MUNICIPAL MORTGAGE & EQUITY LLC
Form 10-Q
November 13, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended: September 30, 2002

Commission File Number: 001-11981

MUNICIPAL MORTGAGE & EQUITY, LLC
(Exact Name of Registrant as Specified in Its Charter)

Delaware	52-1449733
(State or other jurisdiction incorporation or organization)	(I.R.S. Employer Identification No.)

218 North Charles Street,
Suite 500,
Baltimore, Maryland 21201
(Address of Principal Executive Offices) (Zip Code)

(443) 263-2900
(Registrant's Telephone Number, including Area Code)

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 [ ]

The Registrant had 25,373,098 common shares outstanding as of November 9, 2002.

MUNICIPAL MORTGAGE & EQUITY, LLC
INDEX TO FORM 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MUNICIPAL MORTGAGE & EQUITY, LLC
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	(unaudit September
ASSETS	
Cash and cash equivalents	$
Interest receivable	
Investment in tax-exempt bonds, net (Note 2)	
Investment in other bond-related investments (Notes 3 and 4)	
Investment in derivative financial instruments (Note 5)	
Loans receivable, net (Note 6)	
Restricted assets	
Investment in partnerships (Note 7)	
Other assets	
Mortgage servicing rights, net	
Property and equipment	
Goodwill	
Total assets	$ 1
LIABILITIES AND SHAREHOLDERS' EQUITY	
Notes payable (Note 8)	$
Accounts payable, accrued expenses and other liabilities	
Investment in other bond-related investments (Notes 3 and 4)	
Investment in derivative financial instruments (Note 5)	
Distributions payable	
Short-term debt (Note 8)	
Long-term debt (Note 8)	

Total liabilities	
Commitments and contingencies	
Preferred shareholders' equity in a subsidiary company (Note 9)	
Shareholders' equity:	
Preferred shares:	
Series I (0 and 10,995 shares issued and outstanding, respectively)	
Series II (0 and 3,176 shares issued and outstanding, respectively)	
Preferred capital distribution shares:	
Series I (0 and 5,742 shares issued and outstanding, respectively)	
Series II (0 and 1,391 shares issued and outstanding, respectively)	
Term growth shares (0 and 2,000 shares issued and outstanding, respectively)	
Common shares, par value $0 (28,948,483 shares authorized, 25,377,286 shares issued, and 27,713 deferred shares at September 30, 2002 and 24,594,597 authorized, 21,857,312 shares issued, and 22,254 deferred shares at December 31, 2001	
Less common shares held in treasury at cost (55,444 and 59,330 shares, respectively) .	
Less unearned compensation (deferred shares)	
Accumulated other comprehensive income	
Total shareholders' equity	
Total liabilities and shareholders' equity	$ 1

The accompanying notes are an integral part of these financial statements.

MUNICIPAL MORTGAGE & EQUITY, LLC
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)
(unaudited)

	For the three months ended September 30,	
	2002	2001
INCOME:		
Interest on tax-exempt bonds and other bond-related investments	$ 15,409	$ 12,15
Interest on loans	8,676	8,46
Loan origination and brokerage fees	2,014	1,20
Syndication fees	767	1,72
Loan servicing fees	1,544	1,65
Interest on short-term investments	260	48
Other income	381	1,84
Net gain on sales	657	4,76

Total income	29,708	32,28
EXPENSES:		
Salaries and benefits	5,446	5,52
Professional fees	467	1,11
Operating expenses	2,173	1,88
Amortization of intangible assets	334	69
Interest expense	8,771	7,87
Other-than-temporary impairments related to investments in tax-exempt bonds and other bond-related investments	-	
Total expenses	17,191	17,08
Net holding losses on trading securities	(9,921)	(4,67
Net income before income taxes, income allocated to preferred shareholders in a subsidiary company, and cumulative effect of accounting change	2,596	10,53
Income tax expense (benefit)	(635)	80
Net income before income allocated to preferred shareholders in a subsidiary company and cumulative effect of accounting change	3,231	9,72
Income allocable to preferred shareholders in a subsidiary company	2,994	2,60
Net income before cumulative effect of accounting change	237	7,11
Cumulative effect on prior years of change in accounting for derivative financial instruments	-	
Net income	$ 237	$ 7,11
Net income allocated to:		
Preferred shares:		
Series I	$ -	$ 25
Series II	-	
Preferred capital distribution shares:		
Series I	$ -	$ 13
Series II	-	
Term growth shares	$ -	$ 21
Common shares	$ 237	$ 6,51

The accompanying notes are an integral part of these financial statements.

MUNICIPAL MORTGAGE & EQUITY, LLC
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)
(unaudited)

	For the three months ended September 30, 2002	2001
Basic net income per share:		
Preferred shares:		
Series I	$ -	$ 23.1
Series II	-	0.0
Preferred capital distribution shares:		
Series I	$ -	$ 22.9
Series II	-	2.1
Common shares:		
Income before cumulative effect of accounting change	$ 0.01	$ 0.3
Cumulative effect on prior years of change in accounting for derivative financial instruments	-	
Basic net income per common share	$ 0.01	$ 0.3
Weighted average common shares outstanding	25,329,103	21,590,58
Diluted net income per share:		
Common shares:		
Income before cumulative effect of accounting change	$ 0.01	$ 0.2
Cumulative effect on prior years of change in accounting for derivative financial instruments	-	
Diluted net income per common share	$ 0.01	$ 0.2
Weighted average common shares outstanding	25,916,151	22,397,98

The accompanying notes are an integral part of these financial statements.

MUNICIPAL MORTGAGE & EQUITY, LLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	For the three months ended September 30, 2002	2001
Net income	$ 237	$ 7,119
Other comprehensive income (loss):		

Unrealized gains (losses) on investments:		
Unrealized holding gains arising during the period	8,741	1,046
Reclassification adjustment for (gains) losses included in net income	(221)	(2,245)
Other comprehensive income (loss)	8,520	(1,199)
Comprehensive income	$ 8,757	$ 5,920

The accompanying notes are an integral part of these financial statements.

MUNICIPAL MORTGAGE & EQUITY, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES:
Net income ....
Adjustments to reconcile net income to net cash provided by operating activities:
Income allocated to preferred shareholders in a subsidiary company ....
Cumulative effect of accounting change ....
Net holding losses on trading securities ....
Other-than-temporary impairments related to investments in tax-exempt bonds ....
Decrease in valuation allowance on parity working capital loans ....
Net gain on sales ....
Loss on disposal of fixed assets ....
Loss from investment in partnerships ....
Net amortization of premiums, discounts and fees on investments ....
Depreciation and amortization ....
Tax benefit from deferred share benefit ....
Deferred share compensation expense ....
Common and deferred shares issued under the Non-Employee Directors' Share Plans ....
(Increase) decrease in interest receivable ....
Increase in other assets and goodwill ....
Increase (decrease) in accounts payable, accrued expenses and other liabilities ....

Net cash provided by operating activities ....

CASH FLOWS FROM INVESTING ACTIVITIES:
Purchases of tax-exempt bonds and other bond-related investments ....
Loan originations ....
Acquistion of an unconsolidated subsidiary ....
Principal payments received ....
Purchases of property and equipment ....

Investment in partnerships	
Return of capital invested in partnerships	
Net proceeds from sales of investments	
Net (investment) reduction in restricted assets	
Net cash used in investing activities	
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings from credit facilities	
Repayment of credit facilities	
Proceeds from short-term debt	
Repayment of short-term debt	
Proceeds from long-term debt	
Repayment of long-term debt	
Issuance of common shares	
Redemption of preferred shares	
Proceeds from stock options exercised	
Distributions on common shares	
Distributions to preferred shareholders in a subsidiary company	
Net cash provided by financing activities	
Net (decrease) increase in cash and cash equivalents	
Cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid	
Income taxes paid	
DISCLOSURE OF NON-CASH ACTIVITIES:	
Issuance of common stock in connection with the acquisition of an unconsolidated subsidiary	

The accompanying notes are an integral part of these financial statements.

MUNICIPAL MORTGAGE & EQUITY, LLC
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in thousands, except share data)
(unaudited)

	Preferred Shares		Preferred Capital Distribution Shares		Term Growth Shares	Common Shares	Treasu Share
	Series I	Series II	Series I	Series II			
Balance, January 1, 2002	$ 6,914	$ 2,326	$ 2,552	$ 411	$ 229	$ 406,733	$ (91

Net income	-	-	-	-	153	18,050	
Unrealized gains on investments, net of reclassifications	-	-	-	-	-	-	
Distributions	(115)	(15)	(49)	(1)	(382)	(31,518)	
Redemption of preferred shares	(6,799)	(2,311)	(2,503)	(410)	-	(7,275)	
Options exercised	-	-	-	-	-	2,932	
Issuance of common shares	-	-	-	-	-	77,946	
Reissuance of treasury shares	-	-	-	-	-	(55)	5
Deferred shares issued under the Non-Employee Directors' Share Plans	-	-	-	-	-	137	
Deferred share grants	-	-	-	-	-	830	
Amortization of deferred compensation	-	-	-	-	-	-	
Tax benefit from exercise of options and vesting of deferred shares	-	-	-	-	-	366	
Balance September 30, 2002	$ -	$ -	$ -	$ -	$ -	$ 468,146	$ (85

	Preferred Shares		Preferred Capital Distribution Shares		Term		
SHARE ACTIVITY:	Series I	Series II	Series I	Series II	Growth Shares	Common Shares	Treasur Shares
Balance January 1, 2002	10,995	3,176	5,742	1,391	2,000	21,820,236	59,33
Redemption of preferred shares	(10,995)	(3,176)	(5,742)	(1,391)	(2,000)	-	
Options exercised	-	-	-	-	-	159,531	
Issuance of common shares	-	-	-	-	-	3,300,980	
Reissuance of treasury shares	-	-	-	-	-	3,886	(3,88
Issuance of common shares under employee share incentive plans	-	-	-	-	-	59,462	
Deferred shares issued under the Non-Employee Directors' Share Plans	-	-	-	-	-	5,460	
Balance, September 30, 2002	-	-	-	-	-	25,349,555	55,44

The accompanying notes are an integral part of these financial statements.

