Plan) to the officers of CharterMac and the general partner of the Manager. Certain members and officers of the sole general partner of the Manager and certain officers of CharterMac receive compensation from the Manager and its affiliates for services performed for various affiliated entities, which may include services performed for CharterMac. Such compensation may be based in part on the performance of CharterMac; however, the Manager believes that any compensation attributable to services performed for CharterMac is immaterial.

SHARE OPTION PLAN

The Share Option Plan was adopted to attract and retain qualified individuals to serve as trustees, officers and/or employees of CharterMac, its subsidiaries, the Manager and any successor manager, as well as to harmonize the financial interests of such individuals with the interests of the Company's shareholders generally (i.e., by providing them with substantial financial interests in the Company's success). The Compensation Committee, which is comprised of Messrs. Allen and Fisch, administers the Share Option Plan. Pursuant to the Share Option Plan, if CharterMac's distributions per Common Share in the immediately preceding calendar year exceed $0.9517 per Common Share, the Compensation Committee has the authority to issue options to purchase, in the aggregate, that number of Common Shares which is equal to three percent of the Common Shares outstanding as of December 31 of the immediately preceding calendar year (or in the initial year, as of October 1, 1997), provided that the Compensation Committee may only issue, in the aggregate, options to purchase a maximum number of Common Shares over the life of the Share Option Plan equal to 2,058,638 Common Shares (i.e., 10% of the Common Shares outstanding on October 1, 1997.)

Subject to the limitations described in the preceding paragraph, if the Compensation Committee does not grant the maximum number of options in any year, then the excess of the number of authorized options over the number of options granted in such year will be added to the number of authorized options in the next succeeding year and will be available for grant by the Compensation Committee in such succeeding year.

All options granted by the Compensation Committee will have an exercise price equal to or greater than the fair market value of the Common Shares on the date of the grant. The maximum option term is ten years from the date of grant. All Common Share options granted pursuant to the Share Option Plan may vest immediately upon issuance or in accordance with the determination of the Compensation Committee. No options were granted for the years ended December 31, 1997 or December 31, 1998. In 1999, CharterMac distributed $0.995 per Common Share. On May 1, 2000 the compensation committee issued 297,830 options to employees of affiliates of the Manager. No additional options were granted in 2001.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee is comprised of two Independent Trustees (Messrs. Allen and Fisch). The role of the Compensation Committee is to administer the policies governing the Share Option Plan. Because CharterMac does not pay salaries and bonuses to the officers of CharterMac or the general partner of the Manager, the Compensation Committee does not determine executives' salary levels. Subject to the restrictions contained in the Share Option Plan, option compensation is intended to be set at a level competitive with the amounts paid to the management of similarly sized companies in similar industries. The Committee also evaluates the performance of management when determining the number of options to be issued.

CharterMac's grants of share options are structured to link the compensation of the officers of CharterMac and the officers of the general partner of the Manager (and its affiliates) with CharterMac's performance. Through the establishment of the Share Option Plan, CharterMac has aligned the financial interests of its executives (and the executives of the Manager) with the results of CharterMac's performance, which is intended to enhance shareholder value. The Compensation Committee may only grant options if certain performance levels are met and is limited in the number of options which may be granted each year (See "Share Option Plan" above). The amount of options which may be granted will be set at levels that the Compensation Committee believes to be consistent with others in CharterMac's industry, with such compensation contingent upon CharterMac's level of annual and long-term performance.

Section 162 (m) was added to the Internal Revenue Code as part of the Omnibus Budget Reconciliation Act of 1993. Section 162 (m) limits the deduction for compensation paid to the Chief Executive Officer and the other executive officers to the extent that compensation of a particular executive exceeds $1,000,000 (less the amount of any "excess parachute payments" as defined in Section 280G of the Code) in any one year. However, under Section 162(m), the deduction limit does not apply to certain "performance-based" compensation established by an independent compensation committee which conforms to certain restrictive conditions stated under the Code and related regulations. It is CharterMac's goal to have compensation paid to its five most highly compensated officers qualify as performance based compensation deductible for federal income tax purposes under Section 162 (m). Given the fact that CharterMac is externally managed and the only compensation that currently may be paid to its executives are options pursuant to the Share Option Plan, it is unlikely that Section 162 (m) will present any concerns.

COMPENSATION COMMITTEE

Peter T. Allen
Arthur P. Fisch

AUDIT COMMITTEE

AUDIT COMMITTEE CHARTER

On June 14, 2000, the Board of Trustees adopted the following Audit Committee Charter. The Audit Committee Charter will be reviewed, updated and approved by the Board of Trustees each year:

ROLE AND INDEPENDENCE

The audit committee, of the Board of Trustees of Charter Municipal Mortgage Acceptance Company (the "Company"), assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and reporting practices of the Company and other such duties as directed by the Board. The membership of the Company's audit committee (the "Committee") shall consist of at least three Trustees who are generally knowledgeable in financial and auditing matters, including at least one member with accounting or related financial management expertise. Each member shall be free of any relationship that, in the opinion of the Board, would interfere with his or her individual exercise of independent judgment, and shall meet the director independence requirements for serving on the Committee as set forth in the corporate governance standards of the American Stock Exchange. The Committee is expected to maintain free and open communication (including private executive sessions at least annually) with the independent accountants, the internal auditors, if any, and the management of the Company. In discharging this oversight role, the Committee is empowered to investigate any matter brought to its attention, with full power to retain outside counsel or other experts for this purpose.

