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MUNICIPAL MORTGAGE & EQUITY LLC

Form 10-Q

August 13, 2002

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: June 30, 2002

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

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

218 North Charles Street, Suite 500, 21201  
Baltimore, Maryland  
(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  No

The Registrant had 25,312,150 common shares outstanding as of August 7, 2002.

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MUNICIPAL MORTGAGE & EQUITY, LLC  
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PART I. FINANCIAL INFORMATION

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Item 1. Financial Statements  
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MUNICIPAL MORTGAGE & EQUITY, LLC  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share data)

|  |             |
|--|-------------|
|  | (unaudited) |
|  | June 30,    |
|  | -----       |
| ASSETS   |             |
| Cash and cash equivalents                                    | \$ 3        |
| Interest receivable  | 1           |
| Investment in tax-exempt bonds, net (Note 2)                 | 65          |
| Investment in other bond-related investments (Notes 3 and 4) | 1           |
| Investment in derivative financial instruments (Note 5)      |             |
| Loans receivable, net (Note 6)                               | 40          |
| Restricted assets  | 2           |
| Investment in partnerships (Note 7)                          | 8           |
| Other assets   | 4           |
| Mortgage servicing rights, net                               | 1           |
| Property and equipment                                       |             |

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|   |       |         |
|---|-------|---------|
| Goodwill  |       | 2       |
|   | ----- |         |
| Total assets  |       | \$ 1,31 |
|   | ===== |         |
| LIABILITIES AND SHAREHOLDERS' EQUITY  |       |         |
| Notes payable (Note 8)  |       | \$ 37   |
| Accounts payable, accrued expenses and other liabilities  |       | 2       |
| Investment in other bond-related investments (Notes 3 and 4)  |       | 2       |
| Investment in derivative financial instruments (Note 5)   |       | 2       |
| Distributions payable   |       |         |
| Short-term debt (Note 8)  |       | 8       |
| Long-term debt (Note 8)   |       | 13      |
|   | ----- |         |
| Total liabilities   |       | 66      |
|   | ----- |         |
| Commitments and contingencies   |       |         |
| Preferred shareholders' equity in a subsidiary company (Note 9)   |       | 16      |
| 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 (28,944,597 shares authorized, 25,341,212 shares issued and outstanding, and 26,110 deferred shares at June 30, 2002 and 24,594,597 authorized, 21,857,312 shares issued and outstanding, and 22,254 deferred shares at December 31, 2001) |       | 47      |
| Less common shares held in treasury at cost (59,330 shares)   |       |         |
| Less unearned compensation (deferred shares)  |       | (       |
| Accumulated other comprehensive income  |       | 2       |
|   | ----- |         |
| Total shareholders' equity  |       | 49      |
|   | ----- |         |
| Total liabilities and shareholders' equity  |       | \$ 1,31 |
|   | ===== |         |

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  
June 30,

|       |       |
|-------|-------|
| ----- | ----- |
| 2002  | 2001  |
| ----- | ----- |

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|  |           |           |
|--|-----------|-----------|
| INCOME:  |           |           |
| Interest on tax-exempt bonds and other bond-related investments  | \$ 15,723 | \$ 12,209 |
| Interest on loans  | 8,270     | 8,768     |
| Loan origination and brokerage fees  | 1,213     | 852       |
| Syndication fees   | 2,672     | 2,511     |
| Loan servicing fees  | 1,660     | 1,729     |
| Interest on short-term investments   | 244       | 693       |
| Other income   | 2,393     | 1,643     |
| Net gain on sales  | 703       | 1,969     |
|  | -----     | -----     |
| Total income   | 32,878    | 30,374    |
|  | -----     | -----     |
| EXPENSES:  |           |           |
| Salaries and benefits  | 5,930     | 5,030     |
| Professional fees  | 1,437     | 913       |
| Operating expenses   | 2,227     | 2,150     |
| Amortization of intangible assets  | 333       | 628       |
| Interest expense   | 8,487     | 7,769     |
| Other-than-temporary impairments related to investments in tax-exempt<br>bonds and other bond-related investments                                    | -         | -         |
|  | -----     | -----     |
| Total expenses   | 18,414    | 16,490    |
| Net holding gains (losses) on trading securities   | (7,721)   | 1,272     |
|  | -----     | -----     |
| Net income before income taxes, income allocated to<br>preferred shareholders in a subsidiary company,<br>and cumulative effect of accounting change | 6,743     | 15,156    |
| Income tax expense   | 828       | 224       |
|  | -----     | -----     |
| Net income before income allocated to preferred shareholders<br>in a subsidiary company and cumulative effect of<br>accounting change                | 5,915     | 14,932    |
| Income allocable to preferred shareholders in a subsidiary company   | 2,995     | 2,606     |
|  | -----     | -----     |
| Net income before cumulative effect of accounting change   | 2,920     | 12,326    |
| Cumulative effect on prior years of change in<br>accounting for derivative financial instruments   | -         | -         |
|  | -----     | -----     |
| Net income   | \$ 2,920  | \$ 12,326 |
|  | =====     | =====     |

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  
June 30,

-----  
2002                      2001  
-----

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|   |            |            |
|---|------------|------------|
| Net income allocated to:  |            |            |
| Preferred shares:   |            |            |
| Series I  | \$ -       | \$ 180     |
| Series II   | -          | 49         |
| Preferred capital distribution shares:  |            |            |
| Series I  | \$ -       | \$ 66      |
| Series II   | -          | 2          |
| Term growth shares  | \$ -       | \$ 216     |
| Common shares   | \$ 2,920   | \$ 11,813  |
| Basic net income per share:   |            |            |
| Preferred shares:   |            |            |
| Series I  | \$ -       | \$ 13.21   |
| Series II   | -          | 8.34       |
| Preferred capital distribution shares:  |            |            |
| Series I  | \$ -       | \$ 9.27    |
| Series II   | -          | 0.82       |
| Common shares:  |            |            |
| Income before cumulative effect of accounting change  | \$ 0.12    | \$ 0.55    |
| Cumulative effect on prior years of change in accounting for derivative financial instruments | -          | -          |
| Basic net income per common share   | \$ 0.12    | \$ 0.55    |
| Weighted average common shares outstanding  | 25,252,124 | 21,524,016 |
| Diluted net income per share:   |            |            |
| Common shares:  |            |            |
| Income before cumulative effect of accounting change  | \$ 0.11    | \$ 0.54    |
| Cumulative effect on prior years of change in accounting for derivative financial instruments | -          | -          |
| Diluted net income per common share   | \$ 0.11    | \$ 0.54    |
| Weighted average common shares outstanding  | 25,835,808 | 22,014,990 |