MUNICIPAL MORTGAGE & EQUITY, LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 - BASIS OF PRESENTATION

Municipal Mortgage & Equity, LLC ("MuniMae") and its subsidiaries (together with MuniMae, the "Company") are principally engaged in originating, investing in and servicing investments related to multifamily housing and other real estate financings. The Company's operations are structured into two business segments, an investing segment and an operating segment. The Company's investing segment consists primarily of investments in tax-exempt bonds, or interests in bonds, issued by state and local governments or their agencies or authorities to finance multifamily housing developments. Interest income derived from the majority of these investments is exempt income for federal income tax purposes. Multifamily housing developments, as well as the rents paid by the tenants, secure these investments.

The Company's operating segment specializes in originating, investing in and servicing investments in the affordable housing industry, both for its own account and on behalf of third parties. These investments generate taxable, not tax-exempt, income.

The Company also invests in (1) other housing-related debt and equity investments, including tax-exempt bonds, or interests in bonds, secured by student housing or assisted living developments, and equity investments in real estate operating partnerships and (2) tax-exempt community development bonds, typically secured by special taxes imposed on single-family or other community development districts or by assessments imposed on the residents or other lot owners of those developments. These investments may be held in the investing segment or the operating segment, depending on the tax and other characteristics of the individual investment.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and in the opinion of management contain all adjustments (consisting of only normal recurring accruals) necessary to present a fair statement of the results for the periods presented. These results have been determined on the basis of accounting principles and policies discussed in Note 1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (the "Company's 2001 Form 10-K"). Certain information and footnote disclosures normally included in financial statements presented in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted. The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2001 Form 10-K. Certain 2001 amounts have been reclassified to conform to the 2002 presentation.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board approved Statements of Financial Accounting Standards No. 141 "Business Combinations" ("FAS 141") and No. 142 "Goodwill and Other Intangible Assets," ("FAS 142") which were effective July 1, 2001 and January 1, 2002, respectively, for the Company. FAS 141 requires that the purchase method of accounting be used for all business combinations consummated after June 30, 2001. FAS 141 did not have an impact on the Company for the year ended December 31, 2001. The Company adopted FAS 142 on January 1, 2002. Upon adoption of FAS 142, amortization of goodwill and indefinitely lived intangible assets, including goodwill and indefinitely lived intangible assets recorded in past business combinations, was discontinued. For the year ended December 31, 2001, the Company recorded amortization expense of $1.6 million. Application of the nonamortization provision is expected to result in additional net income of approximately $1.6 million for the year ended December 31, 2002. All goodwill was tested for impairment in accordance with the provisions of the FAS 142 and the Company found no instances of impairment. The Company determined that none of the intangible assets recorded by the Company were indefinitely lived, therefore, amortization of these intangible assets was not ceased.

The Company's goodwill at September 30, 2002 and December 31, 2001 represents the excess of cost over market value of the net assets acquired from the acquisition of businesses in the Company's operating segment. For the three months and nine months ended September 30, 2002, the Company's carrying value of goodwill increased by $1.2 million as a result of an acquisition of an unconsolidated subsidiary. The following table shows the effect of goodwill amortization on net income and net income per share for the periods presented:

	Three Months Ended		
	September 30, 2002	September 30, 2001	September
Reported net income to common shares	$ 237	$ 6,514	
Add back: goodwill amortization	-	357	
Adjusted net income to common shares	$ 237	$ 6,871	
Basic net income per share:			
Reported net income per share	$ 0.01	$ 0.30	
Goodwill amortization	-	0.02	
Adjusted net income per share	$ 0.01	$ 0.32	
Diluted net income per share:			
Reported net income per share	$ 0.01	$ 0.29	
Goodwill amortization	-	0.02	
Adjusted net income per share	$ 0.01	$ 0.31	

NOTE 2 - INVESTMENT IN TAX-EXEMPT BONDS

The Company holds a portfolio of tax-exempt bonds and certificates of participation in grantor trusts holding tax-exempt bonds ("COPs"). The tax-exempt bonds are issued by state and local government authorities or, in some cases, community development districts chartered by such authorities to finance multifamily housing developments or other real estate financings. The bonds are typically secured by non-recourse mortgage loans on the underlying properties. The COPs represent a pro rata interest in a trust that holds a tax-exempt bond. The Company's rights and the specific terms of the bonds and COPs are defined by the various loan and trust documents, which were negotiated at the time of settlement. See further discussion of the general mortgage loan terms in Note 4 to the Company's 2001 Form 10-K.

During the third quarter of 2002, the Company did not fund any tax-exempt bonds.

In order to facilitate the securitization (see Note 3) of certain assets at higher leverage ratios than otherwise available to the Company without the posting of additional collateral, the Company has pledged additional bonds as collateral for senior interests in certain securitization trusts. At September

30, 2002 and December 31, 2001, the total carrying amount of the tax-exempt bonds pledged as collateral was $394.8 million and $358.4 million, respectively.

The table on pages 11 and 12 provides certain information with respect to the bonds held by the Company at September 30, 2002 and December 31, 2001.

Investment in Tax-Exempt Bonds		Year Acquired	Base Interest Rate (12)	Maturity Date	Sep Face Amount (000s)	 Amor Co (00
Participating Bonds(1):						
Arlington	(9)	2000	8.100	Jan. 2031	$12,625	$12
Cobblestone	(9)	1999	7.125	Aug. 2039	6,800	6
Cool Springs	(4),(10)	2000	7.750	Aug. 2030	14,472	14
Crossings	(4),(19)	1997	8.000	Jul. 2007	6,773	6
Jefferson Commons	(15)	2000	8.200	Jan. 2031	19,790	19
Palisades Park	(9)	2001	7.125	Aug. 2028	8,420	8
Timber Ridge	(4),(10)	2000	7.950	Jan. 2036	5,215	5
Villas at LaRiveria	(9)	1999	7.125	Jun. 2034	8,833	8
Subtotal participating bonds					82,928	82
Non-Participating bonds:						
Alban Place	(2),(4),(5)	1986	8.150	Oct. 2008	10,065	10
Baytown	(4),(10)	2000	7.750	Jun. 2030	4,982	4
Bedford Park	(4),(10)	2000	8.000	Nov. 2032	9,325	9
Buchanan Bay	(9)	2001	5.830	Dec. 2031	10,725	9
Canterberry Crossing A	(9)	2001	6.700	Dec. 2031	10,430	10
Canterberry Crossing B	(9)	2001	6.700	Dec. 2021	2,000	1
Chancellor	(4),(10)	2001	7.200	Jul. 2043	5,610	5
Chancellor II	(10)	2002	(21)	(21)	51	
Charter House		1996	7.450	Jul. 2026	25	
Cielo Vista	(4),(10)	1999	7.125	Sep. 2034	9,425	9
Club West	(9)	2001	6.580	(17)	7,960	7
Coronel Village	(10)	2002	7.350	Jul. 2034	51	
Country Club	(4),(10)	1999	7.250	Aug. 2029	2,461	2
Creekside Village	(2),(4),(6),(8)	1987	7.750	Nov. 2009	11,760	7
Delta Village	(10)	1999	7.125	Jun. 2035	2,011	1
Elmbrook-Golden	(4),(10)	2000	7.800	May 2035	2,786	2
Fort Branch	(4),(10)	2000	7.550	Dec 2032	12,318	12
Gannon - Cedar Run	(9)	1998	7.125	Dec. 2025	13,200	13
Gannon - Dade	(9)	1998	7.125	Dec. 2029	54,743	55
Gannon - Whispering Palms	(4),(10)	1998	7.125	Dec. 2029	12,363	12
Gannon Bond	(9)	1998	7.125	Dec. 2029	3,500	3
Harmony Hills Series 2000		2001	6.750	May 2003	100	
Harmony Hills Series 2001	(9)	2001	7.250	May 2032	17,700	17
Hidden Brooks	(4),(10)	2001	6.650	Apr. 2038	20,285	20
Hidden Valley	(4),(10)	1996	8.250	Jan. 2026	1,600	1
Honey Creek	(9)	2000	7.625	Jul. 2035	20,485	20
Hunter's Glen	(9)	2001	6.350	Dec. 2029	10,740	9
La Paloma	(9)	2001	6.710	May 2030	4,378	4
Lakeview Garden	(2),(4),(6),(8)	1987	7.750	Aug. 2007	9,003	4
Lake Piedmont	(4),(6),(10)	1998	7.725	Apr. 2034	19,118	18
Las Trojas	(10)	2002	(21)	(21)	51	