The Board of Trustees shall appoint one member of the Committee as chairperson. He or she shall be responsible for leadership of the Committee, including preparing the agenda, presiding over the meetings, making Committee assignments and reporting to the Board of Trustees. The chairperson will also maintain regular liaison with the CEO, CFO, and the lead independent audit partner.

RESPONSIBILITIES

The Committee's primary responsibilities include:

Recommending to the Board the independent accountant to be selected or retained to audit the financial statements of the Company. In so doing, the Committee will request from the auditor a written affirmation, consistent with Independence Standards Board Standard 1, that the auditor is in fact independent, discuss with the auditor any relationships that may impact the auditor's independence, and recommend to the board any actions necessary to oversee the auditor's independence.

Overseeing the independent auditor relationship by discussing with the auditor the nature and rigor of the audit process, receiving and reviewing audit reports, and providing the auditor full access to the Committee (and the Board) to report on any and all appropriate matters.

Reviewing the audited financial statements and discussing them with management and the independent auditor. These discussions shall include consideration of the quality of the Company's accounting principles as applied in its financial reporting, including review of estimates, reserves and accruals, review of judgmental areas, review of audit adjustments whether or not recorded and such other inquiries as may be appropriate. Based on the review, the Committee shall make its recommendation to the Board as to the inclusion of the Company's audited financial statements in the Company's annual report on Form 10-K.

Reviewing with management and the independent auditor the quarterly financial information prior to the Company's filing of Form 10-Q. This review may be performed by the Committee or its chairperson.

Discussing with management, the internal auditors, if any, and the external auditors the quality and adequacy of the Company's internal controls.

Discussing with management the status of pending litigation, taxation matters and other areas of oversight to the legal and compliance area as may be appropriate.

Reporting Committee activities to the full Board and issuing annually a report to be included in the proxy statement (including appropriate oversight conclusions) for submission to the shareholders.

The Committee's job is one of oversight. Management is responsible for the preparation of the Company's financial statements and the independent auditors are responsible for auditing those financial statements. The Committee and the Board recognize that management (including the internal audit staff, if any) and the independent auditors have more resources and time, and more detailed knowledge and information regarding the Company's accounting, auditing, internal control and financial reporting practices than the Committee does; accordingly the Committee's oversight role does not provide any expert or special assurances as to the financial statements and other financial information provided by the Company to its shareholders and others.



AUDIT COMMITTEE REPORT

The Audit Committee of CharterMac's Board of Trustees has issued the following report with respect to the audited financial statements of the Company for the fiscal year ended December 31, 2001:

- The Audit Committee has reviewed and discussed with CharterMac's management the Company's fiscal 2001 audited financial statements;

- The Audit Committee has discussed with Deloitte & Touche LLP (CharterMac's independent auditors) the matters required to be discussed by Statement on Auditing Standards No. 61 as amended by SAS No. 90;

- The Audit Committee has received the written disclosures and letter from the independent auditors required by Independence Standards Board No. 1 (which related to the auditors' independence from the Company and its related entities) and has discussed with the auditors their independence from CharterMac;

Based on the review and discussions referred to in the three items above, the Audit Committee recommended to the Board of Trustees that the audited financial statements be included in CharterMac's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

Submitted by the Audit Committee of CharterMac's Board of Trustees:

Charles L. Edson -- Chairman
Peter T. Allen
Arthur P. Fisch

As of March 7, 2002, no person was known by CharterMac to be the beneficial owner of more than 5% of the outstanding Common Shares of CharterMac.

As of March 7, 2002, the members of the sole general partner of the Manager own, in the aggregate, 100% of the voting stock of the sole general partner of the Manager.

