

Edgar Filing: MUNICIPAL MORTGAGE & EQUITY LLC - Form 10-Q/A

MUNICIPAL MORTGAGE & EQUITY LLC  
Form 10-Q/A  
December 11, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended June 30, 2003

Commission File Number: 001-11981

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

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

52-1449733  
(I.R.S. Employer Identification No.)

218 NORTH CHARLES STREET, SUITE 500  
BALTIMORE, MARYLAND  
(Address of Principal Executive Offices)

21201  
(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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The Registrant had 28,836,030 common shares outstanding as of August 5, 2003.

EXPLANATORY NOTE

This Form 10-Q/A amends and replaces in its entirety the Form 10-Q (the "Form 10-Q") filed by Municipal Mortgage & Equity, LLC on August 13, 2003. This amendment is being filed solely to correct the signature page to the Form 10-Q.

MUNICIPAL MORTGAGE & EQUITY, LLC  
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MUNICIPAL MORTGAGE & EQUITY, LLC  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE DATA)  
(UNAUDITED)

	June -----
ASSETS	
Investment in tax-exempt bonds, net (Note 2)	\$
Loans receivable, net (Note 3)	
Loans receivable held for sale (Note 3)	
Investments in partnerships	
Residual interests in bond securitizations (Note 4)	
Investment in derivative financial instruments (Note 5)	
Cash and cash equivalents	
Interest receivable	
Restricted assets	
Other assets (Note 6)	
Mortgage servicing rights, net	
Goodwill	
 TOTAL ASSETS	 ----- \$ 1, =====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Notes payable (Note 7)	\$
Short-term debt (Note 7)	
Long-term debt (Note 7)	
Residual interests in bond securitizations (Note 4)	
Investment in derivative financial instruments (Note 5)	
Accounts payable and accrued expenses	
Interest payable	
Unearned revenue and other liabilities	
Distributions payable	
 TOTAL LIABILITIES	 ----- -----
COMMITMENTS AND CONTINGENCIES (NOTE 8)	
PREFERRED SHAREHOLDERS' AND MINORITY INTERESTS' EQUITY IN SUBSIDIARY COMPANIES	
SHAREHOLDERS' EQUITY:	
Common shares, par value \$0 (32,303,599 shares authorized, including 28,922,533	

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shares issued and outstanding, and 34,595 deferred shares at June 30, 2003 and 29,083,599 authorized, 25,571,580 shares issued and outstanding, and 29,844 deferred shares at December 31, 2002)  
 Less common shares held in treasury at cost (124,715 and 55,444 at June 30, 2003 and December 31, 2002, respectively)  
 Less unearned compensation (deferred shares) (Note 12)  
 Accumulated other comprehensive income

TOTAL SHAREHOLDERS' EQUITY

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

-----  
 \$ 1,  
 =====

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

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MUNICIPAL MORTGAGE & EQUITY, LLC  
 CONSOLIDATED STATEMENTS OF INCOME  
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)  
 (UNAUDITED)

	For the three months ended June 30,	
	2003	2002
<b>INCOME:</b>		
Interest income		
Interest on bonds and residual interests in bond securitizations	\$ 13,929	\$ 13,929
Interest on loans	7,563	7,563
Interest on short-term investments	332	332
Total interest income	21,824	21,824
Fee income		
Syndication fees	1,825	1,825
Origination fees	2,219	2,219
Loan servicing fees	1,838	1,838
Asset management and advisory fees	1,198	1,198
Other income	3,309	3,309
Total fee income	10,389	10,389
Net gain on sales	1,453	1,453
<b>TOTAL INCOME</b>	<b>33,666</b>	<b>33,666</b>
<b>EXPENSES:</b>		
Interest expense	8,724	8,724
Salaries and benefits	8,671	8,671
General and administrative	2,113	2,113
Professional fees	877	877
Amortization of mortgage servicing rights and other intangibles	414	414

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TOTAL EXPENSES	20,799	1
Net holding gains (losses) on derivatives	(2,449)	(
Impairments and valuation allowances related to investments (Notes 2 and 3)	(1,144)	
Net gains (losses) from equity investments in partnerships	(1,606)	
NET INCOME BEFORE INCOME TAXES, INCOME ALLOCATED TO PREFERRED SHAREHOLDERS AND MINORITY INTERESTS IN SUBSIDIARY COMPANIES AND DISCONTINUED OPERATIONS	7,668	
Income tax expense (benefit)	(540)	
NET INCOME BEFORE INCOME ALLOCATED TO PREFERRED SHAREHOLDERS AND MINORITY INTERESTS IN SUBSIDIARY COMPANIES AND DISCONTINUED OPERATIONS	8,208	
Income allocable to preferred shareholders and minority interests in subsidiary companies	2,854	
NET INCOME FROM CONTINUING OPERATIONS	5,354	
Discontinued operations (Note 9)	25,748	
NET INCOME	\$ 31,102	\$
NET INCOME ALLOCATED TO:		
Term growth shares	\$ --	\$
Common shares	\$ 31,102	\$

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

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MUNICIPAL MORTGAGE & EQUITY, LLC  
CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)  
(UNAUDITED)

	For the three months ended June 30,		For th
	2003	2002	2003
BASIC EARNINGS PER COMMON SHARE:			
Net income from continuing operations	\$ 0.19	\$ 0.12	\$
Discontinued operations	0.89	--	
Basic earnings per common share	\$ 1.08	\$ 0.12	\$
Weighted average common shares outstanding	28,857,305	25,252,124	28,104
DILUTED EARNINGS PER COMMON SHARE:			
Net income from continuing operations	\$ 0.18	\$ 0.11	\$
Discontinued operations	0.88	--	
Diluted earnings per common share	\$ 1.06	\$ 0.11	\$
Weighted average common shares outstanding	29,213,062	25,835,808	28,451

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MUNICIPAL MORTGAGE & EQUITY, LLC  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(IN THOUSANDS)  
(UNAUDITED)

	For the three months ended June 30,	
	----- 2003 -----	2002 -----
NET INCOME	\$ 31,102	\$ 2,920
Other comprehensive income (loss):		
Unrealized gains (losses) on investments:		
Unrealized holding gains (losses) arising during the period	16,540	2,928
Reclassification adjustment for gains included in net income	(24,726)	--
Other comprehensive income (loss)	(8,186)	2,928
COMPREHENSIVE INCOME	\$ 22,916	\$ 5,848
	=====	=====

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

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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 and minority interests in subsidiary companies

  Net holding (gains) losses on trading securities

  Impairments and valuation allowances related to investments

  Net gain on sales

  Loss from investments in partnerships

  Distributions received from investments in partnerships

  Net amortization of premiums, discounts and fees on investments

  Depreciation and amortization

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Discontinued operations  
Deferred income taxes  
Tax benefit from deferred share compensation  
Deferred share compensation expense  
Common and deferred shares issued under the Non-Employee Directors' Share Plans  
Net change in assets and liabilities:  
Increase in interest receivable  
Decrease (increase) in other assets and goodwill  
Increase (decrease) in accounts payable, accrued expenses and other liabilities

### NET CASH PROVIDED BY OPERATING ACTIVITIES

#### CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of tax-exempt bonds and residual interests in bond securitizations  
Loan originations  
Purchases of property and equipment  
Net investment in restricted assets  
Principal payments received  
Investments in partnerships  
Return of capital invested in partnerships  
Termination of derivative financial instruments  
Proceeds from sales of investments