LeMirador (Coleman)	(9)	1999	7.250	May 2030	7,986	7
Meridian	(4),(10)	1999	7.500	Dec. 2029	14,200	14
Mountain View (Willowgreen)	(2),(9)	2000	8.000	Dec. 2010	9,275	6
Mountainview Village	(10)	2002	(16)	(16)	51	
North Pointe	(2),(4),(6)	1986	7.300	Aug. 2006	25,185	12
Northridge Park	(2),(9)	1987	7.500	Jul. 2012	8,815	8
Oakbrook	(9)	1996	8.200	Jul. 2026	3,045	3
Oakgrove	(4),(10),(22)	2001	7.000	Dec. 2041	7,000	6
Oaklahoma	(4)	2001	7.125	Jul. 2028	19,500	19
Oakmont/Towne Oaks	(9)	1998	7.200	Jan. 2034	11,208	11
Olde English	(4),(10)	1999	7.360	Nov. 2033	7,276	7
Orangevale	(9)	1998	7.000	Oct. 2013	2,161	2
Paola	(4),(10)	1999	7.250	Aug. 2029	1,038	1
Park Center	(4),(10)	2002	6.375	Apr. 2034	9,600	9
Parkwood	(9)	1999	7.125	Jun. 2035	3,910	3
Pavilion	(9)	2001	6.710	May 2030	5,100	5
Penn Valley	(4),(10)	2001	(13)	(13)	2,360	2
Queen Anne	(9)	2001	7.088	Aug. 2013	6,168	6
Rancho Mirage	(4),(10)	2000	8.500	Jun. 2040	12,780	12
Rillito	(4),(10)	1999	7.360	Dec. 2033	6,275	6
Riverset Phase II	(4)	1999	9.500	Oct. 2019	7,610	7
Riverview	(4),(10)	2000	7.500	Jul. 2032	10,663	10
Sahuarita	(4),(10)	1999	7.125	Jun. 2029	2,103	2
Santa Fe Springs	(4),(6)	2000	(14)	Jun. 2025	11,700	11
Shadowbrook	(4),(10)	1999	6.850	Jun. 2029	5,780	5
Sienna (Italian Gardens)	(9)	1999	7.250	May 2030	7,936	7
Silver Spring	(9)	2001	7.375	Dec. 2029	10,270	10
Sonterra	(4),(10)	1998	7.000	Jun. 2035	10,054	10
Southwinds	(4),(10)	2000	8.000	Sep. 2030	4,329	4
Southwood	(4),(10)	1997	7.375	Nov. 2029	25,060	24
Stone Mountain	(9)	1997	7.875	Oct. 2027	33,900	34
Sun Valley	(4),(10)	2000	7.585	Nov. 2032	14,000	14
Sycamore Senior Village	(10)	2002	(20)	(20)	51	
Torries Chase	(9)	1996	8.150	Jan. 2026	1,970	1
University Courtyard	(9)	2000	7.250	Mar. 2040	9,850	9
Villa Hialeah	(2),(4),(10)	1999	6.000	Aug. 2019	10,250	8
Village Green	(9)	2001	7.625	Feb. 2035	6,398	6
Walnut Tree	(10)	2002	(21)	(21)	51	
Western Hills	(4),(10)	1998	7.000	Dec. 2029	3,010	3
Willow Key	(9)	2001	6.717	(18)	17,440	17
Woodmark	(9)	1999	7.125	Jun. 2039	10,200	10
Subtotal non-participating Bonds					654,809	622
Participating Subordinate Bonds(1):						
Barkley Place	(3),(4),(6),(10)	1995	16.000	Jan. 2030	3,480	2
Gilman Meadows	(3),(4),(6),(10)	1995	3.000	Jan. 2030	2,875	2
Hamilton Chase	(3),(4),(6),(8)	1995	3.000	Jan. 2030	6,250	4
Mallard Cove I	(3),(4),(6),(10)	1995	3.000	Jan. 2030	1,670	
Mallard Cove II	(3),(4),(6),(10)	1995	3.000	Jan. 2030	3,750	2
Meadows	(3),(4),(6),(10)	1995	16.000	Jan. 2030	3,635	3
Montclair	(3),(4),(6),(10)	1995	3.000	Jan. 2030	6,840	1
Newport Village	(3),(4),(6),(10)	1995	3.000	Jan. 2030	4,175	2
Nicollet Ridge	(3),(4),(6),(10)	1995	3.000	Jan. 2030	12,415	6
Riverset Phase II	(6)	1996	10.000	Oct. 2019	1,489	
Steeplechase	(3),(4),(6),(10)	1995	16.000	Jan. 2030	5,300	4
Whispering Lake	(3),(4),(6),(10)	1995	3.000	Jan. 2030	8,500	4
Subtotal participating subordinate bonds					60,379	35
Non-Participating Subordinate Bonds:						
Cinnamon Ridge		1999	5.000	Jan. 2015	1,829	1

Investment in Tax-Exempt Bonds		Year Acquired	Base Interest Rate (12)	Maturity Date	Face Amount (000s)	Amor C (0
Farmington Meadows	(10)	1999	8.000	Aug. 2039	1,977	1
Independence Ridge	(10)	1996	12.500	Dec. 2015	1,045	1
Locarno	(10)	1996	12.500	Dec. 2015	675	
Oakmont/Towne Oaks	(10)	2002	7.200	Jan. 2034	653	
Olde English Manor	(6),(11)	1998	10.570	Nov. 2033	1,273	1
Oxford C Bond		2001	9.125	Nov. 2039	5,420	5
Penn Valley B Bond		2001	8.200	Apr. 2003	800	
Rillito B Bond	(6),(7)	2000	10.000	Dec. 2033	1,044	1
Winter Oaks B Bond	(6),(10)	1999	7.500	Jul. 2022	2,184	2
Winter Oaks C Bond	(6),(10)	1999	10.000	Jul. 2022	2,141	1
Subtotal non-participating subordinate bonds					19,041	17
Total investment in tax-exempt bonds					$817,157	$758
Participating Bonds(1):						
Arlington	(9)	2000	8.100	Jan. 2031	$ 12,625	$1
Cobblestone	(9)	1999	7.125	Aug. 2039	6,800	
Cool Springs	(4),(10)	2000	7.750	Aug. 2030	14,472	1
Crossings	(4),(19)	1997	8.000	Jul. 2007	6,795	
Jefferson Commons	(15)	2000	8.200	Jan. 2031	19,857	1
Palisades Park	(9)	2001	7.125	Aug. 2028	8,470	
Timber Ridge	(4),(10)	2000	7.950	Jan. 2036	5,215	
Villas at LaRiveria	(9)	1999	7.125	Jun. 2034	8,844	
Subtotal participating bonds					83,078	8
Non-Participating Bonds:						
Alban Place	(2),(4),(5)	1986	8.150	Oct. 2008	10,065	1
Baytown	(4),(10)	2000	7.750	Jun. 2030	5,000	
Bedford Park	(4),(10)	2000	8.000	Nov. 2032	9,325	
Buchanan Bay	(9)	2001	5.830	Dec. 2031	10,725	
Canterberry Crossing A	(9)	2001	6.700	Dec. 2031	10,430	1
Canterberry Crossing B	(9)	2001	6.700	Dec. 2021	2,000	
Chancellor	(4),(10)	2001	7.200	Jul. 2043	5,610	
Chancellor II	(10)	2002	(21)	(21)	-	
Charter House		1996	7.450	Jul. 2026	25	
Cielo Vista	(4),(10)	1999	7.125	Sep. 2034	9,458	
Club West	(9)	2001	6.580	(17)	7,960	
Coronel Village	(10)	2002	7.350	Jul. 2034	-	
Country Club	(4),(10)	1999	7.250	Aug. 2029	2,472	
Creekside Village	(2),(4),(6),(8)	1987	7.750	Nov. 2009	11,760	
Delta Village	(10)	1999	7.125	Jun. 2035	2,011	
Elmbrook-Golden	(4),(10)	2000	7.800	May 2035	2,794	
Fort Branch	(4),(10)	2000	7.550	Dec 2032	-	
Gannon - Cedar Run	(9)	1998	7.125	Dec. 2025	13,200	1
Gannon - Dade	(9)	1998	7.125	Dec. 2029	54,883	5
Gannon - Whispering Palms	(4),(10)	1998	7.125	Dec. 2029	12,473	1

Gannon Bond	(9)	1998	7.125	Dec. 2029	3,500	
Harmony Hills Series 2000		2001	6.750	May 2003	100	
Harmony Hills Series 2001	(9)	2001	7.250	May 2032	17,700	1
Hidden Brooks	(4),(10)	2001	6.650	Apr. 2038	-	
Hidden Valley	(4),(10)	1996	8.250	Jan. 2026	1,620	
Honey Creek	(9)	2000	7.625	Jul. 2035	20,485	2
Hunter's Glen	(9)	2001	6.350	Dec. 2029	10,740	
La Paloma	(9)	2001	6.710	May 2030	4,378	
Lakeview Garden	(2),(4),(6),(8)	1987	7.750	Aug. 2007	9,003	
Lake Piedmont	(4),(6),(10)	1998	7.725	Apr. 2034	19,118	1
Las Trojas	(10)	2002	(21)	(21)	-	
LeMirador (Coleman)	(9)	1999	7.250	May 2030	-	
Meridian	(4),(10)	1999	7.500	Dec. 2029	-	
Mountain View (Willowgreen)	(2),(9)	2000	8.000	Dec. 2010	9,275	
Mountainview Village	(10)	2002	(16)	(16)	-	
North Pointe	(2),(4),(6)	1986	7.300	Aug. 2006	25,185	1
Northridge Park	(2),(9)	1987	7.500	Jul. 2012	8,815	
Oakbrook	(9)	1996	8.200	Jul. 2026	3,065	
Oakgrove	(4),(10),(22)	2001	7.000	Dec. 2041	7,000	
Oaklahoma	(4)	2001	7.125	Jul. 2028	19,500	1
Oakmont/Towne Oaks	(9)	1998	7.200	Jan. 2034	11,208	1
Olde English	(4),(10)	1999	7.360	Nov. 2033	-	
Orangevale	(9)	1998	7.000	Oct. 2013	2,213	
Paola	(4),(10)	1999	7.250	Aug. 2029	1,042	
Park Center	(4),(10)	2002	6.375	Apr. 2034	-	
Parkwood	(9)	1999	7.125	Jun. 2035	3,910	
Pavilion	(9)	2001	6.710	May 2030	5,100	
Penn Valley	(4),(10)	2001	(13)	(13)	2,360	
Queen Anne	(9)	2001	7.088	Aug. 2013	6,168	
Rancho Mirage	(4),(10)	2000	8.500	Jun. 2040	-	
Rillito	(4),(10)	1999	7.360	Dec. 2033	-	
Riverset Phase II	(4)	1999	9.500	Oct. 2019	110	
Riverview	(4),(10)	2000	7.500	Jul. 2032	-	
Sahuarita	(4),(10)	1999	7.125	Jun. 2029	2,114	
Santa Fe Springs	(4),(6)	2000	(14)	Jun. 2025	11,700	1
Shadowbrook	(4),(10)	1999	6.850	Jun. 2029	5,780	
Sienna (Italian Gardens)	(9)	1999	7.250	May 2030	-	
Silver Spring	(9)	2001	7.375	Dec. 2029	10,270	1
Sonterra	(4),(10)	1998	7.000	Jun. 2035	-	
Southwinds	(4),(10)	2000	8.000	Sep. 2030	4,344	
Southwood	(4),(10)	1997	7.375	Nov. 2029	-	
Stone Mountain	(9)	1997	7.875	Oct. 2027	33,900	3
Sun Valley	(4),(10)	2000	7.585	Nov. 2032	-	
Sycamore Senior Village	(10)	2002	(20)	(20)	-	
Torries Chase	(9)	1996	8.150	Jan. 2026	1,985	
University Courtyard	(9)	2000	7.250	Mar. 2040	9,850	
Villa Hialeah	(2),(4),(10)	1999	6.000	Aug. 2019	10,250	
Village Green	(9)	2001	7.625	Feb. 2035	6,441	
Walnut Tree	(10)	2002	(21)	(21)	-	
Western Hills	(4),(10)	1998	7.000	Dec. 2029	3,021	
Willow Key	(9)	2001	6.717	(18)	17,440	1
Woodmark	(9)	1999	7.125	Jun. 2039	10,200	1
Subtotal non-participating bonds					489,081	45
Participating Subordinate Bonds (1):						
Barkley Place	(3),(4),(6),(10)	1995	16.000	Jan. 2030	3,480	
Gilman Meadows	(3),(4),(6),(10)	1995	3.000	Jan. 2030	2,875	
Hamilton Chase	(3),(4),(6),(8)	1995	3.000	Jan. 2030	6,250	
Mallard Cove I	(3),(4),(6),(10)	1995	3.000	Jan. 2030	1,670	
Mallard Cove II	(3),(4),(6),(10)	1995	3.000	Jan. 2030	3,750	
Meadows	(3),(4),(6),(10)	1995	16.000	Jan. 2030	3,635	