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

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

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|  | For the three months ended<br>June 30, |           |
|--|--|-----------|
|  | 2002                                   | 2001      |
| Net income   | \$ 2,920                               | \$ 12,326 |
| Other comprehensive income (loss):                                       |  |           |
| Unrealized gains (losses) on investments:                                |  |           |
| Unrealized holding gains (losses) arising during the period              | 2,928                                  | 1,364     |
| Reclassification adjustment for (gains) losses<br>included in net income | -                                      | -         |
| Other comprehensive income (loss)  | 2,928                                  | 1,364     |
| Comprehensive income   | \$ 5,848                               | \$ 13,690 |

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<br>tax-exempt bonds    |  |
| Decrease in valuation allowance on parity working capital loans                   |  |
| Net gain on sales   |  |
| (Income) 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 in interest receivable   |  |
| Increase in other assets  |  |
| Increase (decrease) in accounts payable, accrued expenses and other liabilities   |  |
| Net cash provided by operating activities   |  |

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CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of tax-exempt bonds and other bond-related investments  
 Loan originations  
 Principal payments received  
 Purchases of property and equipment  
 Investment in partnerships  
 Return of capital invested in partnerships  
 Net proceeds from sales of investments  
 Net 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 shares in a subsidiary company

Net cash (used in) 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

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<br>Distribution Shares |           | Term<br>Growth<br>Shares | Common<br>Shares | Treasury<br>Shares | U<br>Com |
|------------------|-----------|--|-----------|--------------------------|------------------|--------------------|----------|
| Series I         | Series II | Series I                                 | Series II |                          |                  |                    |          |
| -----            | -----     | -----                                    | -----     | -----                    | -----            | -----              | -----    |

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|  |          |          |          |        |        |            |          |  |
|--|----------|----------|----------|--------|--------|------------|----------|--|
| Balance,   |          |          |          |        |        |            |          |  |
| January 1, 2002  | \$ 6,914 | \$ 2,326 | \$ 2,552 | \$ 411 | \$ 229 | \$ 406,733 | \$ (912) |  |
| Net income   | -        | -        | -        | -      | 153    | 17,813     | -        |  |
| Unrealized losses on investments, net of reclassifications           | -        | -        | -        | -      | -      | -          | -        |  |
| Distributions  | (115)    | (15)     | (49)     | (1)    | (382)  | (20,414)   | -        |  |
| Redemption of preferred shares                                       | (6,799)  | (2,311)  | (2,503)  | (410)  | -      | (7,275)    | -        |  |
| Options exercised  | -        | -        | -        | -      | -      | 2,255      | -        |  |
| Issuance of common shares  | -        | -        | -        | -      | -      | 77,555     | -        |  |
| Deferred shares issued under the Non-Employee Directors' Share Plans | -        | -        | -        | -      | -      | 96         | -        |  |
| Deferred share grants  | -        | -        | -        | -      | -      | 830        | -        |  |
| Amortization of deferred compensation                                | -        | -        | -        | -      | -      | -          | -        |  |
| Tax benefit from exercise of options and vesting of deferred shares  | -        | -        | -        | -      | -      | 400        | -        |  |
| Balance, June 30, 2002   | \$ -     | \$ -     | \$ -     | \$ -   | \$ -   | \$ 477,993 | \$ (912) |  |

| SHARE ACTIVITY:  | Preferred Shares |           | Preferred Capital Distribution Shares |           | Term Growth Shares | Common Shares | Treasury Shares |
|--|------------------|-----------|---------------------------------------|-----------|--------------------|---------------|-----------------|
|  | Series I         | Series II | Series I                              | Series II |                    |               |                 |
| Balance, January 1, 2002   | 10,995           | 3,176     | 5,742                                 | 1,391     | 2,000              | 21,820,236    | 59,330          |
| Redemption of preferred shares                                       | (10,995)         | (3,176)   | (5,742)                               | (1,391)   | (2,000)            | -             | -               |
| Options exercised  | -                | -         | -                                     | -         | -                  | 123,731       | -               |
| Issuance of common shares  | -                | -         | -                                     | -         | -                  | 3,300,707     | -               |
| Issuance of common shares under employee share incentive plans       | -                | -         | -                                     | -         | -                  | 59,462        | -               |
| Deferred shares issued under the Non-Employee Directors' Share Plans | -                | -         | -                                     | -         | -                  | 3,856         | -               |
| Balance, June 30, 2002   | -                | -         | -                                     | -         | -                  | 25,307,992    | 59,330          |

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



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### 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 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

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\$1.6 million. Application of the nonamortization provision is expected to result in additional net income of \$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 June 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 six months ended June 30, 2002, there was no change in the carrying value of the Company's goodwill. The following table shows the effect of goodwill amortization on net income and net income per share for the periods presented:

|                                      | Three Months Ended |               | Six Months Ended |               |
|--------------------------------------|--------------------|---------------|------------------|---------------|
|                                      | June 30, 2002      | June 30, 2001 | June 30, 2002    | June 30, 2001 |
| Reported net income to common shares | \$ 2,920           | \$ 11,813     | \$ 17,813        | \$ 2,749      |
| Add back: goodwill amortization      | -                  | 357           | -                | 843           |
| Adjusted net income to common shares | \$ 2,920           | \$ 12,170     | \$ 17,813        | \$ 3,592      |
| Basic net income per share:          |                    |               |                  |               |
| Reported net income per share        | \$ 0.12            | \$ 0.55       | \$ 0.73          | \$ 0.13       |
| Goodwill amortization                | -                  | 0.02          | -                | 0.04          |
| Adjusted net income per share        | \$ 0.12            | \$ 0.57       | \$ 0.73          | \$ 0.17       |
| Diluted net income per share:        |                    |               |                  |               |
| Reported net income per share        | \$ 0.11            | \$ 0.54       | \$ 0.71          | \$ 0.13       |
| Goodwill amortization                | -                  | 0.02          | -                | 0.04          |
| Adjusted net income per share        | \$ 0.11            | \$ 0.56       | \$ 0.71          | \$ 0.17       |

### 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 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.

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During the second quarter of 2002, the Company funded \$17.8 million in tax-exempt bonds collateralized by six multifamily apartment communities. Of this amount, \$153,000 was an investment in non-participating bonds; the approximately \$44.0 million balance of these bonds is expected to be funded by the Company in the third and fourth quarters of 2002. These investments have a weighted average interest rate of 6.99% per annum and maturities ranging from July 2034 to August 2045. All of these investments relate to to-be-built communities. The remaining \$17.6 million in funding was attributable to investments in non-participating bonds: investments in a \$4.4 million tax-exempt bond, a \$2.6 million tax-exempt bond and a \$1.0 million tax-exempt bond, all collateralized by two properties known as Lakeside and Golf Villas; and a \$9.6 million tax-exempt bond collateralized by a property known as Park Center. The \$8.0 million investment in the Lakeside and Golf Villas bonds were sold later in the second quarter for \$8.0 million.