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Item 12. Security Ownership of Certain Beneficial Owners and Management

As of March 7, 2002, Trustees and senior officers of CharterMac and members and senior officers of the sole general partner of the Manager own directly or beneficially Common Shares of CharterMac as follows:

| NAME | TITLE | AMOUNT AND NATURE O<br>BENEFICIAL OWNERSHI |
|---|---|---|
| Stephen M. Ross | Chairman of the Board of CharterMac and Member of Related Charter | 246,454 Common Shar |
| Alan P. Hirmes | Trustee, Executive VP and Secretary, of CharterMac and Member and Senior VP of Related Charter | 58,232 Common Share |
| Stuart J. Boesky | Trustee, President and CEO of CharterMac and Member, President and CEO of Related Charter | 66,188 Common Share |
| Peter T. Allen | Trustee of CharterMac | 3,053 Common Shares |
| Arthur P. Fisch | Trustee of CharterMac | 3,053 Common Shares |
| Thomas W. White | Trustee of CharterMac | 972 Common Shares |
| Charles L. Edson | Trustee of CharterMac | 305 Common Shares |
| Michael J. Brenner | Trustee of CharterMac | 13,605 Common Share |
| Michael I. Wirth | CFO & CAO of CharterMac and SVP & CFO of Related Charter | 10,319 Common Share |
| James D. Spound | Executive VP of Related Charter | 27,210 Common Share |
| Marc D. Schnitzer | Senior VP of Related Charter | 13,628 Common Share |
| Denise L. Kiley | Senior VP of Related Charter | 13,628 Common Share |
| John J. Sorel | Senior VP of Related Charter | 1,667 Common Shares |
| Steven B. Wendel | Senior VP of Related Charter | 0 Common Shares |
| All Senior Officers and Trustees of CharterMac and Related Charter as a group (14 persons) | | 415,978 Common Shar |

*Less than 1% of the outstanding Common Shares.

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(1) 11 of these Common Shares are owned by the Manager, of which a majority is

owned by Messrs. Ross, Hirmes, and Boesky.

(2) Includes 8,702 options to purchase Common Shares (which are exercisable within 60 days)

(3) 21,157 of these Common Shares are owned by Related AMI Associates, Inc., of which a majority is owned by Messrs. Ross, Hirmes and Boesky .

(4) Includes 6,961 options to purchase Common Shares (which are exercisable within 60 days)

(5) Includes 13,605 options to purchase Common Shares (which are exercisable within 60 days)

(6) Includes 4,752 options to purchase Common Shares (which are exercisable within 60 days)

(7) Includes 27,210 options to purchase Common Shares (which are exercisable within 60 days)

(8) Includes 1,667 options to purchase Common Shares (which are exercisable within 60 days)

(9) Includes 83,780 options to purchase Common Shares (which are exercisable within 60 days)

(10) Based on the Common Shares outstanding as of March 7, 2002 (40,327,738) plus the Common Shares issuable upon the conversion of (i) all options to purchase Common Shares which are exercisable within 60 days (83,780) and (ii) all CRA Preferred Shares (1,764,663).



COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires CharterMac's officers and trustees, and persons who own more than 10% of a registered class of CharterMac's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "Commission"). These persons are required by regulation of the Commission to furnish CharterMac with copies of all Section 16(a) forms they file.

CharterMac believes that during the fiscal year ended December 31, 2001, CharterMac's officers, trustees and greater than 10% beneficial owners complied with all applicable Section 16(a) filing requirements, except for a Form 4 required to be filed on behalf of Marc Schnitzer after exercising an option to purchase 6,667 Common Shares. A Form 5 has been filed with the SEC to reflect this purchase.

Item 13. Certain Relationships and Related Transactions

GENERAL

The Company has invested in, and may in the future invest in, Revenue Bonds secured by properties in which either direct or indirect affiliates of Related Capital own equity interests in the borrower. The Trust Agreement contains a limitation, equal to 15% of the Company's total market value, on the aggregate amount of Revenue Bonds either the Company may hold where the borrowers under such Revenue Bonds are either direct or indirect affiliates of Related Capital and Related Capital generally has a controlling economic interest ("15% Affiliates"). The Trust Agreement also requires that the Company obtain a fairness opinion from an independent adviser before investing under any circumstance in Revenue Bonds involving 15% Affiliates. For purposes of the foregoing limitations, a borrower in which Related Capital or its affiliates own a partnership or joint venture interest merely to facilitate an equity financing on behalf of one of Related Capital's investment funds is not deemed a 15% Affiliate under the Trust Agreement by virtue of such relationship ("Non-15% Affiliate" and, together with the 15% Affiliates, the "RCC Affiliates"). A typical Non-15% Affiliate borrower would be structured as a limited partnership as follows: the general partner would be an unaffiliated third party with a 1% general partnership interest and the 99% limited partner would itself be a limited partnership in which an affiliate of Related Capital would own a 1% general partnership interest and one or more Fortune 500 companies would own a 99% limited partnership interest.

Every transaction entered into between the Company and an RCC Affiliate raises a potentially ongoing inherent conflict of interest. In addition to the initial determination to invest in Revenue Bonds secured by properties owned by an RCC Affiliate, such conflicts of interest with respect to these Revenue Bonds include, among others, decisions regarding (i) whether to waive defaults of such RCC Affiliate, (ii) whether to foreclose on a loan, and (iii) whether to permit additional financing on a property securing a Company investment other than financing provided by the Company. Although not required by the Trust Agreement, the Board of Trustees has adopted a policy to address certain of such conflicts, requiring the approval of a majority of the independent trustees in the event that the Company is required to take any of the following actions with respect to a Revenue Bond secured by a property which an affiliate of the Manager owns an equity interest: (i) modification of any material rights and obligations respecting the affiliate, (ii) the Company's waiver of material rights under the affiliated loan documents, (iii) the advancement of a material amount of additional funds to an affiliate borrower and (iv) forbearing to exercise any of the Company's rights or collect any material costs due to us from an affiliate borrower.