Montclair	(3),(4),(6),(10)	1995	3.000	Jan. 2030	6,840	
Newport Village	(3),(4),(6),(10)	1995	3.000	Jan. 2030	4,175	
Nicollet Ridge	(3),(4),(6),(10)	1995	3.000	Jan. 2030	12,415	
Riverset Phase II	(6)	1996	10.000	Oct. 2019	1,489	
Steeplechase	(3),(4),(6),(10)	1995	16.000	Jan. 2030	5,300	
Whispering Lake	(3),(4),(6),(10)	1995	3.000	Jan. 2030	8,500	
Subtotal participating subordinate bonds					60,379	3
Non-Participating Subordinate Bonds:						
Cinnamon Ridge		1999	5.000	Jan. 2015	1,832	
Farmington Meadows	(10)	1999	8.000	Aug. 2039	1,983	
Independence Ridge	(10)	1996	12.500	Dec. 2015	1,045	
Locarno	(10)	1996	12.500	Dec. 2015	675	
Oakmont/Towne Oaks	(10)	2002	7.200	Jan. 2034	-	
Olde English Manor	(6),(11)	1998	10.570	Nov. 2033	1,273	
Oxford C Bond		2001	9.125	Nov. 2039	5,420	
Penn Valley B Bond		2001	8.200	Apr. 2003	800	
Rillito B Bond	(6),(7)	2000	10.000	Dec. 2033	1,054	
Winter Oaks B Bond	(6),(10)	1999	7.500	Jul. 2022	2,184	
Winter Oaks C Bond	(6),(10)	1999	10.000	Jul. 2022	2,141	
Subtotal non-participating subordinate bonds					18,407	1
Total Investment in tax-exempt bonds					$ 650,945	$59

Non-Participating Subordinate Bonds:

Notes:

(1) These bonds also contain additional interest features contingent on available cash flow.

(2) One of the original 22 bonds.

(3) Series B Bonds derived from original 22 bonds.

(4) These assets were pledged as collateral as of September 30, 2002.

(5) TE Bond Sub or its subsidiaries own an 87% interest in these investments.

(6) At September 30, 2002 these bonds were on non-accrual status.

(7) The underlying bonds are held in a trust; TE Bond Sub owns an 18% subordinate interest in the trust.

(8) TE Bond Sub or its subsidiaries own an 66% interest in Creekside Village, 54% interest in Lakeview Garden and a 67% interest in Hamilton Chase.

(9) The underlying bonds are held in a trust; TE Bond Sub owns a certificate in the trust, which represents the residual cash flows generated on the underlying bonds.

(10) Investments held by TE Bond Sub or its subsidiaries.

(11) The underlying bonds are held in a trust; TE Bond Sub owns an 81% senior interest in the trust.

(12) The base interest rate represents the permanent base interest rate on the investment.

(13) This investment is comprised of two bonds. The Series 2001 FF-1 bond has a face amount of $1,888,000 with an interest rate of 6.816% and matures on August 1, 2033. The Series 2001 FF-2 bond has a face amount of $472,000 with an interest rate of 8.537% and matures on August 1, 2043.

(14) The interest rate on the Santa Fe bond resets annually. As of September 30, 2002 the interest rate was 6.53%.

(15) The underlying bonds are held in a trust; TE Bond Sub owns a certificate in the trust which represents the residual cash flows generated on 81% of underlying bond. TE Bond Sub also owns the 19% certificate which is pledged as collateral at September 30, 2002.

(16) This investment is comprised of two bonds. The Series 2002 T-1 bond has a face amount of $40,800 with an interest rate of 6.555% and matures on April 1, 2035. The Series 2002 T-2 bond has a face amount of $10,200 with an interest rate of 7.852% and matures on April 1, 2045.

(17) This investment is comprised of two bonds. The Series A-1 bond has a face amount of $725,000 and a maturity date of July 2009. The Series A-2 bond has a face amount of $7,235,000 and a maturity date of July 2033.

(18) This investment is comprised of two bonds. The 1998 Series I-1 bond has a face amount of $1,565,000 and a maturity date of June 11, 2009. The 1998 Series I-2 bond has a face amount of $15,875,000 and a maturity date of June 11, 2033.

(19) The underlying bond is held in a trust; TE Bond Sub owns the principal and base interest trust certificate.

(20) This investment is comprised of two bonds. The Series 2002 S-1 bond has a face amount of $40,800 with an interest rate of 6.555% and matures on August 1, 2035. The Series 2002 S-2 bond has a face amount of $10,200 with an interest rate of 7.852% and matures on August 1, 2045.

(21) This investment is comprised of two bonds. The Series 2002-1 bond has a face amount of $41,000 with an interest rate of 6.973% and matures on July 1, 2034. The Series 2002-2 bond has a face amount of $10,000 with an interest rate of 8.232% and matures on July 1, 2044.

(22) This investment is comprised of two bonds. The Series 2001 A-1 bond has a face amount of $5,600,000 with an interest rate of 7.000% and matures on December 1, 2041. The Series 2001 A-2 bond has a face amount of $1,400,000 with an interest rate of 7.000% and matures on December 1, 2041.

NOTE 3 - SECURITIZATION TRANSACTIONS

Through securitizations, the Company seeks to enhance its overall return on its investments and to generate proceeds that, along with equity offering proceeds and borrowings, facilitate the acquisition of additional investments. The Company uses various programs to facilitate the securitization and credit enhancement of its bond investments. See further discussion of the Company's various credit enhancement and securitization investment vehicles in Note 5 to the Company's 2001 Form 10-K.

In order to facilitate the securitization of certain assets, the Company has pledged additional bonds and taxable loans as collateral for senior interests in certain securitization trusts and credit enhancement facilities. At September 30, 2002 and December 31, 2001, the total carrying amount of the bonds and taxable loans pledged as collateral was $398.6 million and $361.8 million, respectively.

In order to diversify its access to financing through securitization programs, in September 2002 the Company entered into a new securitization program with MBIA Insurance Corporation ("MBIA"), as the provider of credit enhancement; Goldman, Sachs & Co., as remarketing agent; and Bayerische Landesbank, as liquidity provider. Similar to the Company's other securitization programs, through this program the Company securitizes assets by depositing bonds into a trust. The trust issues senior and subordinate certificates and the Company receives cash proceeds from the sale of the senior certificates and retains the subordinate certificates. The interest rate on the senior certificates is reset weekly by the remarketing agent. To increase the attractiveness of the senior certificates to investors, MBIA provided 7-year credit enhancement in the form of a surety bond that guarantees all interest and principal payments on the senior certificates. Goldman, Sachs & Co., acting as remarketing agent, will sell the senior certificates to investors. A group of liquidity banks, led by Bayerische Landesbank, provides liquidity to the senior certificates. Liquidity advances will be used to provide bridge funding for the redemption of senior certificates tendered upon a failure to remarket senior certificates or in the event of other mandatory tender events.

The Company accomplished its goal of diversifying its use of securitization facilities by repurchasing approximately $134.5 million in outstanding Puttable Floating Option Tax-Exempt Receipts ("P-FLOATssm") issued through the Company's securitization program with Merrill Lynch Pierce Fenner & Smith Incorporated ("Merrill Lynch"). Merrill Lynch then collapsed the related P-FLOATssm trusts and returned the underlying bonds to the Company. The Company then deposited a mix of bonds, including some bonds previously in the P-FLOATssm program, into the new MBIA-Goldman securitization trusts. The MBIA-Goldman trusts issued $147.0 million of variable-rate senior trust certificates (known as Tender Option Certificates, or "TOCs") and $4.2 million of variable-rate subordinated certificates (known as Trust Inverse Certificates, or "TICs"). The net cash proceeds to the Company upon completion of this transaction approximated $11.1 million, which represents $147.0 million in proceeds from the sale of the senior certificates less $134.5 million for the repurchase of senior certificates in the P-FLOATssm program and $1.4 million in debt issue costs. In addition, the Company retained an investment in the $4.2 million TICs.

This transaction was accounted for in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". As a result of certain call provisions available to the subordinate certificate holders, the Company has accounted for this transaction as a secured borrowing. Accordingly, the Company recorded the senior certificates as short-term debt and the trust assets are included in investment in tax-exempt bonds. In conjunction with the recording of the short-term debt, the Company capitalized $1.4 million in debt issue costs. The Company is amortizing these debt issue costs over the life of the facility, based on the amount of outstanding debt, using the effective interest method.

The Company did not securitize any additional assets, other than those discussed above, for the three months ended September 30, 2002.