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 to a pool that acts as collateral for senior interests in certain securitization trusts. At June 30, 2002 and December 31, 2001, the total carrying amount of the tax-exempt bonds pledged as collateral was \$410.8 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 June 30, 2002 and December 31, 2001.

| Investment in Tax-Exempt Bonds  |               | Year Acquired | Base Interest Rate (12) | Maturity Date | Face Amount (000s) | Amortized Cost (000) |
|---------------------------------|---------------|---------------|-------------------------|---------------|--------------------|----------------------|
| <b>Participating Bonds (1):</b> |               |               |                         |               |                    |                      |
| Arlington                       | (9)           | 2000          | 8.100                   | Jan. 2031     | \$12,625           | \$12,625             |
| Cobblestone                     | (9)           | 1999          | 7.125                   | Aug. 2039     | 6,800              | 6,800                |
| Cool Springs                    | (4), (10)     | 2000          | 7.750                   | Aug. 2030     | 14,472             | 14,472               |
| Crossings                       | (4), (19)     | 1997          | 8.000                   | Jul. 2007     | 6,794              | 6,794                |
| Jefferson Commons               | (15)          | 2000          | 8.200                   | Jan. 2031     | 19,822             | 19,822               |
| Palisades Park                  | (9)           | 2001          | 7.125                   | Aug. 2028     | 8,470              | 8,470                |
| Timber Ridge                    | (4), (10)     | 2000          | 7.950                   | Jan. 2036     | 5,215              | 5,215                |
| Villas at LaRiveria             | (4), (10)     | 1999          | 7.125                   | Jun. 2034     | 8,836              | 8,836                |
| Subtotal participating bonds    |               |               |                         |               | 83,034             | 83,034               |
| <b>Non-Participating Bonds:</b> |               |               |                         |               |                    |                      |
| Alban Place                     | (2), (4), (5) | 1986          | 8.150                   | Oct. 2008     | 10,065             | 10,065               |
| Baytown                         | (4), (10)     | 2000          | 7.750                   | Jun. 2030     | 4,987              | 4,987                |
| Bedford Park                    | (9)           | 2000          | 8.000                   | Nov. 2032     | 9,325              | 9,325                |
| Buchanan Bay                    | (9)           | 2001          | 5.830                   | Dec. 2031     | 10,725             | 10,725               |
| Canterberry Crossing A          |               | 2001          | 6.700                   | Dec. 2031     | 10,430             | 10,430               |
| Canterberry Crossing B          |               | 2001          | 6.700                   | Dec. 2021     | 2,000              | 2,000                |
| Chancellor                      | (4), (10)     | 2001          | 7.200                   | Jul. 2043     | 5,610              | 5,610                |
| Chancellor II                   | (10)          | 2002          | (21)                    | (21)          | 51                 | 51                   |
| Charter House                   |               | 1996          | 7.450                   | Jul. 2026     | 25                 | 25                   |
| Cielo Vista                     | (4), (10)     | 1999          | 7.125                   | Sep. 2034     | 9,436              | 9,436                |

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|                                  |                    |      |       |           |         |     |
|----------------------------------|--------------------|------|-------|-----------|---------|-----|
| Club West                        | (9)                | 2001 | 6.580 | (17)      | 7,960   | 7   |
| Coronel Village                  | (10)               | 2002 | 7.350 | Jul. 2034 | 51      |     |
| Country Club                     | (10)               | 1999 | 7.250 | Aug. 2029 | 2,465   | 2   |
| Creeside 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  | 2,789   | 2   |
| Gannon - Cedar Run               | (4), (10)          | 1998 | 7.125 | Dec. 2025 | 13,200  | 13  |
| Gannon - Dade                    | (4), (10)          | 1998 | 7.125 | Dec. 2029 | 54,797  | 55  |
| Gannon - Whispering Palms        | (4), (10)          | 1998 | 7.125 | Dec. 2029 | 12,437  | 12  |
| Gannon Bond                      | (4), (10)          | 1998 | 7.125 | Dec. 2029 | 3,500   | 3   |
| Harmony Hills Series 2000        |                    | 2001 | 6.750 | May 2003  | 100     |     |
| Harmony Hills Series 2001        |                    | 2001 | 7.250 | May 2032  | 17,700  | 17  |
| Hidden Valley                    | (4), (10)          | 1996 | 8.250 | Jan. 2026 | 1,620   | 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      |     |
| 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), (4), (5)      | 1987 | 7.500 | Jun. 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  |
| Orangevale                       | (4), (10)          | 1998 | 7.000 | Oct. 2013 | 2,192   | 2   |
| Paola                            | (10)               | 1999 | 7.250 | Aug. 2029 | 1,039   | 1   |
| Park Center                      | (4), (10)          | 2002 | 6.375 | Apr. 2034 | 9,600   | 9   |
| Parkwood                         | (9)                | 1999 | 7.125 | Jun. 2035 | 3,910   | 3   |
| Pavillion                        | (9)                | 2001 | 6.710 | May 2030  | 5,100   | 5   |
| Penn Valley                      | (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  |
| Riverset Phase II                | (4)                | 1999 | 9.500 | Oct. 2019 | 7,610   | 7   |
| Sahuarita                        | (4), (10)          | 1999 | 7.125 | Jun. 2029 | 2,108   | 2   |
| Santa Fe Springs                 | (4)                | 2000 | (14)  | Jun. 2025 | 11,700  | 11  |
| Shadowbrook                      | (4), (10)          | 1999 | 6.850 | Jun. 2029 | 5,780   | 5   |
| Silver Spring                    | (9)                | 2001 | 7.375 | Dec. 2029 | 10,270  | 10  |
| Sonterra                         | (4), (10)          | 1998 | 7.000 | Jun. 2035 | 10,074  | 10  |
| Southwinds                       | (4), (10)          | 2000 | 8.000 | Sept.2030 | 4,333   | 4   |
| Stone Mountain                   | (4), (10)          | 1997 | 7.875 | Oct. 2027 | 33,900  | 34  |
| 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 | 6,420   | 6   |
| Walnut Tree                      | (10)               | 2002 | (21)  | (21)      | 51      |     |
| Western Hills                    | (4), (10)          | 1998 | 7.000 | Dec. 2029 | 3,014   | 3   |
| Willow Key                       | (9)                | 2001 | 6.717 | (18)      | 17,440  | 17  |
| Woodmark                         | (4), (10)          | 1999 | 7.125 | Jun. 2039 | 10,200  | 10  |
| Subtotal non-participating bonds |                    |      |       |           | 529,068 | 497 |