### NET CASH USED IN INVESTING ACTIVITIES

#### CASH FLOWS FROM FINANCING ACTIVITIES:

Borrowings from credit facilities  
Repayment of credit facilities  
Proceeds from short-term debt  
Repayment of short-term debt  
Proceeds from long-term debt  
Repayment of long-term debt  
Issuance of common shares  
Redemption of preferred shares  
Proceeds from stock options exercised  
Distributions on common shares  
Distributions to preferred shareholders in a subsidiary company

### NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES

#### NET INCREASE (DECREASE) 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.

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	COMMON SHARES -----	TREASURY SHARES -----	UNEARNED COMPENSATION -----
BALANCE, JANUARY 1, 2003	\$471,946	\$ (857)	\$ (3,200)
Net income	45,047	--	
Unrealized gains on investments, net of reclassifications	--	--	
Distributions	(24,181)	--	
Purchase of treasury shares	1,758	(1,758)	
Options exercised	1,122	--	
Issuance of common shares	71,891	--	
Deferred shares issued under the Non-Employee Directors' Share Plans (Note 12)	115	--	
Deferred share grants (Note 12)	1,000	--	(1,000)
Forfeiture of deferred shares	(452)	--	400
Amortization of deferred compensation (Note 12)	--	--	800
Tax benefit from exercise of options and vesting of deferred shares	330	--	
	-----	-----	-----
BALANCE, JUNE 30, 2003	\$568,576	\$ (2,615)	\$ (2,900)
	=====	=====	=====

SHARE ACTIVITY:	COMMON SHARES -----	TREASURY SHARES -----
BALANCE, JANUARY 1, 2003	25,545,980	55,444
Options exercised	61,125	--
Purchase of treasury shares	(69,271)	69,271
Issuance of common shares	3,220,822	--
Issuance of common shares under employee share incentive plans (Note 12)	69,006	--
Deferred shares issued under the Non-Employee Directors' Share Plans (Note 12)	4,751	--
	-----	-----
BALANCE, JUNE 30, 2003	28,832,413	124,715
	=====	=====

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

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### NOTE 1 - BASIS OF PRESENTATION

Municipal Mortgage & Equity, LLC ("MUNIMAE" and, together with its subsidiaries, the "COMPANY") provides debt and equity financing to developers of multifamily housing. The Company invests 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 bond 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 is also a mortgage banker. Mortgage banking activities include the origination, investment in and servicing of investments in multifamily housing, both for its own account and on behalf of third parties. These investments generate taxable income.

The Company also invests in (1) other housing-related debt and equity investments, including equity investments in income-producing real estate operating partnerships and tax-exempt bonds, or interests in bonds, secured by student housing or assisted living developments, 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.

The Company also acquires and sells interests in partnerships that provide low-income housing tax credits for investors. The Company earns syndication fees on the placement of these interests with investors, including the Federal National Mortgage Association ("FANNIE MAE") and a number of corporate investors. The Company also earns asset management fees for managing the low-income housing tax credit funds syndicated.

MuniMae is a Delaware limited liability company. As a limited liability company, MuniMae combines the limited liability, governance and management characteristics of a corporation with the pass-through income features of a partnership. Since MuniMae is classified as a partnership for federal income tax purposes, no recognition of income taxes is made at the corporate level (except for income earned through subsidiaries of the Company organized as corporations). Instead, the distributive share of MuniMae's income, deductions and credits is included in each shareholder's income tax return.

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

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Annual Report on Form 10-K for the year ended December 31, 2002 (the "COMPANY'S 2002 FORM 10-K"). Certain information and footnote disclosures normally included in financial statements presented in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted. The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2002 Form 10-K. Certain 2002 amounts have been reclassified to conform to the 2003 presentation.

The Company posts all Securities and Exchange Commission reports on their website at <http://www.mmafin.com>. These reports are available free of charge.



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### NEW ACCOUNTING PRONOUNCEMENTS

In May 2003, the Financial Accounting Standards Board approved Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("FAS 150"). FAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify those financial instruments with certain debt-like characteristics as liabilities. The scope of FAS 150 includes financial instruments issued in the form of mandatorily redeemable shares. These types of shares embody an unconditional obligation requiring the issuer to redeem them by transferring assets at a specified date. Management has determined that the Company's preferred shareholders' equity in a subsidiary company appears to fall within the scope of FAS 150. Therefore, the Company will be required to reclassify its preferred shareholders' equity of \$160.5 million to the liability section of the consolidated balance sheets. In addition, amounts currently classified as distributions paid to the preferred shareholders will be recorded as interest expense. FAS 150 is effective for instruments held by the Company at the beginning of the first interim period beginning after June 15, 2003.

In January 2003, the Financial Accounting Standards Board approved Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires the consolidation of a Company's equity investment in a variable interest entity ("VIE") if the Company is the primary beneficiary of the VIE and if risks are not effectively dispersed among the owners of the VIE. The Company is considered to be the primary beneficiary of the VIE if the Company absorbs the majority of the losses of the VIE. FIN 46 is effective for VIEs created after January 31, 2003. For any VIE in which the Company held an interest that it acquired before February 1, 2003, FIN 46 is effective for the first interim reporting period beginning after June 15, 2003. The Company is currently reviewing the impact of FIN 46 on the tax credit syndication funds that a wholly owned subsidiary of the Company sponsors and asset manages, as well as investments accounted for under the equity method of accounting. The Company will continue to review new investments in order to determine if they should be accounted for in accordance with FIN 46.

### NOTE 2 - INVESTMENT IN TAX-EXEMPT BONDS

The Company originates investments in tax-exempt bonds and taxable loans primarily to the

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affordable multifamily housing industry. 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 nonrecourse mortgage loans or tax levies on the underlying properties. The Company's sources of capital to fund these lending activities include proceeds from equity offerings, securitizations, and lines of credit. The Company earns interest income from its investment in tax-exempt bonds and taxable loans. The Company also earns origination and construction administration fees from originating the bonds and servicing the bonds during the construction period. For further discussion of the general terms of tax-exempt bonds see Note 1 to the Company's 2002 Form 10-K.

As of June 30, 2003 and December 31, 2002, the Company held \$775.8 million and \$770.3 million of tax-exempt bonds, respectively. The following table summarizes tax-exempt bonds by type.

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June 30, 2003

(000s)	Face Amount	Amortized Cost	Unrealized Gain (Loss)
Non-participating bonds	\$651,518	\$632,417	\$ (9,659)
Participating bonds	82,717	81,820	2,408
Subordinate non-participating bonds	19,003	17,664	(11)
Subordinate participating bonds	58,890	35,799	15,355
<b>Total</b>	<b>\$812,128</b>	<b>\$767,700</b>	<b>\$ 8,093</b>

December 31, 2002

(000s)	Face Amount	Amortized Cost	Unrealized Gain (Loss)
Non-participating bonds	\$651,737	\$621,594	\$ (4,692)
Participating bonds	82,852	81,956	1,893
Subordinate non-participating bonds	19,039	17,700	106
Subordinate participating bonds	58,890	35,799	15,989
<b>Total</b>	<b>\$812,518</b>	<b>\$757,049</b>	<b>\$ 13,296</b>

During the second quarter of 2003, the Company invested in tax-exempt bonds with a face amount of \$4.6 million for \$4.4 million. These investments represent new primary investments

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(bonds which the Company originated).