MANAGEMENT AGREEMENTS

CharterMac has, and will continue to have certain relationships with RCLP and its affiliates. While there have been no direct financial transactions between CharterMac and its Trustees and officers or the members and officers of the sole general partner of RCLP, RCLP (and CM Corp.) has subcontracted certain obligations under the management agreements to RCLP. See "Management Agreements" under Item 10 for a further description of the management agreements.

AFFILIATED BORROWERS

The obligors of Revenue bonds with an aggregate approximate original par amount of approximately $612 million are partnerships in which affiliates of the Manager own a 1% general partner interest. In addition, the original owners of underlying properties and obligors of approximately $12 million of Revenue Bonds have been replaced with affiliates of the Manager who have not made equity investments.

As of December 31, 2001, the owners of the Underlying Properties and obligors of the Highpointe and Loveridge Revenue bonds were affiliates of the Manager who have not made equity investments. During June 2001, the affiliates of the Manager sold 49% of Loveridge. The remaining 51% was sold in January 2002, to the same buyer who purchased the initial 49%. A buyer is being sought for the remaining Underlying Property -- Highpointe. Highpointe is generally paying as interest an amount equal to the net cash flow generated by operations, which is less than the stated rate of the Revenue Bond. The Company has no present intention of declaring default on this Revenue Bond. The aggregate carrying value of Highpointe at December 31, 2001 was approximately $5,728,000, and the income earned from Highpointe for the years ended December 31, 2001 was approximately $315,000.

ADVANCES TO AFFILIATED BORROWERS

From time to time the Company has advanced funds to owners of certain properties securing the Company's investments in order to preserve the value of the underlying asset. Such advances have been used to complete construction, fund operating deficits and

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pay past due real estate taxes and deferred maintenance or other capital items. These advances typically are evidenced by taxable promissory notes, some of which are secured by second mortgages. As of December 31, 2001, the Company advanced funds to obligors which are affiliates of the Manager at an aggregate face amount of approximately $5 million, with rates ranging from 8% to 10%.

INDEMNIFICATION RIGHTS WITH RESPECT TO CREDIT ENHANCEMENT TRANSACTIONS

On December 31, 2001, the Company completed a credit enhancement transaction with Merrill Lynch Capital Services, Inc. ("MLCS") pursuant to which CM Corp. initially will receive an annual fee of approximately $1.2 million in return for assuming MLCS's $46.9 million first loss position on a $351.9 million pool of tax-exempt weekly variable rate multifamily mortgage loans originated by CreditRe Mortgage Capital, LLC, an affiliate of Credit Suisse First Boston and the Related Companies, L.P. The Related Companies, L.P. has provided CM Corp. with an indemnity covering 50% of any losses that are incurred by CM Corp. as part of this transaction. As the loans mature or prepay, the first loss exposure and the fees paid to CM Corp. will both be reduced. The latest maturity date on any loan in the portfolio occurs in 2009. Fannie Mae and Freddie Mac have assumed the remainder of the real estate exposure after the $46.9 million first loss position. In connection with the transaction, CharterMac has guaranteed the obligations of CM Corp., and as a security therefore, has posted collateral, initially in an amount equal to 50% of the first loss amount, which may be reduced to 40% if certain post closing conditions are met. The Related Companies, L.P. is an affiliate of Related Capital.

CM Corp. performed due diligence on each property in the pool, including an examination of loan-to-value and debt service coverage both on a current and "stressed" basis. CM Corp. analyzed the portfolio on a "stressed" basis by increasing capitalization rates and assuming an increase in the low floater bond rate. As of December 31, 2001, the credit enhanced pool of properties are performing according to their contractual obligations and the Company does not anticipate any losses to be incurred on its guaranty.

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PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

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| (a) 1. | Financial Statements | |
| | Independent Auditors' Report | 42 |
| | Consolidated Balance Sheets as of December 31, 2000 and 1999 | 43 |
| | Consolidated Statements of Income for the years ended December 31, 2001, 2000 and 1999 | 44 |
| | Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2001, 2000 and 1999 | 45 |
| | Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999 | 47 |
| | Notes to Consolidated Financial Statements | 49 |
| (a) 2. | Financial Statement Schedules | |
| | Schedule I - Condensed Financial Information of Registrant | 98 |


All other schedules have been omitted because they are not applicable or the required information is included in the financial statements and the notes thereto.