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| Investment in Tax-Exempt<br>Bonds |                    | Year<br>Acquired | Base<br>Interest<br>Rate (12) | Maturity<br>Date | Face<br>Amount<br>(000s) | Amort<br>Co<br>(00 |
|-----------------------------------|--------------------|------------------|-------------------------------|------------------|--------------------------|--------------------|
| <b>Participating Bonds (1):</b>   |                    |                  |                               |                  |                          |                    |
| 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               | (4), (10)          | 1999             | 7.125                         | Jun. 2034        | 8,844                    |                    |
| Subtotal participating bonds      |                    |                  |                               |                  | 83,078                   | 8                  |
| <b>Non-Participating Bonds:</b>   |                    |                  |                               |                  |                          |                    |
| 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                      | (9)                | 2000             | 8.000                         | Nov. 2032        | 9,325                    |                    |
| Buchanan Bay                      | (9)                | 2001             | 5.830                         | Dec. 2031        | 10,725                   |                    |
| Canterberry Crossing A            |                    | 2001             | 6.700                         | Dec. 2031        | 10,430                   | 1                  |
| Canterberry Crossing B            |                    | 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                      | (10)               | 1999             | 7.250                         | Aug. 2029        | 2,472                    |                    |
| Creeside 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                    |                    |
| Gannon - Cedar Run                | (4), (10)          | 1998             | 7.125                         | Dec. 2025        | 13,200                   | 1                  |
| Gannon - Dade                     | (4), (10)          | 1998             | 7.125                         | Dec. 2029        | 54,883                   | 5                  |
| Gannon - Whispering Palms         | (4), (10)          | 1998             | 7.125                         | Dec. 2029        | 12,473                   | 1                  |
| Gannon Bond                       | (4), (10)          | 1998             | 7.125                         | Dec. 2029        | 3,500                    |                    |
| Harmony Hills Series 2000         |                    | 2001             | 6.750                         | May 2003         | 100                      |                    |
| Harmony Hills Series 2001         |                    | 2001             | 7.250                         | May 2032         | 17,700                   | 1                  |
| 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)             | -                        |                    |
| 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), (4), (5)      | 1987             | 7.500                         | Jun. 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                  |
| Orangevale                        | (4), (10)          | 1998             | 7.000                         | Oct. 2013        | 2,213                    |                    |
| Paola                             | (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                    |                    |
| Pavillion                         | (9)                | 2001             | 6.710                         | May 2030         | 5,100                    |                    |

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|                                  |                |      |       |            |         |    |
|----------------------------------|----------------|------|-------|------------|---------|----|
| Penn Valley                      | (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  | -       |    |
| Riverset Phase II                | (4)            | 1999 | 9.500 | Oct. 2019  | 110     |    |
| Sahuarita                        | (4), (10)      | 1999 | 7.125 | Jun. 2029  | 2,114   |    |
| Santa Fe Springs                 | (4)            | 2000 | (14)  | Jun. 2025  | 11,700  | 1  |
| Shadowbrook                      | (4), (10)      | 1999 | 6.850 | Jun. 2029  | 5,780   |    |
| 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 | Sept. 2030 | 4,344   |    |
| Stone Mountain                   | (4), (10)      | 1997 | 7.875 | Oct. 2027  | 33,900  | 3  |
| 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                         | (4), (10)      | 1999 | 7.125 | Jun. 2039  | 10,200  | 1  |
| Subtotal non-participating bonds |                |      |       |            | 489,081 | 45 |

|  |                     |          | Base      |           | Face   | Amorti |
|--|---------------------|----------|-----------|-----------|--------|--------|
|  |                     | Year     | Interest  | Maturity  | Amount | Cost   |
|  |                     | Acquired | Rate (12) | Date      | (000s) | (000)  |
| 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 | 1,832 | 1 |
| Farmington Meadows | (10)      | 1999 | 8.000  | Aug. 2039 | 1,979 | 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 |

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|  |           |      |        |           |           |       |
|--|-----------|------|--------|-----------|-----------|-------|
| Penn Valley B Bond                           |           | 2001 | 8.200  | Apr. 2003 | 800       |       |
| Rillito B Series                             | (6), (7)  | 2000 | 13.000 | Dec. 2033 | 1,054     | 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 |           |      |        |           | 19,056    | 17    |
| Total investment in tax-exempt bonds         |           |      |        |           | \$691,537 | \$633 |

|  |                     | Year<br>Acquired | Base<br>Interest<br>Rate (12) | Maturity<br>Date | Face<br>Amount<br>(000s) | Amort<br>Co<br>(00 |
|--|---------------------|------------------|-------------------------------|------------------|--------------------------|--------------------|
| 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 Series                             | (6), (7)            | 2000             | 13.000                        | 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               |

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### 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 June 30, 2002.
- (5) TE Bond Sub or its subsidiaries own an 87% interest in these investments.
- (6) At June 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 June 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 June 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.



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### 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 to a pool that acts as collateral for senior interests in certain securitization trusts and credit enhancement facilities. At June 30, 2002 and December 31, 2001, the total carrying amount of the bonds and taxable loans pledged as collateral was \$414.7 million and \$361.8 million, respectively.

In the second quarter of 2002, the Company sold three bonds with a face amount of \$30.1 million to Merrill Lynch Pierce Fenner & Smith Incorporated ("Merrill Lynch") in anticipation of placing the bonds in the Merrill Lynch Puttable Floating Option Tax-Exempt Receipts ("P-FLOATssm") program in the third quarter. This transaction was accounted for as a secured borrowing. Accordingly, the Company recorded \$28.6 million as short-term debt and the related bonds (Canterberry Crossing and Harmony Hills) remained in investments in tax-exempt bonds.

### NOTE 4 - OTHER BOND-RELATED INVESTMENTS

At June 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. A detailed listing of the other bond-related investments owned by the Company at June 30, 2002 and December 31, 2001 appears in a table on page 15.

#### 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 June 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)                                  | June 30, 2002 | December 31, 2001 |
|---|---------------|-------------------|
| -----   | -----         | -----             |
| Fair value of retained interests                | \$3,379       | \$5,316           |
| Residual cash flows discount rate (annual rate) | 4.2% - 10.3%  | 4.5% - 12.9%      |
| Impact on fair value of 10% adverse change      | (\$17,234)    | (\$22,821)        |
| Impact on fair value of 20% adverse change      | (\$33,010)    | (\$43,783)        |

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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.