The Company invested an additional \$14.0 million in existing tax-exempt draw down bonds with a face amount of \$14.0 million. Since the end of 2002, the Company has structured tax-exempt bonds that allow the borrower to make draws on the bonds throughout the construction period. The initial draws on these bonds have been reported as new primary investments in prior quarters.

In order to facilitate the securitization (see Note 1 to the Company's 2002 Form 10-K) of certain assets at higher leverage ratios than otherwise available, the Company has pledged additional bonds as collateral for senior interests in certain securitization trusts and credit enhancement facilities. At June 30, 2003 and December 31, 2002, the total carrying amount of the tax-exempt bonds pledged as collateral for such trusts and facilities was \$360.7 million and \$372.9 million, respectively.

NOTE 3 - LOANS RECEIVABLE

The Company's loans receivable consist primarily of construction loans, permanent loans, supplemental loans and other taxable loans. For further discussion of the general terms of loans held by the Company and the allowance for loan losses see the description of mortgage banking activities in Note 1 to the Company's 2002 Form 10-K. The following table summarizes loans receivable by

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loan type at June 30, 2003 and December 31, 2002.

(in thousands)	JUNE 30, 2003	DECEMBER 31, 2002
Loan Type:		
Construction loans	\$ 338,120	\$ 300,266
Supplemental loans	81,330	80,459
Other taxable loans	33,356	42,646
	452,806	423,371
Allowance for loan losses	(1,409)	(1,072)
	\$ 451,397	\$ 422,299
TOTAL	\$ 451,397	\$ 422,299

The Company has loans receivable held for sale of \$11.0 million and \$39.1 million at June 30, 2003 and December 31, 2002, respectively. These loans are sold to Fannie Mae and third party conduit lenders. Due to the short time the Company holds these loans, carrying value approximates fair value.

The Company pledges its construction loans, permanent loans and supplemental loans as collateral for the Company's notes payable and line of credit borrowings. In addition, in order to facilitate the securitization of certain assets at higher leverage ratios than otherwise available, the Company has pledged additional taxable loans to a pool that acts as collateral for senior interests in certain securitization trusts and credit enhancement facilities. At June 30, 2003 and December 31, 2002, the total carrying amount of the loans receivable pledged as collateral was \$407.2 million and

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\$417.1 million, respectively.

#### NOTE 4 - RESIDUAL INTERESTS IN BOND SECURITIZATIONS

At June 30, 2003 and December 31, 2002, the Company's residual interests in bond securitizations are investments in Residual Interest Tax-Exempt Securities Receipts ("RITES(SM)"). For further discussion of the Company's securitization programs see Note 1 to the Company's 2002 Form 10-K. The following table provides certain information with respect to the residual interests in bond securitizations held by the Company at June 30, 2003 and December 31, 2002.

(000s)	June 30, 2003				Fair Valu
	Face Amount	Amortized Cost	Unrealized Gain (Loss)	Assets	Liabiliti
	-----	-----	-----	-----	-----
Total RITES(SM) (3)	\$ 334	\$ 4,209	\$ 7,547	\$13,099	\$(1,34
	=====	=====	=====	=====	=====

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(000s)

December 31, 2002

	Face Amount	Amortized Cost	Unrealized Gain (Loss)	Assets	Fair Value Liabilities
Total RITES (SM) (3)	\$ 334	\$ 3,639	\$ 5,953	\$11,039	\$ (1,440)

(1) The amounts disclosed represent the fair values of all the Company's investments in residual interests in bond securitizations 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) The amount of outstanding Puttable Floating Option Tax-Exempt Receipts ("P-FLOATS(SM)"), which are senior to the Company's RITES(SM) investments and which are not reflected in the Company's balance sheet, was \$190.2 million and \$177.8 million at June 30, 2003 and December 31, 2002, respectively.

The Company purchased \$13,000 of RITES(SM) for \$0.8 million in the second quarter of 2003. The Company also collapsed a \$5,000 RITES(SM) position and placed the related \$27.3 million bond in the MBIA securitization program.

RITES(SM) Valuation Analysis

The fair value of a RITES(SM) investment is derived from the quote on the underlying bond reduced by the outstanding corresponding P-FLOATS(SM) 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 fair value of the underlying bond includes a prepayment risk factor. The prepayment risk factor is reflected in the fair value of the bond by assuming the bond will prepay at the most adverse time to the Company given current market rates and estimates of future market rates. Based on this, an adverse change in prepayment risk would not have an effect on the fair value of the Company's RITES(SM) investments. In addition, the RITES(SM) 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 be prepaid. Based on historical experience, credit losses were estimated to be zero.

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At June 30, 2003 and December 31, 2002, a 10% and 20% adverse change in key assumptions used to estimate the fair value of the Company's RITES(SM) would have the following impact.

(000s)	June 30, 2003	December 31, 2002
Fair value of retained interests, net	\$11,756	\$11,039
Residual cash flows discount rate (annual rate)	3.1% - 8.5%	3.8%

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Impact on fair value of 10% adverse change	(\$ 8,406)	(\$
Impact on fair value of 20% adverse change	(\$16,109)	(\$1

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.

### NOTE 5 - INVESTMENT IN DERIVATIVE FINANCIAL INSTRUMENTS

At June 30, 2003 and December 31, 2002, the Company's investments in derivative financial instruments consisted of interest rate swaps and put option contracts. For further discussion of the Company's investment in derivative financial instruments see Note 6 to the Company's 2002 Form 10-K. The Company terminated swap contracts with a total notional amount of \$105.7 million (\$319.4 million in swap contracts and \$213.6 million in reverse swap contracts). In addition, a swap contract with a notional amount of \$13.1 million expired in the second quarter of 2003. The following table provides certain information with respect to the derivative financial instruments held by the Company at June 30, 2003 and December 31, 2002.

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(000s)	June 30, 2003			Noti Amou
	Notional Amount (1)	Fair Value (2) Assets      Liabilities(3)		
Interest rate swap agreements	\$230,975	\$ 3,170	\$ (21,792)	\$349
Put option agreements	97,314	--	--	98
Total investment in derivative financial instruments		\$ 3,170	\$ (21,792)	
		=====	=====	

(1) For the interest rate swap agreements, notional amount represents total amount of the Company's interest rate swap contracts (\$265,935 as of June 30, 2003 and \$598,415 as of December 31, 2002) less the total amount of the Company's reverse interest rate swap contracts (\$34,960 as of June 30, 2003 and \$248,605 as of December 31, 2002). For put option agreements, the notional amount represents the Company's aggregate obligation under the put option agreements.

(2) The amounts disclosed represent the net fair values of all the Company's derivatives at the reporting date.

(3) 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 6 - OTHER ASSETS

The Company's investment in other assets includes prepaid expenses, other

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receivables, debt issue costs, property and equipment, and certain investments in interest-only securities. Included in the other asset balance at June 30, 2003 and December 31, 2002 is \$9.5 million and \$23.3 million, respectively, of receivables due from various syndicated low-income housing tax credit funds (for further discussion of syndicated low-income housing tax credit funds, see Note 1 to the Company's 2002 Form 10-K). The decrease in this receivable from December 31, 2002 to June 30, 2003 is due to certain funds repaying the Company after obtaining an alternative source of financing.