NOTE 4 - OTHER BOND-RELATED INVESTMENTS

At September 30, 2002 and December 31, 2001, the Company's other bond-related investments are investments in Residual Interest Tax-Exempt Securities Receipts ("RITESsm"), a security offered by Merrill Lynch through its P-FLOATssm Program. Through this program, Merrill Lynch deposits the bonds into securitization trusts. Subsequently, these trusts and/or bonds are credit enhanced by Merrill Lynch or another third party credit enhancement provider. Two types of securities, P-FLOATssm and RITESsm, are created for each asset deposited into the trusts. The P-FLOATssm are short-term floating rate interests in the trusts that have priority on the cash flows of the deposited mortgage bonds and bear interest at rates that are reset weekly by the remarketing agent, Merrill Lynch. The P-FLOATssm are sold to qualified third party investors. The RITESsm are the subordinate security and receive the residual interest on the bond after the payment of all fees and the P-FLOATssm interest. A detailed listing of the other bond-related investments owned by the Company at September 30, 2002 and December 31, 2001 appears in a table on page 15.

During the third quarter, the Company purchased two $5,000 (face amount) RITESSM investments for $0.6 million in the Park at Landmark P-FLOATssm trust.

RITESsm Valuation Analysis

The fair value of a RITESsm investment is derived from the quote on the underlying bond reduced by the outstanding corresponding P-FLOATssm face amount. The Company bases the fair value of the underlying bond, which has a limited market, on quotes from external sources, such as brokers, for these or similar bonds. The RITESsm investments are not subject to prepayment risk as the term of the securitization trusts is only for a period during which the underlying bond cannot contractually be prepaid. Based on historical information, credit losses were estimated to be zero.

At September 30, 2002 and December 31, 2001, a 10% and 20% adverse change in key assumptions used to estimate the fair value of the Company's RITESsm would have the following impact:

(in thousands)	September 30, 2002	December 3
Fair value of retained interests	$11,380	$5
Residual cash flows discount rate (annual rate)	3.7% - 8.1%	4.5% - 1
Impact on fair value of 10% adverse change	($10,110)	($22,
Impact on fair value of 20% adverse change	($19,393)	($43,

The sensitivity analysis presented above is hypothetical in nature and presented for information purposes only. The analysis shows the effect on fair value of a variation in one assumption and is calculated without considering the effect of changes in any other assumption. In reality, changes in one assumption may affect the others, which may magnify or offset the sensitivities.

	Septe		
Year	Face Amount	Amortized Cost	Unrealize Gain (Los

Other Bond-Related Investments:		Acquired	(000s)	(000s)	(000s)
Investment in RITES:					
Barrington	(1)	2000	$ 5	$ 5	$ 545
Briarwood	(1)	1999	135	106	328
Charter House	(1)	1996	80	165	845
Cinnamon Ridge	(1)	2000	5	325	2,059
Fort Branch	(1)	2000	-	-	-
Hidden Brooks	(1)	2001	-	-	-
Indian Lakes	(1)	2002	5	1,040	(178)
LeMirador (Coleman Senior)	(1)	1999	-	-	-
Lincoln Corner	(1)	2001	10	38	(364)
Meridian at Bridgewater	(1)	1999	-	-	-
Museum Towers		2001	5	5	210
North White Road	(1)	2001	5	42	(205)
Olde English Manor	(1)	1999	-	-	-
Park at Landmark	(1)	2000	5	6	672
Park at Landmark	(1)	2002	10	582	61
Park Center	(1)	2001	1,270	164	494
Rancho Mirage/Castle Hills	(1)	2000	-	-	-
Rillito Village	(1)	1999	-	-	-
Riverset Phase I	(1)	2000	5	1,064	1,981
Riverset Phase II	(1)	1996	-	-	-
Riverview	(1)	2000	-	-	-
Sienna (Italian Gardens)	(1)	1999	-	-	-
Sonterra	(1)	1998	-	-	-
Southgate Crossings	(1)	1997	61	376	1,468
Southwood	(1)	1997	-	-	-
Village at Sun Valley	(1)	2000	-	-	-
Woodglen	(1)	1999	5	32	(486)
Total other bond-related investments			$ 1,606	$3,950	$ 7,430

			December 31		
Other Bond-Related Investments:		Year Acquired	Face Amount (000s)	Amortized Cost (000s)	Unrealiz Gain (Lo (000s)
Investment in RITES:					
Barrington	(1)	2000	$ 5	$ 5	$
Briarwood	(1)	1999	135	104	16
Charter House	(1)	1996	80	199	83
Cinnamon Ridge	(1)	2000	5	327	1,68
Fort Branch	(1)	2000	8	8	37
Hidden Brooks	(1)	2001	5	65	(1,07
Indian Lakes	(1)	2002	3,170	3,254	64
LeMirador (Coleman Senior)	(1)	1999	165	3	22
Lincoln Corner	(1)	2001	10	32	(47
Meridian at Bridgewater	(1)	1999	5	37	(31
Museum Towers		2001	5	5	10

North White Road	(1)	2001	5	44	(3
Olde English Manor	(1)	1999	76	95	(38
Park at Landmark	(1)	2000	5	12	33
Park at Landmark	(1)	2002	-	-	
Park Center	(1)	2001	1,270	74	(23
Rancho Mirage/Castle Hills	(1)	2000	5	5	(25
Rillito Village	(1)	1999	65	63	(31
Riverset Phase I	(1)	2000	5	1,069	1,59
Riverset Phase II	(1)	1996	5	120	3
Riverview	(1)	2000	5	5	21
Sienna (Italian Gardens)	(1)	1999	160	(1)	10
Sonterra	(1)	1998	5	32	(3,06
Southgate Crossings	(1)	1997	71	432	1,44
Southwood	(1)	1997	420	321	(2,49
Village at Sun Valley	(1)	2000	5	5	
Woodglen	(1)	1999	5	32	(13
Total other bond-related investments			$ 5,700	$ 6,347	$(1,03

(1) Investment held by TE Bond Sub or its subsidiaries at September 30, 2002.
(2) The aggregate negative fair value of the investments is included in liabilities for financial reporting purposes. The negative fair value of these investments is considered temporary and is not indicative of the future earnings on these investments.

NOTE 5 - INVESTMENT IN DERIVATIVE FINANCIAL INSTRUMENTS

At September 30, 2002 and December 31, 2001, the Company's investments in derivative financial instruments consisted of interest rate swaps and put option contracts. See further discussion of the Company's investment in derivatives in Note 7 to the Company's 2001 Form 10-K. The following table provides certain information with respect to the derivative financial instruments held by the Company at September 30, 2002 and December 31, 2001:

	September 30, 2002			December 31, 2001		
	Notional Amount(3) (000s)	Fair Value Assets (000s)	Fair Value Liabilities(2) (000s)	Notional Amount(3) (000s)	Fair Value Assets (000s)	Fair Value Liabilities(2 (000s)
Interest rate agreements (1)	$ 431,560	$ 21,085	$ (51,349)	$ 422,230	$ 2,912	$ (18,646)
Put option agreements	107,275	-	-	107,275	-	-
Total investment in derivative financial instruments.............		$ 21,085	$ (51,349)		$ 2,912	$ (18,646)

(1) The Company enters into interest rate swap contracts to offset against interest rate exposure on the Company's investment in RITESsm. The amounts disclosed represent the net fair values of all the Company's swaps at the reporting date.
(2) The aggregate negative fair value of the investments is included in liabilities for financial reporting purposes. The negative fair value of these investments is considered temporary and is not indicative of the future earnings on these investments.
(3) For the interest rate agreements, notional amount represents total amount of the Company's interest rate swap contracts ($692,665 and $650,335 as of September 30, 2002 and December 31, 2001, respectively) less the total amount of the Company's reverse interest rate swap contracts ($261,105 and $228,105 as of September 30, 2002 and December 31, 2001, respectively). For put option agreements, the notional amount represents the Company's aggregate obligation under the put option agreements.

NOTE 6 - LOANS RECEIVABLE

The Company's loans receivable primarily consist of construction loans, permanent loans, taxable loans and other loans. The general terms of the loans owned by the Company are discussed in Note 8 to the Company's 2001 Form 10-K. The following table summarizes loans receivable by loan type at September 30, 2002 and December 31, 2001.

(in thousands)	September 30, 2002	December 31, 2001
Loan Type:		
Taxable construction loans ...	$ 277,030	$ 271,383
Taxable permanent loans	63,008	86,182
Taxable loans	31,306	30,959
Other loans	63,394	52,282
	434,738	440,806
Allowance for loan losses	(775)	(775)
Total	$ 433,963	$ 440,031

NOTE 7 - INVESTMENT IN PARTNERSHIPS

At September 30, 2002 and December 31, 2001, the Company's investment in partnerships consisted of equity interests in real estate operating partnerships. The Company's investments in partnerships are accounted for using the equity method. The Company uses the equity method of accounting when the Company owns an interest in a partnership and can exert significant influence over the partnership's operations but cannot control the partnership's operations. Under the equity method, the Company's ownership interest in the partnership's capital is reported as an investment on the consolidated balance sheets and the Company's allocable share of the income or loss from the partnership is reported in other income in the consolidated statements of income. For the three and nine months ended September 30, 2002, the Company recorded $1.5 million and $1.7 million in an equity loss, respectively.

NOTE 8 - NOTES PAYABLE AND DEBT

The Company's notes payable primarily consist of notes payable and advances under line of credit arrangements. The notes payable are borrowings used to finance construction lending and working capital needs. The general terms of the Company's notes payable are discussed in Note 11 to the Company's 2001 Form 10-K. The following table summarizes notes payable at September 30, 2002 and December 31, 2001.

(in thousands)	September 30, 2002	December 31, 2001
Notes payable	$ 213,716	$ 235,420
Group Trust warehouse facility and lines of credit	70,781	65,318
Residential Funding warehouse facility	94,499	98,033
Bank lines of credit	10,000	13,521
Midland Multifamily Equity REIT Credit Line	15,593	7,459
Other	-	312
Total	$ 404,589	$ 420,063

The Company's short- and long-term debt of $357.9 million and $213.4 million at September 30, 2002 and December 31, 2001, respectively, relates to securitization transactions that the Company has recorded as secured borrowings (see Notes 1 and 5 to the Company's 2001 Form 10-K).