|                                      |                  |                          | June 30, 2010               |                                     |            |
|--------------------------------------|------------------|--------------------------|-----------------------------|-------------------------------------|------------|
| Other Bond-Related Investments:      | Year<br>Acquired | Face<br>Amount<br>(000s) | Amortized<br>Cost<br>(000s) | Unrealized<br>Gain (Loss)<br>(000s) |            |
| Investment in RITES:                 |                  |                          |                             |                                     |            |
| Barrington                           | (1)              | 2000                     | \$ 5                        | \$ 5                                | \$ -       |
| Briarwood                            | (1)              | 1999                     | 135                         | 105                                 | -          |
| Charter House                        | (1)              | 1996                     | 80                          | 176                                 | -          |
| Cinnamon Ridge                       | (1)              | 2000                     | 5                           | 326                                 | 1,000      |
| Fort Branch                          | (1)              | 2000                     | 8                           | 8                                   | -          |
| Hidden Brooks                        | (1)              | 2001                     | 5                           | 63                                  | (2,000)    |
| Indian Lakes                         | (1)              | 2002                     | 5                           | 1,045                               | -          |
| LeMirador (Coleman Senior)           | (1)              | 1999                     | 165                         | 2                                   | -          |
| Lincoln Corner                       | (1)              | 2001                     | 10                          | 39                                  | -          |
| Meridian at Bridgewater              | (1)              | 1999                     | 5                           | 35                                  | -          |
| Museum Towers                        |                  | 2001                     | 5                           | 5                                   | -          |
| North White Road                     | (1)              | 2001                     | 5                           | 42                                  | -          |
| Olde English Manor                   | (1)              | 1999                     | 76                          | 94                                  | -          |
| Park at Landmark                     | (1)              | 2000                     | 5                           | 8                                   | -          |
| Park Center                          | (1)              | 2001                     | 1,270                       | 134                                 | -          |
| Rancho Mirage/Castle Hills           | (1)              | 2000                     | -                           | -                                   | -          |
| Rillito Village                      | (1)              | 1999                     | 65                          | 62                                  | -          |
| Riverset Phase I                     | (1)              | 2000                     | 5                           | 1,066                               | 1,000      |
| Riverset Phase II                    | (1)              | 1996                     | -                           | -                                   | -          |
| Riverview                            | (1)              | 2000                     | 5                           | 5                                   | -          |
| Sienna (Italian Gardens)             | (1)              | 1999                     | 160                         | (1)                                 | -          |
| Sonterra                             | (1)              | 1998                     | -                           | -                                   | -          |
| Southgate Crossings                  | (1)              | 1997                     | 64                          | 395                                 | 1,000      |
| Southwood                            | (1)              | 1997                     | 415                         | 325                                 | (3,000)    |
| Village at Sun Valley                | (1)              | 2000                     | 5                           | 5                                   | -          |
| Woodglen                             | (1)              | 1999                     | 5                           | 32                                  | -          |
| Total other bond-related investments |                  |                          | \$ 2,508                    | \$ 3,976                            | \$ (1,000) |

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|                                      |      |          | December                 |                             |                      |
|--------------------------------------|------|----------|--------------------------|-----------------------------|----------------------|
| Other Bond-Related Investments:      | Year | Acquired | Face<br>Amount<br>(000s) | Amortized<br>Cost<br>(000s) | Unrea<br>Gain<br>(00 |
| Investment in RITES:                 |      |          |                          |                             |                      |
| Barrington                           | (1)  | 2000     | \$ 5                     | \$ 5                        | \$                   |
| Briarwood                            | (1)  | 1999     | 135                      | 104                         |                      |
| Charter House                        | (1)  | 1996     | 80                       | 199                         |                      |
| Cinnamon Ridge                       | (1)  | 2000     | 5                        | 327                         | 1                    |
| Fort Branch                          | (1)  | 2000     | 8                        | 8                           |                      |
| Hidden Brooks                        | (1)  | 2001     | 5                        | 65                          | (1)                  |
| Indian Lakes                         | (1)  | 2002     | 3,170                    | 3,254                       |                      |
| LeMirador (Coleman Senior)           | (1)  | 1999     | 165                      | 3                           |                      |
| Lincoln Corner                       | (1)  | 2001     | 10                       | 32                          |                      |
| Meridian at Bridgewater              | (1)  | 1999     | 5                        | 37                          |                      |
| Museum Towers                        |      | 2001     | 5                        | 5                           |                      |
| North White Road                     | (1)  | 2001     | 5                        | 44                          |                      |
| Olde English Manor                   | (1)  | 1999     | 76                       | 95                          |                      |
| Park at Landmark                     | (1)  | 2000     | 5                        | 12                          |                      |
| Park Center                          | (1)  | 2001     | 1,270                    | 74                          |                      |
| Rancho Mirage/Castle Hills           | (1)  | 2000     | 5                        | 5                           |                      |
| Rillito Village                      | (1)  | 1999     | 65                       | 63                          |                      |
| Riverset Phase I                     | (1)  | 2000     | 5                        | 1,069                       | 1                    |
| Riverset Phase II                    | (1)  | 1996     | 5                        | 120                         |                      |
| Riverview                            | (1)  | 2000     | 5                        | 5                           |                      |
| Sienna (Italian Gardens)             | (1)  | 1999     | 160                      | (1)                         |                      |
| Sonterra                             | (1)  | 1998     | 5                        | 32                          | (3)                  |
| Southgate Crossings                  | (1)  | 1997     | 71                       | 432                         | 1                    |
| Southwood                            | (1)  | 1997     | 420                      | 321                         | (2)                  |
| Village at Sun Valley                | (1)  | 2000     | 5                        | 5                           |                      |
| Woodglen                             | (1)  | 1999     | 5                        | 32                          |                      |
| Total other bond-related investments |      |          | \$ 5,700                 | \$ 6,347                    | \$ (1)               |

- (1) Investment held by TE Bond Sub or its subsidiaries at June 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 June 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 June 30, 2002 and December 31, 2001:

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|  | June 30, 2002                    |                  |                          | Notional<br>Amount (3)<br>(000s) |
|--|----------------------------------|------------------|--------------------------|----------------------------------|
|  | Notional<br>Amount (3)<br>(000s) | Fair Value       |                          |                                  |
|  |                                  | Assets<br>(000s) | Liabilities(2)<br>(000s) |                                  |
| Interest rate agreements (1)                         | \$ 419,230                       | \$ 9,254         | \$ (29,596)              | \$ 422,230                       |
| Put option agreements                                | 107,275                          | -                | -                        | 107,275                          |
| Total investment in derivative financial instruments |                                  | \$ 9,254         | \$ (29,596)              |                                  |

- (1) The Company enters into interest rate swap contracts to offset against interest rate exposure on the Company's investment in RITESm. 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 (\$680,335 and \$650,335 as of June 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 June 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 June 30, 2002 and December 31, 2001:

| (in thousands)             | June 30, 2002 | December 31, 2001 |
|----------------------------|---------------|-------------------|
| Loan Type:                 |               |                   |
| Taxable construction loans | \$ 268,147    | \$ 271,383        |
| Taxable permanent loans    | 41,330        | 86,182            |
| Taxable loans              | 31,214        | 30,959            |
| Other loans                | 61,654        | 52,282            |
|                            | 402,345       | 440,806           |
| Allowance for loan losses  | (775)         | (775)             |
| Total                      | \$ 401,570    | \$ 440,031        |

NOTE 7 - INVESTMENT IN PARTNERSHIPS

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At June 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 six months ended June 30, 2002, the Company recorded \$93,600 in equity income and \$229,000 in an equity loss, respectively.