### NOTE 7 - NOTES PAYABLE AND DEBT

The Company's notes payable consist primarily of notes payable and advances under line of credit arrangements, which are used to: (1) finance construction lending needs; (2) finance working capital needs; (3) warehouse real estate operating partnerships before they are placed into tax credit equity funds; and (4) warehouse permanent loans before they are sold. The Company's short- and long-term debt relates to securitization transactions that the Company has recorded as borrowings (see Notes 1 and 9 to the Company's 2002 Form 10-K). The following table summarizes notes payable and debt at June 30, 2003 and December 31, 2002.

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(000s)	Total of Facilities -----	June 30, 2003 -----	December 31, 2002 -----
Short-term notes payable	N/A	\$232,301	\$126,410
Lines of credit - unaffiliated entities	\$280,000	60,444	110,821
Lines of credit - affiliated entities	\$240,000	29,869	89,053
Short-term debt	N/A	211,670	219,945
		-----	-----
Total short-term notes payable and debt		534,284	546,229
		-----	-----
Long-term notes payable	N/A	114,335	124,640
Long-term debt	N/A	142,006	147,357
		-----	-----
Total long-term notes payable and debt		256,341	271,997
		-----	-----
Total notes payable and debt		\$790,625	\$818,226
		=====	=====

### Covenant Compliance

Under the terms of the various credit facilities, the Company is required to comply with covenants including net worth, interest coverage, collateral and other terms and conditions. The Company was in compliance with its debt covenants at June 30, 2003.

### NOTE 8 - GUARANTEES, COMMITMENTS AND CONTINGENCIES

For discussion of the Company's commitments and contingencies see Note 11 to the Company's 2002 Form 10-K. Since December 31, 2002, there has been no material change to the information related to commitments and contingencies.

### Guarantees

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The Company's maximum exposure under its guarantee obligations is not indicative of the likelihood of the expected loss under the guarantees. The Company recognizes contingent liabilities on guarantees when the losses are probable and can be reasonably estimated.

The following table summarizes the Company's guarantees by type at June 30, 2003.

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(in millions)	JUNE 30, 2003			
GUARANTEE -----	NOTE ----	MAXIMUM EXPOSURE -----	CARRYING AMOUNT -----	SUPPORTING -----
Loss-Sharing Agreement with				
Fannie Mae and GNMA/HUD	(1)	\$ 168.5	\$ --	\$5.0 million Letter of Credit
Bank Line of Credit Guarantees	(2)	87.0	--	Investments in partnerships
Tax Credit Related Guarantees	(3)	48.8	0.1	None
Other Financial/Payment				
Guarantees	(4)	211.6	1.6	\$3.8 million of tax-exempt b
Put Options	(5)	101.6	--	\$43.3 million of loans and t
Letter of Credit Guarantees	(6)	32.9	--	\$1.1 of tax-exempt bonds
Indemnification Contracts	(7)	14.4	--	None
		\$ 664.8	\$ 1.7	
		=====	=====	

Notes:

- (1) As a Fannie Mae DUS lender and Government National Mortgage Association ("GNMA") loan servicer, the Company may share in losses relating to underperforming real estate mortgage loans delivered to Fannie Mae and GNMA. More specifically, if the borrower fails to make a payment on a DUS loan originated by the Company and sold to Fannie Mae, of principal, interest, taxes or insurance premiums, the Company may be required to make servicing advances to Fannie Mae. Also, the Company may participate in a deficiency after foreclosure on DUS and GNMA loans. As a DUS lender, the Company must maintain a minimum net worth and collateral with a custodian. The term of the loss sharing agreement is based on the contractual requirements of the underlying loans delivered to Fannie Mae and GNMA, which varies to a maximum of 40 years.
- (2) The Company provides payment or performance guarantees for certain borrowings under line of credit facilities with a term of 1 year or less.
- (3) The Company acquires and sells interests in partnerships that provide low-income housing tax credits for investors. In conjunction with the sale of these partnership interests, the Company may provide performance guarantees on the underlying properties owned by the partnerships or guarantees to the fund investors. These guarantees have various expirations to a maximum term of 18 years.

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- (4) The Company has entered into arrangements that require the Company to make payment in the event a specified third party fails to perform on its financial obligation. The Company typically provides these guarantees in conjunction with the sale of an asset to a third party or the Company's investment in equity ventures. The term of the guarantee varies based on loan payoff schedules or Company divestitures.
- (5) The Company has entered into put option agreements with counterparties whereby the counterparty has the right to sell to the Company, and the Company has the obligation to buy, an underlying investment at a specified price. These put option agreements expire at various dates between February 1, 2006 and April 1, 2007.
- (6) The Company provides a guarantee of the repayment on losses incurred under letters of credit issued by third parties or provide a guarantee to provide substitute letters of credit at a predetermined future date. In addition, the Company may provide a payment guarantee for certain assets in securitization programs. These guarantees expire at various dates between March 1, 2004 and September 1, 2017.
- (7) The Company has entered into indemnification contracts, which require the guarantor to make payments to the guaranteed party based on changes in an underlying investment that is related to an asset or liability of the guaranteed party. These agreements typically require the Company to reimburse the guaranteed party for legal and other costs in the event of an adverse judgment in a lawsuit or the imposition of additional taxes due to a change in the tax law or an adverse interpretation of the tax law. The term of the indemnification varies based on the underlying program life, loan payoffs, or Company divestitures. Based on the terms of the underlying contracts, the maximum exposure amount only includes amounts that can be reasonably estimated at this time; the actual exposure amount could vary significantly.

### NOTE 9 - DISCONTINUED OPERATIONS

In April 2003, the Company acquired a property by deed in lieu of foreclosure. This property

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previously served as collateral for a tax-exempt bond held by the Company. In June 2003, the Company sold the property for net proceeds of \$38.1 million. The Company used the proceeds to terminate interest rate swaps (see Note 5 for further discussion) and to purchase third party P-Floats(SM). The P-Floats(SM) replaced the tax-exempt bond as collateral with Merrill Lynch. All activity related to this property has been classified as discontinued operations in the consolidated statements of income. The following table summarizes the components of discontinued operations.

	For the three months ended June 30,		For the six months ended June 30,	
(000s)	2003	2002	2003	2002
Loss from operations of property	\$ (1,015)	\$ --	\$ (1,015)	\$ --



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Gain on disposal of property	26,763	--	26,763	--
	-----	-----	-----	-----
Discontinued operations	\$ 25,748	\$ --	\$ 25,748	\$ --
	=====	=====	=====	=====

The net assets of the property as of the date of sale were as follows:

(000s)	2003
	-----
Fixed assets, net	\$ 12,553
Other assets	252
Other liabilities	(446)
	-----
Net assets of discontinued operations	\$ 12,359
	=====

### NOTE 10 - EARNINGS PER SHARE

The following table reconciles the numerators and denominators in the basic and diluted earnings per share ("EPS") calculations for common shares for the three and six months ended June 30, 2003 and 2002. The effect of all potentially dilutive securities was included in the calculation. The Company did not have any options to purchase common shares that were not included in the computations of diluted EPS at June 30, 2003 or 2002 due to the options' exercise prices being greater than the average price of the common shares for the period.