NOTE 9 - PREFERRED SHAREHOLDERS' EQUITY IN A SUBSIDIARY COMPANY

The Company's preferred shareholders' equity in a subsidiary represents four classes of preferred shares issued by MuniMae TE Bond Subsidiary, LLC ("TE Bond Sub"), Series A, A-1, B and B-1 Preferred Shares (collectively, the "TE Bond Preferred Shares"). The income allocable to the TE Bond Preferred Shares is senior to the Company's ownership interest in TE Bond Sub. Therefore, only income from TE Bond Sub available after payment of the cumulative distributions of the TE Bond Preferred Shares is allocated to the Company. The following table provides a summary of certain terms of the TE Bond Preferred Shares.

	Series A Preferred Shares	Series A-1 Preferred Shares	Series B Preferred Shares	Series B-1 Preferred Shares
Issue date	May 27, 1999	October 9, 2001	June 2, 2000	October 9, 2001
Number of shares	42	8	30	4
Par amount per share	$2,000,000	$2,000,000	$2,000,000	$2,000,000
Dividend rate	6.875%	6.30%	7.75%	6.80%
First remarketing date ..	June 30, 2009	June 30, 2009	November 1, 2010	November 1, 2010

Mandatory tender date ...	June 30, 2009	June 30, 2009	November 1, 2010	November 1, 2010
Redemption date	June 30, 2049	June 30, 2049	June 30, 2050	June 30, 2050

The following table reflects the composition of the TE Bond Preferred Shareholders' equity in TE Bond Sub.

(in thousands)	Series A	Series A-1	Series B	Series B
Balance, January 1, 2002	$ 80,060	$ 15,206	$ 57,595	$ 7
Income allocable to preferred shares ...	4,332	756	3,487	
Distributions	(4,332)	(756)	(3,487)	
Balance, September 30, 2002	$ 80,060	$ 15,206	$ 57,595	$ 7

The assets of TE Bond Sub and its subsidiaries, while indirectly controlled by MuniMae and thus included in the consolidated financial statements of the Company, are legally owned by TE Bond Sub and are not available to the creditors of the Company. The assets owned by TE Bond Sub and its subsidiaries are identified in footnotes to the Investment in Tax-exempt Bonds table in Note 2 and in footnotes to the Other Bond-Related Investments table in Note 4. The fair value of such assets aggregated $678.0 million and $501.4 million at September 30, 2002 and December 31, 2001, respectively. The equity interest in TE Bond Sub held by MuniMae is subject to the claims of creditors of MuniMae and in certain circumstances could be foreclosed upon.

NOTE 10 - EARNINGS PER SHARE

The following table reconciles the numerators and denominators in the basic and diluted EPS calculations for common shares for the three and nine months ended September 30, 2002 and 2001.

	For the three months ended September 30, 2002			For the thr
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)
(in thousands, except share and per share data)				
Basic EPS				
Income allocable to common shares	$ 237	25,329,103	$ 0.01	$ 6,514
Effect of Dilutive Securities				

Options and deferred shares	-	454,193		-
Convertible preferred shares to the extent dilutive	-	-		3
Earnings contingency	-	132,855		-
Diluted EPS				
Income allocable to common shares plus assumed conversions	$ 237	25,916,151	$ 0.01	$ 6,517

	For the nine months ended September 30, 2002 Income (Numerator)	Shares Denominator)	Per Share Amount	For the ni Income (Numerator)
(in thousands, except share and per share data)				
Basic EPS				
Income allocable to common shares	$ 18,050	24,728,414	$ 0.73	$ 9,263
Effect of Dilutive Securities				
Options and deferred shares	-	462,520		-
Convertible preferred shares to the extent dilutive	-	-		3
Earnings contingency	-	132,855		-
Diluted EPS				
Income allocable to common shares plus assumed conversions	$ 18,050	25,323,789	$ 0.71	$ 9,266

For the three and nine months ended September 30, 2002 and 2001, the effect of all potentially dilutive securities was included in the calculation.

NOTE 11 - DISTRIBUTIONS

On October 17, 2002 the Board of Directors declared a distribution of $0.4400 for the three months ended September 30, 2002 to common shareholders of record on October 28, 2002. The payment date was November 8, 2002.

NOTE 12 - BUSINESS SEGMENT REPORTING

The Company has two reportable business segments: (1) an operating segment consisting of subsidiaries that primarily generate taxable fee income by providing loan servicing, loan origination and other related services, and holding investments producing taxable interest income and (2) an investing segment consisting primarily of subsidiaries holding investments producing tax-exempt interest income. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. A complete description of the Company's reporting segments is described in Note 21 to the Company's 2001 Form 10-K.

The following table reflects the results of the Company's business segments for the three and nine months ended September 30, 2002 and 2001.

Municipal Mortgage & Equity, LLC
Segment Reporting
(in thousands) (unaudited)

	For the three months	
	Investing Segment	Operating Segment
INCOME:		
Interest on tax-exempt bonds and other bond-related investments	$ 15,051	$ 358
Interest on loans	837	7,839
Loan origination and brokerage fees	-	2,206
Syndication fees	-	767
Loan servicing fees	-	1,544
Interest on short-term investments	195	65
Other income	265	116
Net gain (loss) on sales	221	436
Total income	16,569	13,331
EXPENSES:		
Salaries and benefits	215	5,231
Professional Fees	129	338
Operating expenses	356	1,817
Amortization of intangible assets	-	334
Interest expense	1,907	6,864
Other-than-temporary impairments related to investments in tax-exempt bonds and other bond-related investments	-	-
Total expenses	2,607	14,584
Net holding gains (losses) on trading securities	(9,921)	-
Net income (loss) before income taxes, income allocated to preferred shareholders in a subsidiary company, and		

cumulative effect of accounting change	4,041	(1,253)
Income tax expense	-	(635)
Net income (loss) before income allocated to preferred shareholders in a subsidiary company and cumulative effect of accounting change	4,041	(618)
Income allocable to preferred shareholders in a subsidiary company	2,994	-
Net income (loss) before cumulative effect of accounting change	1,047	(618)
Cumulative effect on prior year changes in accounting for derivative financial instruments	-	-
Net income (loss)	$ 1,047	$ (618)

Municipal Mortgage & Equity, LLC
Segment Reporting
(in thousands) (unaudited)

	For the nine months	
	Investing Segment	Operating Segment
INCOME:		
Interest on tax-exempt bonds and other bond-related investments	$ 43,753	$ 2,217
Interest on loans	2,517	23,183
Loan origination and brokerage fees	750	5,969
Syndication fees	-	4,765
Loan servicing fees	-	5,112
Interest on short-term investments	830	161
Other income	734	3,729
Net gain (loss) on sales	1,217	2,309
Total income	49,801	47,445
EXPENSES:		
Salaries and benefits	1,833	14,370
Professional Fees	460	1,616
Operating expenses	1,110	5,481
Amortization of intangible assets	-	985
Interest expense	6,421	19,809
Other-than-temporary impairments related to investments in tax-exempt bonds and other bond-related investments	110	-
Total expenses	9,934	42,261
Net holding gains (losses) on trading securities	(14,530)	-
Net income (loss) before income taxes, income allocated to preferred shareholders in a subsidiary company, and		

cumulative effect of accounting change	25,337	5,184
Income tax expense	-	1,224
Net income (loss) before income allocated to preferred shareholders in a subsidiary company and cumulative effect of accounting change	25,337	3,960
Income allocable to preferred shareholders in a subsidiary company	8,983	-
Net income (loss) before cumulative effect of accounting change	16,354	3,960
Cumulative effect on prior year changes in accounting for derivative financial instruments	-	-
Net income (loss)	$ 16,354	$ 3,960

Notes:

(1) Adjustments represent origination fees on purchased investments which are deferred and amortized into income over the life of the investment.

Municipal Mortgage & Equity, LLC
Segment Reporting
(in thousands) (unaudited)

	For the three months	
	Investing Segment	Operating Segment
INCOME:		
Interest on tax-exempt bonds and other bond-related investments	$ 11,393	$ 760
Interest on loans	757	7,704
Loan origination and brokerage fees	-	1,289
Syndication fees	-	1,726
Loan servicing fees	-	1,659
Interest on short-term investments	308	179
Other income	-	1,843
Net gain (loss) on sales	2,227	2,533
Total income	14,685	17,693
EXPENSES:		
Salaries and benefits	437	5,090
Professional Fees	273	841
Operating expenses	183	1,698

Amortization of intangible assets	-	694
Interest expense	1,551	6,322
Other-than-temporary impairments related to investments in tax-exempt bonds and other bond-related investments	-	-
Total expenses	2,444	14,645
Net holding gains (losses) on trading securities	(4,670)	-
Net income (loss) before income taxes, income allocated to preferred shareholders in a subsidiary company, and cumulative effect of accounting change	7,571	3,048
Income tax expense	-	805
Net income (loss) before income allocated to preferred shareholders in a subsidiary company and cumulative effect of accounting change	7,571	2,243
Income allocable to preferred shareholders in a subsidiary company	2,606	-
Net income (loss) before cumulative effect of accounting change	4,965	2,243
Cumulative effect on prior year changes in accounting for derivative financial instruments	-	-
Net income (loss)	$ 4,965	$ 2,243

Municipal Mortgage & Equity, LLC
Segment Reporting
(in thousands) (unaudited)

	For the nine months end	
	Investing Segment	Operating Segment
INCOME:		
Interest on tax-exempt bonds and other bond-related investments	$ 34,135	$ 1,997
Interest on loans	1,883	23,527
Loan origination and brokerage fees	-	3,382
Syndication fees	-	5,276
Loan servicing fees	-	5,020
Interest on short-term investments	1,562	620
Other income	-	8,493
Net gain (loss) on sales	2,227	4,678
Total income	39,807	52,993
EXPENSES:		
Salaries and benefits	1,199	13,803
Professional Fees	771	1,947
Operating expenses	645	4,917
Amortization of intangible assets	-	2,015

Interest expense	4,638	18,830	
Other-than-temporary impairments related to investments in tax-exempt bonds and other bond-related investments	-	3,256	
Total expenses	7,253	44,768	
Net holding gains (losses) on trading securities	(8,263)	-	
Net income (loss) before income taxes, income allocated to preferred shareholders in a subsidiary company, and cumulative effect of accounting change	24,291	8,225	
Income tax expense	-	1,032	
Net income (loss) before income allocated to preferred shareholders in a subsidiary company and cumulative effect of accounting change	24,291	7,193	
Income allocable to preferred shareholders in a subsidiary company	7,818	-	
Net income (loss) before cumulative effect of accounting change	16,473	7,193	
Cumulative effect on prior year changes in accounting for derivative financial instruments	(12,277)	-	
Net income (loss)	$ 4,196	$ 7,193	

Notes:

(1) Adjustments represent origination fees on purchased investments which are deferred and amortized into income over the life of the investment.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General Business

The Company is principally engaged in originating, investing in and servicing investments related to multifamily housing and other real estate financings.