(a) 3. Exhibits

| | |
|---|---|
| 3.1(a) | Certificate of Business Trust dated as of August 12, 1996 (incorporated by reference to the Company's Registration Statement on Form 10, File No. 001-13237) |
| 3.1(b) | Certificate of Amendment of Certificate of Business Trust dated as of April 30, 1997 (incorporated by reference to the Company's Registration Statement on Form 10, File No. 001-13237) |
| 3.1(c) | Trust Agreement dated as of August 12, 1996 (incorporated by reference to the Company's Registration Statement on Form 10, File No. 001-13237) |
| 3.1(d) | Amendment No. 1 to Trust Agreement dated as of April 30, 1997 (incorporated by reference to the Company's Registration Statement on Form 10, File No. 001-13237) |
| 3.1(e) | Amended and Restated Trust Agreement dated as of September 30, 1997 (incorporated by reference to the Company's Current Report on Form 8-K, filed with the Commission on March 19, 1998) |
| 3.2 | Amended and Restated Bylaws (filed herewith) |
| 4.1 | Specimen Copy of Share Certificate for shares of beneficial interest of the Company (incorporated by reference to the Company's |

| | | Sequential Page |
|---|---|---|
| | Amendment No. 1 on Form 10/A to the Company's Registration Statement on Form 10, File No. 001-13237) | |
| 10(a) | Management Agreement dated as of October 1, 1997, between the Company and Related Charter L.P. (incorporated by reference to the Company's Current Report on Form 8-K, filed with the Commission on March 19, 1998) | |
| 10(b) | Agreement and Plan of Merger dated as of October 1, 1997, by and among the Company, Summit Tax Exempt Bond Fund, L.P., Summit Tax Exempt L.P. II and Summit Tax Exempt L.P. III (incorporated by reference to the Company's Current Report on Form 8-K, filed with the Commission on March 19, 1998) | |
| 10(c) | Incentive Share Option Plan (incorporated by reference to the Company's Current Report on Form 8-K, filed with the Commission on March 19, 1998) | |
| 10(d) | Contribution Agreement between CharterMac and CharterMac Origination Trust ("Origination Trust") dated as of May 21, 1998 (incorporated by reference to Exhibit 10 (aaaw) in the Company's June 30, 1998 Quarterly Report on Form 10-Q) | |
| 10(e) | Contribution Agreement between Origination Trust and CharterMac Owner Trust ("Owner Trust") dated as of May 21, 1998 (incorporated by reference to Exhibit 10 (aaax) in the Company's June 30, 1998 Quarterly Report on Form 10-Q) | |
| 10(f) | Insurance Agreement among MBIA, CharterMac, Origination Trust, Owner Trust, CharterMac Floater Certificate Trust ("Floater Certificate Trust"), First Tennessee Bank National Association ("First Tennessee"), Related Charter LP, and Bayerische Landesbank Girozentrale, New York Branch ("Bayerische") dated as of May 21, 1998 (incorporated by reference to Exhibit 10 (aaay) in the Company's June 30, 1998 Quarterly Report on Form 10-Q) | |
| 10(g) | Liquidity Agreement among Owner Trust, Floater Certificate Trust, First Tennessee, MBIA and Bayerische dated as of May 21, 1998 (incorporated by reference to Exhibit 10 (aaaz) in the Company's June 30, 1998 Quarterly Report on Form 10-Q) | |
| 10(h) | Liquidity Pledge and Security Agreement among Origination Trust, Owner Trust, Floater Certificate Trust, MBIA, First Tennessee and Bayerische dated as of May 21, 1998 (incorporated by reference to Exhibit 10 (aaaaa) in the Company's June 30, 1998 Quarterly Report on Form 10-Q) | |
| 10(i) | Fee Agreement among Wilmington Trust Company, Floater Certificate Trust and CharterMac dated as of May 21, 1998 (incorporated by reference to Exhibit 10 (aaaab) in the Company's June 30, 1998 Quarterly Report on Form 10-Q) | |

| | | Sequential Page |
|---|---|---|
| 10(j) | Certificate Placement Agreement (incorporated by reference to Exhibit 10 (aaaac) in the Company's June 30, 1998 Quarterly Report on Form 10-Q) | |
| 10(k) | Remarketing Agreement (incorporated by reference to Exhibit 10 (aaaad) in the Company's June 30, 1998 Quarterly Report on Form 10-Q) | |
| 10(l) | CharterMac Equity Issuer Trust, 6 5/8% Series A Cumulative Preferred Shares, Purchase Agreement, dated June 14, 1999 (incorporated by reference to Exhibit 10 (aaaaz) in the Company's June 30, 1999 Quarterly Report on Form 10-Q) | |
| 10(m) | Agreement and Plan of Merger by and among Charter Municipal Mortgage Acceptance Company, CM Holding Trust and American Tax Exempt Bond Trust dated as of November 2, 1999 (incorporated by reference to Exhibit 99.2 in the Company's Current Report on Form 8-K dated November 2, 1999) | |
| 12 | Ratio of earnings to fixed charges and preferred share dividends of subsidiary | 103 |
| 21 | Subsidiaries of the Company (filed herewith) | 104 |
| 99.1 | Amended and Restated Trust Agreement by and among J. Michael Fried, Stuart J. Boesky, Alan P. Hirmes, Robert W. Grier and Andrew T. Panaccione as Managing Trustees, Charter Municipal Mortgage Acceptance Company and Wilmington Trust Company, as Registered Trustee dated June 22, 1999 relating to CharterMac Equity Issuer Trust (incorporated by reference to Exhibit 99 in the Company's June 30, 1999 Quarterly Report on Form 10-Q) | |
| 99.2 | Agreement dated as of April 15, 1999 between Charter Municipal Mortgage Acceptance Company and Melvyn I. Weiss, Esq. and Lawrence A. Sucharow, Esq., as Class Counsel co-chairmen (incorporated by reference to the Company's current report on Form 8-K filed with the Commission on April 29, 1999) | |