During the second quarter of 2002, the Company made a \$64.8 million investment for a 35% interest in 18 operating partnerships and four swap partnerships as part of an investment venture with CAPREIT, Inc., a national real estate investment firm, and its affiliates. The Company expects to receive a preferred return of 10.25% on its investment. The Company has committed to invest an additional \$11 million in similar investments to be made by CAPREIT over the next six to twelve months.

### 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 June 30, 2002 and December 31, 2001:

| (in thousands)                                     | June 30, 2002 | December 31, 2001 |
|--|---------------|-------------------|
|  | -----         | -----             |
| Notes payable                                      | \$ 197,967    | \$ 235,420        |
| Group Trust warehouse facility and lines of credit | 58,546        | 65,318            |
| Residential Funding warehouse facility             | 87,201        | 98,033            |
| Bank lines of credit                               | 13,756        | 13,521            |
| Midland Multifamily Equity REIT Credit Line        | 21,893        | 7,459             |
| Other  | -             | 312               |
|  | -----         | -----             |
| Total  | \$ 379,363    | \$ 420,063        |
|  | =====         | =====             |

The Company's short- and long-term debt of \$220.3 million and \$213.4 million at June 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

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four classes of preferred shares issued by MuniMae TE Bond Subsidiary, LLC and its subsidiaries (collectively, "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<br>Preferred Shares<br>----- | Series A-1<br>Preferred Shares<br>----- | Series B<br>Preferred Shares<br>----- |
|------------------------|---------------------------------------|---|---------------------------------------|
| Issue date             | May 27, 1999                          | October 9, 2001                         | June 2, 2000                          |
| Number of shares       | 42                                    | 8                                       | 30                                    |
| Par amount per share   | \$2,000,000                           | \$2,000,000                             | \$2,000,000                           |
| Dividend rate          | 6.875%                                | 6.30%                                   | 7.75%                                 |
| First remarketing date | June 30, 2009                         | June 30, 2009                           | November 1, 2010                      |
| Mandatory tender date  | June 30, 2009                         | June 30, 2009                           | November 1, 2010                      |
| Redemption date        | June 30, 2049                         | June 30, 2049                           | June 30, 2050                         |

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

| (in thousands)                       | Series A<br>----- | Series A-1<br>----- | Series B<br>----- | Series B-1<br>----- |
|--------------------------------------|-------------------|---------------------|-------------------|---------------------|
| Balance, January 1, 2002             | \$ 80,060         | \$ 15,206           | \$ 57,595         | \$ 7,600            |
| Income allocable to preferred shares | 2,888             | 504                 | 2,325             | 27                  |
| Distributions                        | (2,888)           | (504)               | (2,325)           | (27)                |
| Balance, June 30, 2002               | \$ 80,060         | \$ 15,206           | \$ 57,595         | \$ 7,600            |

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 \$542.6 million and \$501.4 million at June 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.

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### 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 six months ended June 30, 2002 and 2001.

|   | For the three months ended June 30, 2002<br>Income<br>(Numerator) | Shares<br>(Denominator) | Per Share<br>Amount | For the three<br>months ended June 30, 2001<br>Income<br>(Numerator) |
|---|---|-------------------------|---------------------|--|
|   |   |                         |                     |  |
| (in thousands, except share and per share data)               |   |                         |                     |  |
| Basic EPS   |   |                         |                     |  |
| Income allocable to common shares                             | \$ 2,920  | 25,252,124              | \$ 0.12             | \$ 11,813  |
|   |   |                         |                     |  |
| Effect of Dilutive Securities                                 |   |                         |                     |  |
| Options and deferred shares                                   | -   | 450,829                 |                     | -  |
| Earnings contingency  | -   | 132,855                 |                     | -  |
|   |   |                         |                     |  |
| Diluted EPS   |   |                         |                     |  |
| Income allocable to common shares<br>plus assumed conversions | \$ 2,920  | 25,835,808              | \$ 0.11             | \$ 11,813  |
|   |   |                         |                     |  |

|   | For the six months ended June 30, 2002<br>Income<br>(Numerator) | Shares<br>(Denominator) | Per Share<br>Amount | For the six<br>months ended June 30, 2001<br>Income<br>(Numerator) |
|---|---|-------------------------|---------------------|--|
|   |   |                         |                     |  |
| (in thousands, except share and per share data)               |   |                         |                     |  |
| Basic EPS   |   |                         |                     |  |
| Income allocable to common shares                             | \$ 17,813   | 24,423,091              | \$ 0.73             | \$ 2,749   |
|   |   |                         |                     |  |
| Effect of Dilutive Securities                                 |   |                         |                     |  |
| Options and deferred shares                                   | -   | 466,685                 |                     | -  |
| Earnings contingency  | -   | 132,855                 |                     | -  |
|   |   |                         |                     |  |
| Diluted EPS   |   |                         |                     |  |
| Income allocable to common shares<br>plus assumed conversions | \$ 17,813   | 25,022,631              | \$ 0.71             | \$ 2,749   |
|   |   |                         |                     |  |

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

### NOTE 11 - DISTRIBUTIONS

On July 18, 2002 the Board of Directors declared a distribution of \$0.4375 for the three months ended June 30, 2002 to common shareholders of record on July 29, 2002. The payment date was August 9, 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 six months ended June 30, 2002 and 2001.

| Municipal Mortgage & Equity,<br>Segment Reporting<br>(in thousands) (unaudited) |                      |                      |             |                       |                      |
|---|----------------------|----------------------|-------------|-----------------------|----------------------|
| For the three months ended June 30, 2002  |                      |                      |             |                       | For the              |
|   | Investing<br>Segment | Operating<br>Segment | Adjustments | Total<br>Consolidated | Investing<br>Segment |
| <b>INCOME:</b>  |                      |                      |             |                       |                      |
| Interest on tax-exempt bonds and<br>other bond-related investments              | \$14,594             | \$ 1,129             | \$ -        | \$ 15,723             | \$ 28,702            |
| Interest on loans   | 832                  | 7,438                | -           | 8,270                 | 1,680                |
| Loan origination and brokerage fees   | 750                  | 1,963                | (1,500) (1) | 1,213                 | 750                  |
| Syndication fees  | -                    | 2,672                | -           | 2,672                 | -                    |
| Loan servicing fees   | -                    | 1,660                | -           | 1,660                 | -                    |
| Interest on short-term investments  | 194                  | 50                   | -           | 244                   | 635                  |
| Other income  | 112                  | 2,281                | -           | 2,393                 | 469                  |
| Net gain (loss) on sales  | (2,691)              | 3,394                | -           | 703                   | (1,735)              |
| Total income  | 13,791               | 20,587               | (1,500)     | 32,878                | 30,501               |
| <b>EXPENSES:</b>  |                      |                      |             |                       |                      |
| Salaries and benefits   | 510                  | 5,420                | -           | 5,930                 | 1,618                |
| Professional Fees   | 231                  | 1,206                | -           | 1,437                 | 331                  |