Results of Operations

Quarterly Results Analysis

Total income for the third quarter of 2002 decreased $2.6 million over the same period last year due primarily to the following changes: (1) a $3.5 million increase in collections of interest on bonds, other bond-related investments, other notes and loans; (2) a $0.2 million decrease in interest on short-term investments resulting from the use of equity offering proceeds to repurchase senior interests in certain securitization trusts and funding of other operations, as well as lower investment yields on larger average balances held in margin collateral accounts; (3) a $1.5 million decrease in other income due primarily to a $1.2 million increase in losses from the CAPREIT investment and a decrease in cancellation, late and other fees; and (4) a $4.1 million decrease in gain on sales due primarily to a $0.8 million decrease in gain related to capitalized mortgage servicing rights, a $1.2 million gain on a tax credit equity re-syndication in the third quarter of 2001 and a $2.2 million gain from the pay-off of the Newport-on-Seven bond in the third quarter of 2001.

Total expenses for the third quarter of 2002 increased $0.1 million over the same period last year due primarily to the following changes: (1) a $0.6 million decrease in professional fees due primarily to a $0.4 million adjustment to reflect capitalization of legal expenses related to new securitization programs and a $0.2 million decrease in fees related to information systems initiatives, as compared with the prior-year period; (2) a $0.3 million increase in operating expenses due primarily to software hosting expenses that began in January 2002; (3) a $0.4 million decrease in amortization expense due to changes in accounting guidelines relating to amortization of goodwill; and (4) a $0.9 million increase in interest expense primarily associated with an increase in financing costs associated with on-balance sheet securitizations.

The Company recorded net holding losses for the change in market value of the Company's derivative financial instruments of $9.9 million for the third quarter of 2002.

Income tax expense decreased $1.4 million for the third quarter of 2002 over the same period last year due primarily to the tax benefits derived from the tax deductions generated by the Company's equity investment in the CAPREIT venture. These deductions result from depreciation expenses generated by the underlying real estate properties that collateralize the Company's CAPREIT investment.

Year-to-Date Analysis

Total income for the nine months ended September 30, 2002 increased $2.8 million over the same period last year due primarily to the following changes: (1) a $10.1 million increase in collections of interest on bonds, other bond-related investments, other notes and loans; (2) a $1.2 million decrease in interest on short-term investments resulting from the use of equity offering proceeds to repurchase senior interests in current securitization trusts and funding of other operations, as well as lower investment yields on larger average balances held in margin collateral accounts; (3) a $1.2 million increase in loan origination and brokerage fees due to a $1.7 million increase in origination fees offset by a $0.5 million decrease in syndication fees related to tax credit equity transactions; (4) a $4.0 million decrease in other income primarily due to a $4.3 million increase in losses from the CAPREIT investment and a $0.4 million decrease in cancellation, late and other fees offset by an increase of $0.7 million in asset management and advisory fees; and (5) a $3.4 million decrease in gain on sales due primarily to a $2.3 million gain on tax credit equity re-syndications in 2001 and a $2.2 million gain from the pay-off of the Newport-on-Seven bond in 2001 offset by a $1.0 million gain in the first quarter of 2002 on the sale of an investment in RITES.

Total expenses for the nine months ended September 30, 2002 increased $0.2 million over the same period last year due primarily to the following changes: (1) a $1.2 million increase in salary and related benefits expense associated with 2001 new hires; (2) a $0.6 million decrease in professional fees due primarily to a $0.4 million adjustment to reflect capitalization of legal expenses related to new securitization programs and a decrease in fees related to information systems initiatives, as compared with the prior-year period; (3) a $1.0 million increase in other operating expenses driven primarily by deployment of accounting information systems and other upgrades in technology infrastructure; (4) a $1.0 million decrease in amortization expense due to changes in accounting guidelines relating to amortization of goodwill; (5) a

$2.8 million increase in interest expense primarily associated with an increase in financing costs associated with on-balance sheet securitizations; and (6) a $0.1 million impairment recorded in 2002 associated with a subordinate bond investment compared to a $3.3 million impairment recorded in 2001 on two investments (Hunter's Glen and Buchanan Bay).

The Company recorded net holding losses for the change in market value of the Company's derivative financial instruments of $14.5 million for the nine months ended September 30, 2002.

Income tax expense increased $0.2 million for the nine months ended September 30, 2002 over the same period last year due primarily to a decrease in the deferred tax benefit relating to tax credits partially offset by a decrease in current tax expense as a result of tax benefits derived from the tax deductions generated by the Company's equity investment in the CAPREIT venture. These deductions result from depreciation expenses generated by the underlying real estate properties that collateralize the Company's CAPREIT investment.

Critical Accounting Policies

Since December 31, 2001 there has been no material change to the Company's critical accounting policies, except as noted below.

New Accounting Pronouncement

In June 2001, the Financial Accounting Standards Board approved Statements of Financial Accounting Standards No. 141 "Business Combinations" ("FAS 141") and No. 142 "Goodwill and Other Intangible Assets," ("FAS 142") which were effective as of July 1, 2001 and January 1, 2002, respectively, for the Company. FAS 141 requires that the purchase method of accounting be used for all business combinations consummated after June 30, 2001. FAS 141 did not have an impact on the Company for the year ended December 31, 2001. The Company adopted FAS 142 on January 1, 2002. Upon adoption of FAS 142, amortization of goodwill, including goodwill recorded in past business combinations, was discontinued. For the year ended December 31, 2001, the Company recorded amortization expense of $1.6 million. All goodwill and intangible assets were tested for impairment in accordance with the provision of FAS 142 and the Company found no instances of impairment.

Liquidity and Capital Resources

The Company's primary objective is to maximize shareholder value through increases in Cash Available for Distribution ("CAD") per common share and appreciation in the value of its common shares. The Company seeks to achieve its growth objectives by growing its investing and operating business segments. The Company grows its investing segment by acquiring, servicing and managing diversified portfolios of tax-exempt bonds and other bond-related investments. Growth in the operating segment is derived from increasing levels of fees generated by affordable housing equity syndications, loan servicing and origination and brokerage services. The Company's business plan includes structuring $1.4 billion to $1.6 billion in investment transactions in 2002. The Company expects to finance its acquisitions through a financing strategy that (1) takes advantage of attractive financing available in the tax-exempt securities markets, (2) minimizes exposure to fluctuations of interest rates, and (3) maintains adequate flexibility to manage the Company's short-term cash needs. To date, the Company has primarily used two sources, securitizations and equity offerings, to finance its acquisitions. Through the Company's management of capital for others, including Fannie Mae, and several pension funds, the Company has expanded its access to capital. Additional capital is necessary for the Company's continued growth. While the Company is actively seeking to increase capital commitments from those pension funds and to establish new pension fund and commercial bank financing relationships, there can be no assurance that such financing capacity, will be available when needed, nor can there be any assurance that the Company's current capital providers will renew their existing financing commitments as they mature, or that the Company will be able to raise funds through equity offerings.

During the third quarter of 2002, the Company purchased an interest in an additional $15.8 million tax-exempt issue known as Park at Landmark and collaborated with Fannie Mae on two rated tax-exempt transactions totaling $12.0 million. The Company retained a $10,000 investment in these transactions.

In addition, the Company originated $113.2 million of construction loans and working capital loans which, as the loans are funded over the construction period, will be reflected on the Company's consolidated balance sheet. The Company originated $114.7 million of taxable permanent loans, the majority of which will, the Company expects, be placed with third party investors. The Company earns origination fees on the taxable permanent loans. The Company structured equity investments totaling $39.2 million, where the Company earns syndication fees or origination fees on the placement of equity investments into tax credit funds or with third party investors.

Securitizations

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. The Company uses various programs to facilitate the securitization and credit enhancement of its bond investments.

New securitization program

In order to diversify its access to financing through securitization programs, in September 2002 the Company entered into a new securitization program with MBIA Insurance Corporation ("MBIA"), as the provider of credit enhancement; Goldman, Sachs & Co., as remarketing agent; and Bayerische Landesbank, as liquidity provider. Similar to the Company's other securitization programs, through this program the Company securitizes assets by depositing bonds into a trust. The trust issues senior and subordinate certificates and the Company receives cash proceeds from the sale of the senior certificates and retains the subordinate certificates. The interest rate on the senior certificates is reset weekly by the remarketing agent. To increase the attractiveness of the senior certificates to investors, MBIA provided 7-year credit enhancement in the form of a surety bond that guarantees all interest and principal payments on the senior certificates. Goldman, Sachs & Co., acting as remarketing agent, will sell the senior certificates to investors. A group of liquidity banks, led by Bayerische Landesbank, provides liquidity to the senior certificates. Liquidity advances will be used to provide bridge funding for the redemption of senior certificates tendered upon a failure to remarket senior certificates or in the event of other mandatory tender events.

The Company accomplished its goal of diversifying its use of securitization facilities by repurchasing approximately $134.5 million in outstanding Puttable Floating Option Tax-Exempt Receipts ("P-FLOATssm") issued through the Company's securitization program with Merrill Lynch Pierce Fenner & Smith Incorporated ("Merrill Lynch"). Merrill Lynch then collapsed the related P-FLOATssm trusts and returned the underlying bonds to the Company. The Company then deposited a mix of bonds, including some bonds previously in the P-FLOATssm program, into the new MBIA-Goldman securitization trusts. The MBIA-Goldman trusts issued

$147.0 million of variable-rate senior trust certificates (known as Tender Option Certificates, or "TOCs") and $4.2 million of variable-rate subordinated certificates (known as Trust Inverse Certificates, or "TICs"). The net cash proceeds to the Company upon completion of this transaction approximated $11.1 million, which represents $147.0 million in proceeds from the sale of the senior certificates less $134.5 million for the repurchase of senior certificates in the P-FLOATssm program and $1.4 million in debt issue costs. In addition, the Company retained an investment in the $4.2 million TICs.