Sequential
Page

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(b) Reports on Form 8-K

Current report on Form 8-K relating to the approval by a majority of the shareholders of American Tax Exempt Bond Trust to the terms of the Merger Agreement with CM Holding Trust, the Company's subsidiary, as the surviving trust was dated October 13, 2000 and was filed on October 13, 2000.

Current report on Form 8-K relating to the merger of American Tax Exempt Bond Trust into CM Holding Trust was dated November 29, 2000 and was filed on November 29, 2000.

Current report on Form 8-K filing the underwriting agreement, dated May 10, 2001, entered into with UBS Warburg. LLC, regarding the Company's offering of 7,900,000 Common Shares of beneficial interest, was dated May 10, 2001 and filed October 22, 2001

Current report on Form 8-K relating to the Company's announcement of a definitive agreement to acquire PW Funding, Inc., was dated and filed October 26, 2001.

Current report on Form 8-K relating to Regulation FD disclosure regarding supplemental information for the quarter ended September 30, 2001, posted on the Company's web page, was dated December 7, 2001 and filed December 13, 2001.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHARTER MUNICIPAL MORTGAGE ACCEPTANCE COMPANY
(COMPANY)

Date: March 29, 2002 By:

---------------------------------

Stuart J. Boesky
Managing Trustee, President
and Chief Executive Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons on behalf of the Company and in the capacities and on the dates indicated:

| SIGNATURE | TITLE | DATE |
|---|---|---|

| | | |
|---|---|---|
| --------------------- | ---------------------------- | --------------- |
| --------------------<br>Stuart J. Boesky | Managing Trustee, President<br>and Chief Executive Officer | March 29, 2002 |
| --------------------<br>Stephen M. Ross | Managing Trustee and<br>Chairman of the Board | March 29, 2002 |
| --------------------<br>Michael J. Brenner | Managing Trustee | March 29, 2002 |
| --------------------<br>Alan P. Hirmes | Managing Trustee, Executive<br>Vice President,<br>and Secretary | March 29, 2002 |
| --------------------<br>Michael I. Wirth | Senior Vice President and Chief Financial<br>Officer | March 29, 2002 |
| --------------------<br>Peter T. Allen | Managing Trustee | March 29, 2002 |
| --------------------<br>Arthur P. Fisch | Managing Trustee | March 29, 2002 |
| --------------------<br>Thomas W. White | Managing Trustee | March 29, 2002 |
| --------------------<br>Charles L. Edson | Managing Trustee | March 29, 2002 |

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SIGNATURES
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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHARTER MUNICIPAL MORTGAGE ACCEPTANCE COMPANY
(COMPANY)

Date: March 29, 2002 By: /s/ Stuart J. Boesky
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Stuart J. Boesky
Managing Trustee, President
and Chief Executive Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons on behalf of the Company and in the capacities and on the dates indicated:

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /s/ Stuart J. Boesky<br>Stuart J. Boesky | Managing Trustee, President and Chief Executive Officer | March 29, 2002 |
| /s/ Stephen M. Ross<br>Stephen M. Ross | Managing Trustee and Chairman of the Board | March 29, 2002 |
| /s/ Michael J. Brenner<br>Michael J. Brenner | Managing Trustee | March 29, 2002 |
| /s/ Alan P. Hirmes<br>Alan P. Hirmes | Managing Trustee, Executive Vice President, and Secretary | March 29, 2002 |
| /s/ Michael I. Wirth<br>Michael I. Wirth | Senior Vice President and Chief Financial Officer | March 29, 2002 |
| /s/ Peter T. Allen<br>Peter T. Allen | Managing Trustee | March 29, 2002 |
| /s/ Arthur P. Fisch<br>Arthur P. Fisch | Managing Trustee | March 29, 2002 |
| /s/ Thomas M. White<br>Thomas M. White | Managing Trustee | March 29, 2002 |

/s/ Charles L. Edson
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Charles L. Edson            Managing Trustee            March 29, 2002