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|  |                 |                 |                   |                 |                  |
|--|-----------------|-----------------|-------------------|-----------------|------------------|
| Operating expenses   | 341             | 1,886           | -                 | 2,227           | 754              |
| Amortization of intangible assets  | -               | 333             | -                 | 333             | -                |
| Interest expense   | 2,125           | 6,362           | -                 | 8,487           | 4,514            |
| Other-than-temporary impairments related to investments in tax-exempt bonds and other bond-related investments                                       | -               | -               | -                 | -               | 110              |
| <b>Total expenses</b>  | <b>3,207</b>    | <b>15,207</b>   | <b>-</b>          | <b>18,414</b>   | <b>7,327</b>     |
| Net holding losses on trading securities   | (7,721)         | -               | -                 | (7,721)         | (4,609)          |
| Net income(loss) before income taxes, income allocated to preferred shareholders in a subsidiary company, and cumulative effect of accounting change | 2,863           | 5,380           | (1,500)           | 6,743           | 18,565           |
| Income tax expense   | -               | 828             | -                 | 828             | -                |
| Net income (loss) before income allocated to preferred shareholders in a subsidiary company and cumulative effect of accounting change               | 2,863           | 4,552           | (1,500)           | 5,915           | 18,565           |
| Income allocable to preferred shareholders in a subsidiary company   | 2,995           | -               | -                 | 2,995           | 5,989            |
| Net income (loss) before cumulative effect of accounting change  | (132)           | 4,552           | (1,500)           | 2,920           | 12,576           |
| Cumulative effect on prior year changes in accounting for derivative financial instruments   | -               | -               | -                 | -               | -                |
| <b>Net income (loss)</b>   | <b>\$ (132)</b> | <b>\$ 4,552</b> | <b>\$ (1,500)</b> | <b>\$ 2,920</b> | <b>\$ 12,576</b> |

Notes:

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

|   | For the three months ended June 30, 2001 |                   |             | For the si         |                   |
|---|--|-------------------|-------------|--------------------|-------------------|
|   | Investing Segment                        | Operating Segment | Adjustments | Total Consolidated | Investing Segment |
| <b>INCOME:</b>  |  |                   |             |                    |                   |
| Interest on tax-exempt bonds and other bond-related investments | \$11,400                                 | \$ 809            | \$ -        | \$ 12,209          | \$ 22,742         |
| Interest on loans   | 645                                      | 8,123             | -           | 8,768              | 1,126             |
| Loan origination and brokerage fee                              | -  | 972               | (120) (1)   | 852                | -                 |
| Syndication fees  | -  | 2,511             | -           | 2,511              | -                 |
| Loan servicing fees   | -  | 1,729             | -           | 1,729              | -                 |
| Interest on short-term investments                              | 513                                      | 180               | -           | 693                | 1,254             |

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|  |          |          |          |           |          |
|--|----------|----------|----------|-----------|----------|
| Other income   | -        | 1,643    | -        | 1,643     | -        |
| Net gain (loss) on sales   | -        | 1,969    | -        | 1,969     | -        |
|  |          |          |          |           |          |
| Total income   | 12,558   | 17,936   | (120)    | 30,374    | 25,122   |
|  |          |          |          |           |          |
| EXPENSES:  |          |          |          |           |          |
| Salaries and benefits  | 419      | 4,611    | -        | 5,030     | 762      |
| Professional Fees  | 281      | 632      | -        | 913       | 498      |
| Operating expenses   | 256      | 1,894    | -        | 2,150     | 462      |
| Amortization of intangible assets  | -        | 628      | -        | 628       | -        |
| Interest expense   | 1,463    | 6,306    | -        | 7,769     | 3,087    |
| Other-than-temporary impairments<br>related to investments in<br>tax-exempt bonds and other<br>bond-related investments  | -        | -        | -        | -         | -        |
| Total expenses   | 2,419    | 14,071   | -        | 16,490    | 4,809    |
|  |          |          |          |           |          |
| Net holding gains (losses) on<br>trading securities  | 1,272    | -        | -        | 1,272     | (3,593)  |
| Net income (loss) before income<br>taxes, income allocated to<br>preferred shareholders in a<br>subsidiary company and cumulative<br>effect of accounting change | 11,411   | 3,865    | (120)    | 15,156    | 16,720   |
| Income tax expense   | -        | 224      | -        | 224       | -        |
|  |          |          |          |           |          |
| Net income (loss) before income<br>allocated to preferred<br>shareholders in a subsidiary<br>company and cumulative<br>effect of accounting change               | 11,411   | 3,641    | (120)    | 14,932    | 16,720   |
| Income allocable to preferred<br>shareholders in a subsidiary<br>company   | 2,606    | -        | -        | 2,606     | 5,212    |
|  |          |          |          |           |          |
| Net income (loss) before cumulative<br>effect of accounting change   | 8,805    | 3,641    | (120)    | 12,326    | 11,508   |
| Cumulative effect on prior year<br>changes in accounting for<br>derivative financial instruments   | -        | -        | -        | -         | (12,277) |
| Net income (loss)  | \$ 8,805 | \$ 3,641 | \$ (120) | \$ 12,326 | \$ (769) |

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

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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 second quarter of 2002 increased \$2.5 million over the same period last year due primarily to the following changes: (1) a \$3.0 million increase in collections of interest on bonds, other bond-related investments, other notes and loans; (2) a \$0.4 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 a decrease in interest collected on margin call collateral accounts; (3) a \$0.4 million increase in loan origination and brokerage fees due primarily to an increase in origination fees on taxable permanent lending; (4) a \$0.8 million increase in other income due to an increase in asset management fees, advisory fees and cancellation fees; and (5) a \$1.3 million decrease in gain on sales as a result of a one-time gain of \$1.1 million on a tax credit equity re-syndication in the second quarter of 2001.

Total expenses for the second quarter of 2002 increased \$1.9 million over the same period last year due primarily to the following changes: (1) a \$0.9 million increase in salary and related benefits expense associated with 2001 new hires; (2) a \$0.5 million increase in professional fees due to an increase in consulting and legal expenses related to new information system initiatives and other corporate initiatives; (3) a \$0.3 million decrease in amortization expense due to changes in accounting guidelines relating to discontinued amortization of goodwill; and (4) a \$0.7 million increase in interest expense primarily associated with increased construction lending production and 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 \$7.7 million for the second quarter of 2002.