This transaction was accounted for in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". As a result of certain call provisions available to the subordinate certificate holders, the Company has accounted for this transaction as a secured borrowing. Accordingly, the Company recorded the senior certificates as short-term debt and the trust assets are included in investment in tax-exempt bonds. In conjunction with the recording of the short-term debt, the Company capitalized $1.4 million in debt issue costs. The Company is amortizing these debt issue costs over the life of the facility, based on the amount of outstanding debt, using the effective interest method.

To date, the Company has reported its leverage ratio based upon management's assessment of the actual economic risk to the Company of its financial assets and liabilities. The Company calculates this "economic leverage" by dividing on-balance sheet debt plus the total amount of third party owned senior interests in its investments, which it considers the equivalent of off-balance sheet financing, by the sum of total assets owned by the Company plus the total amount of third party owned senior interests adjusted for reserves equal to the net assets of the operating segment. The Company employs economic leverage as an internal management tool and attempts to maintain, through the use of securitizations, overall economic leverage ratios in the 50% to 65% range, with certain assets at significantly higher ratios, up to approximately 99%, and other assets not leveraged at all.

The Company's economic leverage ratio was approximately 54% and 53% at September 30, 2002 and at December 31, 2001, respectively. By comparison, the Company's leverage ratio as calculated based on the Company's on-balance sheet debt was 51% and 49% at September 30, 2002 and December 31, 2001, respectively. This GAAP leverage ratio is based on total debt (notes payable, short- and long-term debt) divided by the Company's total assets.

In order to facilitate the securitization of certain assets at higher leverage ratios than otherwise available to the Company without the posting of additional collateral, the Company has pledged additional bonds to a pool that acts as collateral for senior interests in certain securitization trusts and credit enhancement facilities. At September 30, 2002 and December 31, 2001, the total carrying amount of the tax-exempt bonds and taxable loans pledged as collateral was $398.6 million and $361.8 million, respectively.

The Company's 2001 Form 10-K contains a complete description of the Company's various credit enhancement and securitization investment vehicles. Since December 31, 2001 there has been no material change to the information relating to these vehicles included in the Company's 2001 Form 10-K, except as discussed above under New Securitization Program.

Factors That Could Affect Future Results

The Company's 2001 Form 10-K contains a complete description of the factors that could affect the Company's future results. Since December 31, 2001 there has been no material change to the information related to factors that could affect future results included in the Company's 2001 Form 10-K.

Cash Flow

At September 30, 2002 the Company had cash and cash equivalents of approximately $37.9 million.

Cash flow from operating activities was $39.2 million and $37.4 million for the nine months ended September 30, 2002 and 2001, respectively. The increase in cash flow from operations is due primarily to a decrease in other receivables from advances to tax credit equity funds. Other receivables from advances to tax credit equity funds decreased as a result of the Company beginning to make direct equity investments in real estate partnerships beginning in the fourth quarter of 2001, rather than making advances to tax credit equity funds, who in turn, made investments in real estate operating partnerships.

The Company uses CAD as the primary measure of its ability to pay distributions. CAD differs from net income because of slight variations between GAAP income and actual cash received. There are three primary differences between CAD and GAAP income. The first is the treatment of loan origination fees, which for CAD purposes are recognized as income when received but for GAAP purposes are amortized into income over the life of the associated investment. The second difference is the non-cash gain and loss recognized for GAAP associated with valuations, sales of investments and capitalization of mortgage servicing rights net of deferred taxes, which are not included in the calculation of CAD. The third difference is the treatment of certain intangibles, which are amortized into expense for GAAP, but not included in the calculation of CAD.

Until the redemption of the Company's preferred shares in 2002, the Company was required to distribute to the holders of its preferred shares the cash flow attributable to such shares (pursuant to the Company's Amended and Restated Certificate of Formation and Operating Agreement). The Company was also required to distribute 2% of the Company's net cash flow to the holders of term growth shares until they were redeemed in March 2002. The balance of the Company's net cash flow is available for distribution to the common shares and the Company's current policy is to distribute to common shareholders at least 80% of the annual CAD to common shares. For the three months ended September 30, 2002 and 2001, cash available for distribution to common shares was $12.8 million and $10.3 million, respectively. The Company's distribution per common share for the three months ended September 30, 2002 of $0.44 represents a payout ratio of 87% of CAD. The Company's common share distribution for the three months ended September 30, 2001 of $0.43 represents a payout ratio of 90% of CAD.

The following table reconciles the Company's GAAP net income to CAD for three months ended September 30, 2002 and 2001:

	For the three months ended September 30, 2002	For the t Septem
Net income allocated to common shares - GAAP Basis	$ 237	
Conversion to Cash Available for Distribution:		
Mark to market adjustments	$ 9,921	
CAPREIT investments	3,248	
Net gain on sales	(450)	
Amortization of capitalized mortgage servicing fees	334	

Amortization of intangibles	-	
Origination fees and other income, net	53	
Deferred tax (benefit) expense	(462)	
Cash Available for Distribution (CAD)	$12,881	$

Regular cash distributions to shareholders, for the three months ended September 30, 2002 and 2001, were $11.2 million and $9.7 million, respectively.

The Company expects to meet its cash needs in the short term, which consist primarily of funding new investments, operating expenses and dividends on the common shares and other equity, from cash on hand, operating cash flow, equity proceeds and securitization proceeds.

Related Party Transactions

The Company's 2001 Form 10-K contains a complete description of the Company's related party transactions. Since December 31, 2001 there has been no material change to the related party transaction information included in the Company's 2001 Form 10-K.

Income Tax Considerations

MuniMae is organized as a limited liability company. This structure allows MuniMae to combine the limited liability, governance and management characteristics of a corporation with the pass-through income features of a partnership. MuniMae does not pay tax at the corporate level. Instead, the distributive share of MuniMae's income, deductions and credits is included in each shareholder's income tax return. In addition, the tax-exempt income derived from certain investments remains tax-exempt when it is passed through to the shareholders. The Company records cash dividends received from subsidiaries organized as corporations as dividend income for tax purposes. Approximately 100%, 93% and 83% of MuniMae's tax basis net income for the years ended December 31, 2001, 2000 and 1999, respectively, was tax-exempt for federal income tax purposes.

The Company's operating segment consists primarily of entities subject to income taxes. 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.

The Company has elected under Section 754 of the Internal Revenue Code to adjust the basis of the Company's property on the transfer of shares to reflect the price each shareholder paid for their shares. While the bulk of the Company's recurring income is tax-exempt, from time to time the Company may sell or securitize various assets, which may result in capital gains and losses for tax purposes. Since the Company is taxed as a partnership, these capital gains and losses are passed through to shareholders and are reported on each shareholder's Schedule K-1. The capital gain and loss allocated from the Company may be different for each shareholder due to the Company's 754 election and is a function of, among other things, the timing of the shareholder's purchase of shares and the timing of transactions, which generate gains or losses for the

Company. This means that for assets purchased by the Company prior to a shareholder's purchase of shares, the shareholder's basis in the assets may be significantly different than the Company's basis in those same assets. Although the procedure for allocating the basis adjustment is complex, the result of the election is that each share is homogeneous, while each shareholder's basis in the assets of the Company may be different. Consequently, the capital gains and losses allocated to shareholders may be significantly different than the capital gains and losses recorded by the Company.

A portion of the Company's interest income is derived from private activity bonds that for income tax purposes are considered tax preference items for purposes of alternative minimum tax ("AMT"). 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Since December 31, 2001 there has been no material change to the information included in Item 7A of the Company's 2001 Form 10-K.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

The term "disclosure controls and procedures" is defined in Rules 13a-14(c) and 15d-14(c) of the Securities and Exchange Act of 1934 (the "Exchange Act"). These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of a date within 90 days before the filing of this quarterly report (the "Evaluation Date"), and they have concluded that, as of the Evaluation Date, such controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our reports filed under the Exchange Act.

(b) Changes in internal controls

We maintain a system of internal accounting controls that are designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed. For the quarter ended September 30, 2002, there were no significant changes to our internal controls or in other factors that could significantly affect our internal controls.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

99 Officers' Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

On October 21, 2002, the Company filed a Form 8-K containing the supplemental information reported to security analysts for the three months ended September 30, 2002.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MUNICIPAL MORTGAGE & EQUITY, LLC
(Registrant)

By: ____/s/ Mark K. Joseph____

Mark K. Joseph

Chairman of the Board, Chief Executive Officer (Principal Executive Officer), and Director

By: ___/s/William S. Harrison____

William S. Harrison

Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

DATE: November 13, 2002

CERTIFICATIONS

I, William S. Harrison, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Municipal

Mortgage & Equity, LLC;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

    c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:

    a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 11, 2002

___/s/ William S. Harrison___________

Name: William S. Harrison
Title: Chief Financial Officer

I, Mark K. Joseph, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Municipal Mortgage & Equity, LLC;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in

internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 11, 2002

___/s/ Mark K. Joseph _______________

Name: Mark K. Joseph
Title: Chief Executive Officer

EXHIBIT 99

Officers' Certificate
pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Each of the undersigned officers of Municipal Mortgage & Equity, LLC, a Delaware limited liability company (the "Company"), hereby certifies that (i) the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2002 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (ii) the information contained in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2002 fairly presents, in all material respects, the financial condition and results of operations of the Company, at and for the periods indicated.

Date: November 11, 2002

___/s/ Mark K. Joseph _______________

Name: Mark K. Joseph
Title: Chief Executive Officer and
Chairman of the Board

___/s/ William S. Harrison____________

Name: William S. Harrison
Title: Senior Vice President and
Chief Financial Officer