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CHARTER MUNICIPAL MORTGAGE ACCEPTANCE COMPANY
SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Summarized condensed financial information of registrant (not including its consolidated subsidiaries)

CONDENSED BALANCE SHEETS

| | DECEMBER 31, | |
|---|---|---|
| | 2001 | 2000 |
| **ASSETS** | | |
| Revenue Bonds-at fair value | $ 10,518,000 | $ 12,104,055 |
| Investment in ARCap | 18,949,530 | 0 |
| Cash and cash equivalents | 17,376,178 | 9,952,594 |
| Interest receivable, net | 65,130 | 165,759 |
| Promissory notes receivable | 3,057,000 | 9,909,933 |
| Investment in subsidiaries | 485,902,564 | 341,376,758 |
| Deferred costs, net | 23,149,663 | 17,845,534 |
| Goodwill, net | 1,984,217 | 2,329,422 |
| Other assets | 597,793 | 409,595 |
| Total assets | $561,600,075 | $372,429,177 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Liabilities: | | |
| Accounts payable, accrued expenses and other liabilities | $ 1,373,015 | $ 827,280 |
| Due to Manager and affiliates | 1,467,232 | 1,025,210 |
| Due to subsidiaries | 11,076,093 | 6,762,543 |
| Distributions payable to common shareholders | 10,447,756 | 6,242,046 |
| Distributions payable to Convertible CRA Shareholders | 564,709 | 558,250 |
| Total liabilities | 24,928,805 | 15,415,329 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Beneficial owners' equity - Convertible CRA share- holders (1,882,364 and 2,590,000 shares issued and outstanding in 2001 and 2000, respectively) | 25,521,546 | 34,397,168 |
| Beneficial owner's equity-manager | 1,068,973 | 715,342 |
| Beneficial owners' equity-other common shareholders | | |

| | | |
|---|---|---|
| (50,000,000 shares authorized; 34,834,308 issued and 34,825,908 outstanding and 22,706,739 issued and 22,698,329 outstanding in 2001 and 2000, respectively) | 511,456,297 | 344,870,761 |
| Treasury shares of beneficial interest (8,400 shares) | (103,359) | (103,359 |
| Accumulated other comprehensive loss | (1,272,186) | (1,201,591 |
| Total shareholders' equity | 536,671,271 | 378,678,321 |
| Total liabilities and shareholders' equity | $561,600,075 | $394,093,650 |

See accompanying notes to financial statements



CHARTER MUNICIPAL MORTGAGE ACCEPTANCE COMPANY
SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF OPERATIONS

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| Revenues: | | | |
| Interest income: | | | |
| Revenue Bonds | $ 1,439 | $ 2,972,386 | $ 6,050,931 |
| Temporary investments | 376,187 | 451,768 | 662,728 |
| Promissory notes | 819,752 | 1,001,681 | 702,991 |
| Other income | 443,921 | 0 | 0 |
| Income from subsidiaries | 40,919,666 | 28,307,718 | 18,177,128 |
| Equity in earnings of ARCap | 456,005 | 0 | 0 |
| Total revenues | 43,016,970 | 32,733,553 | 25,593,778 |
| Expenses: | | | |
| Interest expense | 412,369 | 21,887 | 417,263 |
| Bond servicing | 42,494 | 33,694 | 135,767 |
| General and administrative | 2,629,996 | 2,062,719 | 1,406,501 |
| Amortization | 726,615 | 478,951 | 345,282 |
| Total expenses | 3,811,474 | 2,597,251 | 2,304,813 |
| Income before loss on repayment of revenue bonds | 39,205,496 | 30,136,302 | 23,288,965 |
| Loss on repayment of Revenue Bonds | 220,322 | 45,246 | 107,147 |
| Net income | $38,985,174 | $30,091,056 | $23,181,818 |

Allocation of net income:

| | | | |
|---|---|---|---|
| Special distribution to Manager | $ 3,620,936 | $ 2,743,465 | $ 2,018,822 |
| Manager | $ 353,642 | $ 273,476 | $ 211,630 |
| Common shareholders | $32,555,334 | $25,500,984 | $20,951,366 |
| Convertible CRA Shareholders | 2,455,261 | 1,573,131 | 0 |
| Total for Shareholders | $35,083,278 | $27,074,115 | $20,951,366 |

See accompanying notes to financial statements

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CHARTER MUNICIPAL MORTGAGE ACCEPTANCE COMPANY
SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF CASH FLOWS