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	Income (Numerator)	Shares (Denominator)	Per Share Amount
	-----	-----	-----
For the three months ended June 30, 2003			
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)			
BASIC EPS			
Net income from continuing operations			
allocable to common shares	\$ 5,354		\$ 0.19
Discontinued operations	25,748		0.89
	-----		-----
Income allocable to common shares	\$ 31,102	28,857,305	\$ 1.08
	=====		=====
EFFECT OF DILUTIVE SECURITIES			
Options and deferred shares		355,757	
Earnings contingency		--	
		-----	
DILUTED EPS			

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Net income from continuing operations		
allocable to common shares	\$ 5,354	\$ 0.18
Discontinued operations	25,748	0.88
	-----	-----
Income allocable to common shares		
plus assumed conversions	\$ 31,102	29,213,062
	=====	=====

	For the three months ended June 30, 2002	
	Income	Shares
	(Numerator)	(Denominator)
	-----	-----
		Per Share
		Amount
		-----

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

### BASIC EPS

Net income from continuing operations		
allocable to common shares	\$ 2,920	\$ 0.12
Discontinued operations	--	--
	-----	-----
Income allocable to common shares	\$ 2,920	25,252,124
	=====	=====

### EFFECT OF DILUTIVE SECURITIES

Options and deferred shares		450,829
Earnings contingency		132,855
		-----

### DILUTED EPS

Net income from continuing operations		
allocable to common shares	\$ 2,920	\$ 0.11
Discontinued operations	--	--
	-----	-----
Income allocable to common shares		
plus assumed conversions	\$ 2,920	25,835,808
	=====	=====

	For the six months ended June 30, 2003	
	Income	Shares
	(Numerator)	(Denominator)
	-----	-----
		Per Share
		Amount
		-----

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

### BASIC EPS

Net income from continuing operations		
allocable to common shares	\$ 19,299	\$ 0.69
Discontinued operations	25,748	0.91
	-----	-----
Income allocable to common shares	\$ 45,047	28,104,281
	=====	=====

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### EFFECT OF DILUTIVE SECURITIES

Options and deferred shares	347,199	
Earnings contingency	--	-----

### DILUTED EPS

Net income from continuing operations allocable to common shares	\$ 19,299		\$ 0.68	
Discontinued operations	25,748		0.90	-----
Income allocable to common shares plus assumed conversions	\$ 45,047	28,451,480	\$ 1.58	=====

	For the six months ended June 30, 2002	
	Income	Shares
	(Numerator)	(Denominator)
	-----	-----
		Per Share
		Amount
		-----

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

### BASIC EPS

Net income from continuing operations allocable to common shares	\$ 17,813		\$ 0.73	
Discontinued operations	--		--	-----
Income allocable to common shares	\$ 17,813	24,423,091	\$ 0.73	=====

### EFFECT OF DILUTIVE SECURITIES

Options and deferred shares	466,685	
Earnings contingency	132,855	-----

### DILUTED EPS

Net income from continuing operations allocable to common shares	\$ 17,813		\$ 0.71	
Discontinued operations	--		--	-----
Income allocable to common shares plus assumed conversions	\$ 17,813	25,022,631	\$ 0.71	=====

### NOTE 11 - DISTRIBUTIONS

On July 17, 2003, the Board of Directors declared a distribution of \$0.4475 for the three months ended June 30, 2003, to common shareholders of record on July 28, 2003. The payment date was August 8, 2003.

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NOTE 12 - NON-EMPLOYEE DIRECTORS' SHARE PLANS AND EMPLOYEE SHARE INCENTIVE PLANS

The Company accounts for both the non-employee director share plans and the employee share incentive plans (see Note 1 and Note 15 to the Company's 2002 Form 10-K) under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recognized for the options issued under the plans during the second quarter of 2003. The Company issued 7,000 options in the first quarter of 2003 and 30,000 options in the second quarter of 2003. The Company issued 30,000 options in the second quarter of 2002. The Company estimated the fair value of each option awarded using the Black Scholes option-pricing model with the following assumptions.

	For the three months ended June 30,		For t
	2003	2002	
Risk-free interest rate	3%	4%	
Dividend yield	7.1%	6.7%	7.
Volatility	14%	11%	1
Expected option life	7.5 years	7.5 years	7.
Weighted average fair value of options	\$ 0.78	\$ 1.13	\$ 0.8

The following table illustrates the effect on net income and earnings per share as if the compensation expense had been determined based on the fair value recognition provisions of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" as amended by Financial Accounting Standards No.148 "Accounting for Stock-Based Compensation-Transition and Disclosure."

(000s)	For the three months ended June 30,		F
	2003	2002	
Net income allocated to common shares, as reported	\$ 31,102	\$ 2,920	\$
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(23)	(34)	
Net income allocated to common shares, pro forma	\$ 31,079	\$ 2,886	\$
<b>EARNINGS PER COMMON SHARE:</b>			
Basic - as reported	\$ 1.08	\$ 0.12	\$
Basic - pro forma	\$ 1.08	\$ 0.11	\$
Diluted - as reported	\$ 1.06	\$ 0.11	\$
Diluted - pro forma	\$ 1.06	\$ 0.11	\$

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### NOTE 13 - 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

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and other related services 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 in Note 1 to the Company's 2002 Form 10-K. A complete description of the Company's reporting segments is included in Note 18 to the Company's 2002 Form 10-K.

The following table reflects the results of the Company's business segments for the three and six months ended June 30, 2003 and 2002.

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MUNICIPAL MORTGAGE & EQUITY, LLC  
SEGMENT REPORTING FOR THE THREE MONTHS ENDED JUNE 30, 2003 AND 2002  
(IN THOUSANDS) (UNAUDITED)

	FOR THE THREE MONTHS ENDED		
	INVESTING	OPERATING	ADJUSTM
INCOME:			
Interest income			
Interest on bonds and residual interests in bond securitizations	\$13,687	\$ 242	\$
Interest on loans	771	6,792	
Interest on short-term investments	1,417	75	(1,
Total interest income	15,875	7,109	(1,
Fee income			
Syndication fees	--	1,825	
Origination fees	--	2,711	(
Loan servicing fees	--	1,838	
Asset management and advisory fees	--	1,198	
Other income	1,877	1,432	
Total fee income	1,877	9,004	(
Net gain (loss) on sales	759	694	
TOTAL INCOME	18,511	16,807	(1,

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EXPENSES:			
Interest expense	3,589	6,295	(1,
Salaries and benefits	972	7,699	
General and administrative	596	1,517	
Professional fees	393	484	
Amortization of mortgage servicing rights and other intangibles	--	414	
	-----	-----	-----
TOTAL EXPENSES	5,550	16,409	(1,
	-----	-----	-----
Net holding gains (losses) on derivatives	(2,449)	--	
Impairments and valuation allowances related to investments	(1,097)	(47)	
Net gains (losses) from equity investments in partnerships	--	(1,606)	
	-----	-----	-----
NET INCOME BEFORE INCOME TAXES, INCOME ALLOCATED TO PREFERRED SHAREHOLDERS AND MINORITY INTERESTS IN SUBSIDIARY COMPANIES AND DISCONTINUED OPERATIONS	9,415	(1,255)	(
Income tax expense (benefit)	--	(540)	
	-----	-----	-----
NET INCOME BEFORE INCOME ALLOCATED TO PREFERRED SHAREHOLDERS AND MINORITY INTERESTS IN SUBSIDIARY COMPANIES AND DISCONTINUED OPERATIONS	9,415	(715)	(
Income allocable to preferred shareholders and minority interests in subsidiary companies	2,994	(140)	
	-----	-----	-----
NET INCOME FROM CONTINUING OPERATIONS	6,421	(575)	(
Discontinued operations	25,748	--	
	-----	-----	-----
NET INCOME (LOSS)	\$32,169	\$(575)	\$(
	=====	=====	=====