Income tax expense increased \$0.6 million for the second quarter of 2002 over the same period last year due to a decrease in the amount of deferred tax benefit related to tax credits at the Company's subsidiaries.

#### Year-to-Date Analysis

Total income for the six months ended June 30, 2002 increased \$5.4 million over the same period last year due primarily to the following changes: (1) a \$6.7 million increase in collections of interest on bonds, other bond-related investments, other notes and loans; (2) a \$1.0 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 a decrease in interest collected on margin call collateral accounts; (3) a \$2.4 million decrease in other income primarily due to other income associated with income earned on the assumption of a purchase obligation with respect to the Hunter's Glen and Buchanan Bay bonds in the first quarter of 2001; (4) a \$0.9 million increase in syndication fees due primarily to an increase in the volume of tax credit and conventional equity transactions; and (5) a \$0.7 million increase in gain on sales associated with the sale of loans.

Total expenses for the six months ended June 30, 2002 increased \$0.1 million over the same period last year due primarily to the following changes: (1) a \$1.3 million increase in salary and related benefits expense associated

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with 2001 new hires; (2) a \$0.7 million increase in other operating expenses driven primarily by deployment of accounting information systems and other upgrades in technology infrastructure; (3) a \$0.7 million decrease in amortization expense due to changes in accounting guidelines relating to amortization of goodwill; (4) a \$1.9 million increase in interest expense primarily associated with increased construction lending production and an increase in financing costs associated with on-balance sheet securitizations; and (5) 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 \$4.6 million for the six months ended June 30, 2002.

Income tax expense increased \$1.6 million for the six months ended June 30, 2002 over the same period last year due primarily to an increase in taxable income earned by the Company's subsidiaries of \$0.8 million and a \$0.5 million decrease in the deferred tax benefit relating to tax credits.

### 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, the Company has expanded its access to capital.

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During the second quarter of 2002, the Company funded \$17.8 million in tax-exempt bonds collateralized by six multifamily apartment communities. Of this amount, \$153,000 was an investment in non-participating bonds; the approximately \$44.0 million balance of these bonds is expected to be funded by the Company in the third and fourth quarters of 2002. The remaining \$17.6 million in funding was attributable to investments in non-participating bonds: investments in a \$4.4 million tax-exempt bond, a \$2.6 million tax-exempt bond, and a \$1.0 million tax-exempt bond, all collateralized by two properties known as Lakeside and Golf Villas; and a \$9.6 million tax-exempt bond collateralized by a property known as Park Center. Of that amount, the \$8.0 million investment in the Lakeside and Golf Villas bonds were sold later in the second quarter for \$8.0 million. Including the construction and permanent components of the Company's bond investments, the Company's total bond investments held at June 30, 2002 for the second quarter aggregated \$103.6 million.

In addition, MuniMae originated \$76.9 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 \$81.7 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 \$131.7 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.

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 senior interests owned by others 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 53% both at June 30, 2002 and at December 31, 2001. By comparison, the Company's leverage ratio as calculated based on the Company's on-balance sheet debt ("GAAP based leverage") was 45% and 49% at June 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 June 30, 2002 and December 31, 2001, the total carrying amount of the tax-exempt bonds and taxable loans pledged as collateral was \$414.7 million and \$361.8 million, respectively.

The Company's 2001 Form 10-K contains a complete description of the

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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.

### Factors That Could Affect Future Results

The Company's 2001 Form 10-K contains a complete description of the Company's 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 June 30, 2002 the Company had cash and cash equivalents of approximately \$33.2 million.

Cash flow from operating activities was \$20.1 million and \$24.1 million for the three months ended June 30, 2002 and 2001, respectively. The decrease in cash flow for 2002 versus 2001 is due primarily to a decrease in accounts payable and accrued expenses due to timing of payments.

The Company uses CAD as the primary measure of its ability to pay distributions. CAD differs from net income because of slight variations between generally accepted accounting principles ("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 2.0% 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 June 30, 2002 and 2001, cash available for distribution to common shares was \$12.4 million and \$10.3 million, respectively. The Company's distribution per common share for the three months ended June 30, 2002 of \$0.4375 represents a payout ratio of 89% of CAD. The Company's common share distribution for the three months ended June 30, 2001 of \$0.4275 represents a payout ratio of 90% of CAD.

Regular cash distributions to shareholders, for the three months ended June 30, 2002 and 2001, were \$11.1 million and \$9.2 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

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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

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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.

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### PART II. OTHER INFORMATION

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#### Item 4. Submission of Matters to a Vote of Security Holders

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At the annual meeting of the Company's shareholders held on May 9, 2002, the shareholders voted on one proposal in addition to the election of the Company's directors. The shareholders elected the following directors: Mark K. Joseph (23,013,348 in favor and 213,179 abstaining), Charles C. Baum (23,084,997 in favor and 141,530 abstaining) and Robert J. Banks (23,020,776 in favor and 205,751 abstaining). At this meeting, the shareholders also voted to approve the adoption of the Company's Second Amended and Restated Certificate of Formation and Operating Agreement in order to eliminate provisions that relate to classes of shares that have been fully redeemed. The votes cast on this proposal were as follows: 22,935,197 in favor, 120,184 opposed, 171,146 abstaining and no broker non-votes.

#### Item 6. Exhibits and Reports on Form 8-K

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(a) Exhibits:

- 3.1 Second Amended and Restated Certificate of Formation and Operating Agreement of the Company
- 3.2 By-laws of the Company (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K, filed with the Commission on May 29, 1998 and incorporated by reference herein)
- 99 Officers' Certificate

(b) Reports on Form 8-K:

On July 12, 2002, the Company filed a Form 8-K containing the supplemental information reported to security analysts for the three months ended March 31, 2002.

On August 12, 2002, the Company filed a Form 8-K containing the supplemental information reported to security analysts for the three months ended June 30, 2002.

On August 12, 2002, the Company filed a Form 8-K containing the Second Amended and Restated Certificate of Formation and Operating Agreement of the Company.

### 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.



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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)

DATED: August 9, 2002

EXHIBIT 99

OFFICERS' CERTIFICATE

The undersigned officers of Municipal Mortgage & Equity, LLC, a Delaware limited liability company (the "Company"), hereby certify that (i) the Company's Form 10-Q for the quarter ended June 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 Form 10-Q for the quarter ended June 30, 2002 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2002

/s/ Mark K. Joseph

\_\_\_\_\_  
Name: Mark K. Joseph  
Title: Chief Executive Officer

/s/William S. Harrison

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Name: William S. Harrison  
Title: Chief Financial Officer