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| Cash flows from operating activities: | | | |
| Net income | $ 39,058,591 | $ 30,091,056 | $ 23,181 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Loss on repayments of Revenue Bonds | 220,322 | 45,245 | 107 |
| Amortization | 726,615 | 478,951 | 345 |
| Amortization of goodwill | 181,579 | 345,204 | 297 |
| Amortization of bond selection costs | 2,510,846 | 935,380 | 450 |
| Income from investment in subsidiaries | (40,982,583) | (28,307,718) | (18,177 |
| Distributions from subsidiaries | 0 | 0 | 16,467 |
| Equity in earnings of ARCap in excess of distributions received | (456,005) | 0 | |
| Changes in operating assets and liabilities: | | | |
| Interest receivable | 100,629 | 33,789 | 105 |
| Other assets | (181,025) | 20,323 | |
| Accounts payable, accrued expenses and other liabilities | 709,361 | 403,740 | (5,918 |
| Due from subsidiaries | 4,313,550 | 116,180 | (208 |
| Due to subsidiaries | 0 | 7,575,386 | (1,328 |
| Due to Manager and affiliates | 404,205 | 114,771 | (343 |
| Net cash provided by operating activities | 6,600,585 | 11,852,307 | 14,978 |
| Cash flows from investing activities: | | | |
| Proceeds from repayments of Revenue Bonds | 0 | 49,901 | 5,100 |
| Periodic principal payments to Revenue Bonds | 84,876 | 0 | |
| Purchase of Revenue Bonds | (7,075,000) | (2,405,000) | (44,770 |
| Proceeds from secured borrowings | 0 | 0 | 52,807 |
| Investment in subsidiaries | (82,762,716) | (23,824,693) | 13,507 |
| Increase in deferred bond selection costs | (7,899,327) | (6,499,035) | (3,906 |
| Net sale (purchase) of temporary investments | (18,493,525) | 19,790,000 | (19,790 |
| Increase in other assets | 0 | (9,000) | (251 |
| Increase in deferred costs | 0 | (545,632) | (100 |

| | | | |
|---|---|---|---|
| Loans made to properties | (11,971,000) | (200,000) | (2,847 |
| Principal payments received from loans made to properties | 99,232 | 438,127 | 328 |
| Net cash provided by (used in) investing activities | (128,017,460) | (13,205,332) | 76 |

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CHARTER MUNICIPAL MORTGAGE ACCEPTANCE COMPANY
SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF CASH FLOWS

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| Cash flows from financing activities: | | | |
| Repayments of note payable | $ 6,226,500 | $ 0 | $ |
| Increase in cash and cash equivalents-restricted | 0 | 971,758 | (971, |
| Distributions paid to the Manager and shareholders of the Company | (33,455,685) | (24,343,782) | (21,815, |
| Distributions paid to Convertible CRA Shareholders | (2,334,036) | (810,370) | |
| Increase in deferred costs relating to the Private Label Tender Option Program | (873,197) | (2,300,639) | (559, |
| Increase in other deferred costs | 0 | 72,039 | (72, |
| Issuance of Common Shares | 168,263,854 | 0 | |
| Issuance of Convertible CRA Shares | 0 | 34,192,657 | |
| Retirement of Convertible CRA shares | (8,986,977) | 0 | |
| Net cash provided by (used in) financing activities | 128,840,459 | 7,781,663 | (23,418, |
| Net increase (decrease) in cash and cash equivalents | 7,423,584 | 6,428,638 | (8,363, |
| Cash and cash equivalents at the beginning of the year | 9,952,594 | 3,523,956 | 11,887, |
| Cash and cash equivalents at the end of the year | $ 17,376,178 | $ 9,952,594 | $ 3,523, |
| Supplemental information: | | | |
| Interest paid | $ 412,368 | $ 21,887 | $ 417, |
| Supplemental disclosure of noncash activities: | | | |
| Contribution of Revenue Bonds to subsidiaries | $ 8,345,223 | 0 | 13,507, |
| Contribution of notes receivables to subsidiaries | $ 12,498,201 | 0 | |

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See accompanying notes to financial statements



CHARTER MUNICIPAL MORTGAGE ACCEPTANCE COMPANY
SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Introduction and Basis of Presentation

Basis of Financial Information

The accompanying condensed financial statements (the "Parent Company Financial Statements") are for Charter Municipal Mortgage Acceptance Company (not including its consolidated subsidiaries).

The Parent Company Financial Statements, including the notes thereto, should be read in conjunction with the consolidated financial statements of the Company and the notes thereto which are included in this Form 10-K.

2. Transactions with Subsidiaries

The Company received distributions from its consolidated subsidiaries totaling approximately $16,467,000 during the year ended December 31, 1999.

During the years ended December 31, 1999 and 1998, the Company contributed Revenue Bonds with aggregate carrying value of approximately $115,567,000 and $366,686,000, respectively, to its subsidiaries.

During 2000, in connection with the ATEBT merger, the Company issued Common Shares valued, at the date of issuance, at $29,154,649 and contributed the net assets from the merger to one of its subsidiaries.

During the year ended December 31,2001, the Company contributed Revenue Bonds with an aggregate carrying value of approximately $8,217,000 to its subsidiaries. Additionally, the Company contributed following items to its subsidiaries:

| CONTRIBUTED ITEM | AGGRE |
|---|---|
| Promissory Notes | |
| Bridge and Pre-Development Loans | |