FOR THE THREE MONTHS ENDED JU

	INVESTING	OPERATING	ADJUST
	-----	-----	-----
INCOME:			
Interest income			
Interest on bonds and residual interests in bond securitizations	\$14,594	\$ 805	\$
Interest on loans	832	7,762	
Interest on short-term investments	194	50	
	-----	-----	-----
Total interest income	15,620	8,617	
	-----	-----	-----
Fee income			
Syndication fees	--	2,380	
Origination fees	--	3,005	(1
Loan servicing fees	--	1,660	
Asset management and advisory fees	--	1,040	
Other income	112	1,147	
	-----	-----	-----
Total fee income	112	9,232	(1

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Net gain (loss) on sales	(3,074)	3,777	
TOTAL INCOME	12,658	21,626	(1
EXPENSES:			
Interest expense	2,125	6,362	
Salaries and benefits	511	5,419	
General and administrative	341	1,356	
Professional fees	398	1,569	
Amortization of mortgage servicing rights and other intangibles	--	333	
TOTAL EXPENSES	3,375	15,039	
Net holding gains (losses) on derivatives	(7,721)	--	
Impairments and valuation allowances related to investments	--	--	
Net gains (losses) from equity investments in partnerships	--	94	
NET INCOME BEFORE INCOME TAXES, INCOME ALLOCATED TO PREFERRED SHAREHOLDERS AND MINORITY INTERESTS IN SUBSIDIARY COMPANIES AND DISCONTINUED OPERATIONS	1,562	6,681	(1
Income tax expense (benefit)	--	828	
NET INCOME BEFORE INCOME ALLOCATED TO PREFERRED SHAREHOLDERS AND MINORITY INTERESTS IN SUBSIDIARY COMPANIES AND DISCONTINUED OPERATIONS	1,562	5,853	(1
Income allocable to preferred shareholders and minority interests in subsidiary companies	2,995	--	
NET INCOME FROM CONTINUING OPERATIONS	(1,433)	5,853	(1
Discontinued operations	--	--	
NET INCOME (LOSS)	\$(1,433)	\$5,853	\$(1

Notes:

- (1) Adjustments represent intercompany interest and expense that are eliminated in consolidation.
- (2) Adjustments represent origination fees on purchased investments which are deferred and amortized into income over the life of the investment.

MUNICIPAL MORTGAGE & EQUITY, LLC  
 SEGMENT REPORTING FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002  
 (IN THOUSANDS) (UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE

	INVESTING	OPERATING	ADJUSTM
	-----	-----	-----
INCOME:			
Interest income			

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Interest on bonds and residual interests in bond securitizations	\$29,426	\$ 488	\$ --
Interest on loans	1,600	15,466	--
Interest on short-term investments	2,615	136	(2,227)
	-----	-----	-----
Total interest income	33,641	16,090	(2,227)
	-----	-----	-----
Fee income			
Syndication fees	--	3,236	--
Origination fees	--	3,870	(953)
Loan servicing fees	--	3,747	--
Asset management and advisory fees	--	2,274	--
Other income	3,185	2,321	--
	-----	-----	-----
Total fee income	3,185	15,448	(953)
	-----	-----	-----
Net gain (loss) on sales	759	1,972	--
	-----	-----	-----
TOTAL INCOME	37,585	33,510	(3,180)
	-----	-----	-----
EXPENSES:			
Interest expense	7,081	14,238	(2,227)
Salaries and benefits	1,446	13,191	--
General and administrative	1,148	2,790	--
Professional fees	937	929	--
Amortization of mortgage servicing rights and other intangibles	--	803	--
	-----	-----	-----
TOTAL EXPENSES	10,612	31,951	(2,227)
	-----	-----	-----
Net holding gains (losses) on derivatives	424	--	--
Impairments and valuation allowances related to investments	(1,097)	(47)	--
Net gains (losses) from equity investments in partnerships	--	(2,353)	--
	-----	-----	-----
NET INCOME BEFORE INCOME TAXES, INCOME ALLOCATED TO PREFERRED SHAREHOLDERS AND MINORITY INTERESTS IN SUBSIDIARY COMPANIES AND DISCONTINUED OPERATIONS	26,300	(841)	(953)
Income tax expense (benefit)	--	(472)	--
	-----	-----	-----
NET INCOME BEFORE INCOME ALLOCATED TO PREFERRED SHAREHOLDERS AND MINORITY INTERESTS IN SUBSIDIARY COMPANIES AND DISCONTINUED OPERATIONS	26,300	(369)	(953)
Income allocable to preferred shareholders and minority interests in subsidiary companies	5,989	(310)	--
	-----	-----	-----
NET INCOME FROM CONTINUING OPERATIONS	20,311	(59)	(953)
Discontinued operations	25,748	--	--
	-----	-----	-----
NET INCOME (LOSS)	\$46,059	(59)	(953)
	=====	=====	=====

FOR THE SIX MONTHS ENDED JUN



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	INVESTING -----	OPERATING -----	ADJUSTM -----
INCOME:			
Interest income			
Interest on bonds and residual interests in bond securitizations	\$28,702	\$ 1,859	--
Interest on loans	1,680	15,344	--
Interest on short-term investments	635	96	--
	-----	-----	-----
Total interest income	31,017	17,299	--
	-----	-----	-----
Fee income			
Syndication fees	--	3,998	--
Origination fees	--	4,513	(1,919)
Loan servicing fees	--	3,568	--
Asset management and advisory fees	--	1,907	--
Other income	469	1,935	--
	-----	-----	-----
Total fee income	469	15,921	(1,919)
	-----	-----	-----
Net gain (loss) on sales	(2,118)	4,987	--
	-----	-----	-----
TOTAL INCOME	29,368	38,207	(1,919)
	-----	-----	-----
EXPENSES:			
Interest expense	4,514	12,945	--
Salaries and benefits	1,618	9,139	--
General and administrative	754	2,669	--
Professional fees	375	2,229	--
Amortization of mortgage servicing rights and other intangibles	--	651	--
	-----	-----	-----
TOTAL EXPENSES	7,261	27,633	--
	-----	-----	-----
Net holding gains (losses) on derivatives	(4,609)	--	--
Impairments and valuation allowances related to investments	(110)	--	--
Net gains (losses) from equity investments in partnerships	--	(229)	--
	-----	-----	-----
NET INCOME BEFORE INCOME TAXES, INCOME ALLOCATED TO PREFERRED SHAREHOLDERS AND MINORITY INTERESTS IN SUBSIDIARY COMPANIES AND DISCONTINUED OPERATIONS	17,388	10,345	(1,919)
Income tax expense (benefit)	--	1,859	--
	-----	-----	-----
NET INCOME BEFORE INCOME ALLOCATED TO PREFERRED SHAREHOLDERS AND MINORITY INTERESTS IN SUBSIDIARY COMPANIES AND DISCONTINUED OPERATIONS	17,388	8,486	(1,919)
Income allocable to preferred shareholders and minority interests in subsidiary companies	5,989	--	--
	-----	-----	-----
NET INCOME FROM CONTINUING OPERATIONS	11,399	8,486	(1,919)
Discontinued operations	--	--	--
	-----	-----	-----
NET INCOME (LOSS)	\$11,399	\$ 8,486	\$(1,919)
	=====	=====	=====

Notes:

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- (1) Adjustments represent intercompany interest and expense that are eliminated in consolidation.
- (2) Adjustments represent origination fees on purchased investments which are deferred and amortized into income over the life of the investment.

### NOTE 14 - RELATED PARTY TRANSACTIONS

See Note 14 of the Company's 2002 Form 10-K for a detailed description of the Company's related party transactions. Except as disclosed below, there has been no material change since December 31, 2002 to the information related to related party transactions.

In June 2003, the Company received approximately \$0.8 million in cash and a 34.1% limited partnership interest in SCA Associates 86-II Limited Partnership ("SCA86-II") from SCA Custodial Co., Inc. ("SCAC"). The general partner of SCA86-II is Shelter Development Holdings, Inc. ("SHELTER HOLDINGS"). Mr. Mark K. Joseph, the Company's Chief Executive Officer and Chairman of its Board of Directors, controls and is an officer of Shelter Holdings. Mr. Joseph also owns a 20.8% limited partnership interest in SCA86-II. In addition, Mr. Michael L. Falcone, the Company's President and Chief Operating Officer, owns a 3% limited partnership interest in SCA86-II. SCAC is indirectly wholly owned by The Shelter Policy Institute, Inc., which is controlled by Mr. Joseph.

The cash received by the Company was recorded as other income in the consolidated statements of income and is an accumulation of distributions from the 34.1% limited partnership interest in SCA86-II. SCA86-II's sole asset is shares of the Company. Therefore, the shares allocated to the Company's interest in SCA86-II are classified as treasury shares on the consolidated balance sheets. The partnership interest was held by SCAC as collateral for guaranteed obligations related to a tax-exempt bond held by the Company. In April 2003, the Company acquired the property that collateralized this bond by deed in lieu of foreclosure and subsequently sold the property to a third party (See Note 9). The sale of the property fulfilled all remaining guaranteed obligations and allowed the release of the collateral held by SCAC.

The Company no longer leases office space from an affiliate due to the sale of the building to a third party in February 2003.

### NOTE 15 - SUBSEQUENT EVENTS

On July 1, 2003, the Company acquired Housing and Community Investment ("HCI"), the tax credit equity unit of Lend Lease Real Estate Investments, for \$102 million in cash. The acquisition was financed by a \$120 million secured term credit facility provided by a syndicate of banks led by the Royal Bank of Canada. HCI is a market leading syndicator of low income tax credit equity investments. In connection with this acquisition, the Company's operating subsidiary, MuniMae Midland, LLC, has been renamed MMA Financial, LLC.

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

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The Company provides debt and equity financing to developers of multifamily housing. The Company invests 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 bond 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 is also a mortgage banker. Mortgage banking activities include the origination, investment in and servicing of investments in multifamily housing, both for its own account and on behalf of third parties. These investments generate taxable income.

The Company also invests in (1) other housing-related debt and equity investments, including equity investments in income-producing real estate operating partnerships and tax-exempt bonds, or interests in bonds, secured by student housing or assisted living developments, 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.

The Company also acquires and sells interests in partnerships that provide low-income housing tax credits for investors. The Company earns syndication fees on the placement of these interests with investors, including Fannie Mae and a number of corporate investors. The Company also earns asset management fees for managing the low-income housing tax credit funds syndicated.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's sources of capital to fund its tax-exempt bond lending activities include proceeds from equity offerings, securitizations, and draws on lines of credit. The Company's sources of capital to fund its mortgage banking activities include (1) warehousing facilities and short-term lines of credit with commercial banks and pension funds, (2) debt and equity financings, either through the Midland Affordable Housing Group Trust or the Midland Multifamily Equity REIT ("MMER"), and (3) working capital.

The Company relies on the regular availability of capital from pension funds, government sponsored entities ("GSES"), equity offerings, bank lines of credit and securitization transactions to finance its growth. The Company expects to meet its cash needs in the short-term, which consist primarily of funding of new investments, payment of distributions to shareholders and funding of mortgage banking activities, from equity offering proceeds, cash on hand and bank lines of credit. To continue to grow these activities, the Company will need to increase its access to capital in 2003 and future years. The Company expects it will need \$100 to \$200 million in new capital to meet its 2003 production targets for its lending and tax credit equity businesses. The Company's February 2003 equity offering generated net proceeds of \$71.9 million to satisfy a portion of the new capital needed.

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The Company has also increased its borrowing capacity on two existing lines of credit by a total of \$126 million. In addition, the Company is seeking to establish relationships with additional pension funds and to expand its relationships with GSEs. If the Company is unable to secure the remaining additional capital needed during 2003, its production targets may decrease by \$130 to \$225 million.

For the three months ended June 30, 2003, the Company structured \$65.7 million in tax-exempt bond transactions. This includes both construction and permanent transactions because, although they relate to the same loans, the

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Company counts them as separate loans for consistency with tracking of taxable lending, where construction and permanent loans are legally distinct loans. In addition, the Company originated \$94.0 million of construction loans, \$118.4 million of permanent loans and \$7.7 million of supplemental loans. The Company also closed \$38.1 million for investment in syndicated tax credit equity funds and originated \$46.9 million of conventional market rate equity transactions.

Since December 31, 2002, there has been no material change to the information related to the Company's liquidity and capital resources except as discussed below.

### Pension Funds

MMER is a Maryland real estate investment trust established by a group of pension funds that the Company has had relationships with for over twenty-five years. During the second quarter of 2003, MMER received an additional \$7 million in share subscriptions. Of this additional subscription amount, \$2 million was from a pension fund that the Company had not had a relationship with in the past, which brought the total number of investors in MMER to five.

### Lines of Credit

During the second quarter of 2003, the Company expanded the capacity of a general bank line of credit used to fund supplemental loans from \$4 million to \$30 million. In addition, the Company expanded a loan warehousing line from \$100 million to \$200 million. The uses of this line were also expanded to include warehousing of tax-exempt bonds, new construction loans and pre-development loans. In addition, the Company's mortgage servicing rights have been added as a source of collateral.

### Leverage

The Company's leverage ratio was 51.7% and 55.8% at June 30, 2003 and December 31, 2002, respectively. This leverage ratio is based on total debt (notes payable, short- and long-term debt) divided by the Company's total capitalization (notes payable, short- and long-term debt, preferred shareholders' and minority interests' equity in subsidiary companies, and shareholders' equity). Management includes short-term debt in this calculation because of the importance of short-term debt to the Company's management of its overall cost of capital. It should be noted that this leverage ratio is one of many ways to measure leverage. For example, as of June 30, 2003, this ratio excludes \$257.5 million of securitization interests that are senior to the Company's investments that were previously accounted for as sales and includes \$183.5 million of construction loans where the

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economic risk belongs to a third party.

The Company will continue to try to maintain overall 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.

### Factors that Could Affect Future Results

The Company's 2002 Form 10-K contains a detailed description of the Company's factors that could affect future results. There has been no material change since December 31, 2002 to the information related to factors that could affect future results.

Acquisition of Housing and Community Investment Unit of Lend Lease Real Estate

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### Investments

On July 1, 2003, the Company acquired Housing and Community Investment ("HCI"), the tax credit equity unit of Lend Lease Real Estate Investments, for \$102 million in cash. The acquisition was financed by a \$120 million secured term credit facility provided by a syndicate of banks led by the Royal Bank of Canada. HCI is a market leading syndicator of low income tax credit equity investments. In connection with this acquisition, the Company's operating subsidiary, MuniMae Midland, LLC, has been renamed MMA Financial, LLC.

### Contractual Obligations

The Company's 2002 Form 10-K contains a description of the Company's material contractual obligations. Except as disclosed below, there has been no material change since December 31, 2002 to the information related to contractual obligations.

During the second quarter of 2003, the Company entered into an operating lease for 21,283 square feet of new office space. The initial term of the lease is ten years commencing October 1, 2003. Rent will be charged at the rate of \$25.20 per square foot with an escalation of 3% per year.

### Guarantees and Off-Balance Sheet Arrangements

The Company's 2002 Form 10-K contains a summary of the Company's guarantees and off-balance sheet arrangements. Since December 31, 2002, there has been no material change to the information related to guarantees and off-balance sheet obligations. See Note 8 for a table that summarizes the Company's guarantees by type as of June 30, 2003.

### Dividend Policy and Cash Available for Distribution

Consistent with its strategy of maximizing shareholder value through steady increases in cash distributions to shareholders, the Company uses cash available for distribution ("CAD") as a primary measure of its ability to pay distributions. The Company believes CAD is the most relevant measure of its ability to pay distributions, as CAD is a measure of current earnings. The Company uses this

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measure of current earnings as a basis for declaring its quarterly distributions.

CAD differs from net income because of variations between GAAP income and actual cash received. There are three primary differences between CAD and GAAP income. The first is the treatment of loan origination fees, which for CAD purposes are recognized as income when received but for GAAP purposes are amortized into income over the life of the associated investment. The second difference is the non-cash gain and loss recognized for GAAP associated with valuations, sales of investments and capitalization and amortization of mortgage servicing rights, which are not included in the calculation of CAD. The third difference is the treatment of the Company's investments in partnerships. For GAAP, the Company records its allocable share of the income (loss) from the partnership as income, while for CAD reporting, the Company records the cash distributions it receives from the partnership as income.

Since the first quarter of 2002, when the Company completed the redemption of preferred shares and term growth shares, the Company's entire net cash flow has been available for distribution to the common shares. The Company's current policy is to distribute to common shareholders at least 80% of

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its annual CAD to common shares. The table below shows the Company's CAD available to common shares, CAD per common share, dividend per common share and payout ratio for the three and six months ended June 30, 2003 and 2002.

	For the three months ended June 30,		For the six
	2003	2002	2003
CAD available to common shares (000s)	\$ 15,121	\$ 12,385	\$ 29,537
CAD per common share (1)	0.52	0.49	1.02
Dividend per common share	0.4475	0.4375	0.8925
Payout ratio	85.3%	89.4%	87.3%

(1) CAD per common share is calculated based on the number of shares outstanding at the end of each fiscal quarter.

The following table reconciles the Company's GAAP net income to CAD for the three and six months ended June 30, 2003 and 2002.

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	FOR THE THREE MONTHS ENDED JUNE 30,		2002
	2003	2002	2002
NET INCOME ALLOCATED TO COMMON SHARES - GAAP BASIS	\$ 31,102	\$ 2,920	\$ 45,000
Conversion to Cash Available for Distribution:			
(1) Mark to market adjustments	\$ 2,449	\$ 7,721	\$ 5,000
(2) Equity investments	3,181	79	5,000
(3) Net gain on sales	(10,486)	(601)	(10,000)
(3) Amortization of capitalized mortgage servicing fees	414	333	1,000
(4) Origination fees and other income, net	1,335	1,450	1,000
(5) Valuation allowances and other-than-temporary impairments	1,097	--	1,000
(6) Deferred tax expense	984	483	1,000
(7) Discontinued operations	(25,748)	--	(25,000)
(7) Interest income	10,793	--	10,000
CASH AVAILABLE FOR DISTRIBUTION (CAD)	\$ 15,121	\$ 12,385	\$ 29,537

### NOTES

(1) For GAAP reporting, the Company records the non-cash change in fair value of its investment in interest rate swaps and other derivative financial instruments through net income. These non-cash gains and losses are not included in the Company's calculation of CAD.

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(2) For GAAP reporting, the Company accounts for various investments in partnerships using the equity accounting method. As a result, the Company's allocable share of the income or loss from the partnerships is reported in income (losses) from equity investments in partnerships. The income from these partnerships includes depreciation expense and changes in the fair value of investments in derivatives. For GAAP reporting, distributions are treated as a return of capital. For CAD reporting, the Company records the cash distributions it receives from the partnerships as other income. In addition, a portion of the income or loss from partnerships is reduced by a minority interest for both GAAP and CAD.

(3) For GAAP reporting, the Company recognizes non-cash gains and losses associated with the sale of assets or capitalization of mortgage servicing rights. The capitalized mortgage servicing rights are amortized into expense over the estimated life of the serviced loans. The non-cash gains and the associated amortization expense are not included in CAD.

(4) Origination fees and certain other income amounts are recognized as income when received for CAD purposes, but for GAAP reporting these items are deferred and amortized into income over the life of the associated investment. This adjustment represents the net difference, for the relevant period, between fees taken into income when received for CAD and the amortization of fees recorded for GAAP.

(5) For GAAP reporting, the Company records valuation allowances and other-than-temporary impairments on its investments in loans, bonds and other bond-related investments. Such non-cash charges do not affect the cash flow generated from the operation of the underlying properties, distributions to shareholders, or the tax-exempt status of the income of the financial obligation under the bonds. Therefore, these items are not included in the calculation of CAD.

(6) For GAAP reporting, the Company's income tax expense contains both a current and a deferred component. Only the Company's current income tax expense is reflected in CAD.

(7) For GAAP reporting, the Company recognized a gain upon the sale of a property. This gain was required to be classified as discontinued operations because the Company owned the property prior to the sale. For CAD reporting, the gain was significantly less due to recording a portion of the proceeds as interest income. In addition, the carrying value of the tax-exempt bond associated with the property was significantly more for CAD due to an impairment of \$12.4 million previously recognized for GAAP.

The calculation of CAD is the basis for the determination of the Company's quarterly distributions to common shares, is used by securities analysts, and is presented as a supplemental measure of the Company's performance. The calculation is not approved by the Securities and Exchange Commission nor is it required by GAAP and should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. The Company believes that CAD provides relevant information about its operations and is necessary, along with net income, for understanding its operating results.

### RESULTS OF OPERATIONS AND CRITICAL ACCOUNTING ESTIMATES

Net Interest Income

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(000s)	For the three months ended June 30,				For the
	2003	%	2002	%	2003
Interest on bonds and residual interests in bond securitizations	\$ 13,929	106.3%	\$ 15,399	97.8%	\$ 29,914
Interest on loans	7,563	57.7%	8,594	54.6%	17,066
Interest on short-term investments	332	2.5%	244	1.5%	524
Total interest income	21,824		24,237		47,504
Interest expense	(8,724)	-66.5%	(8,487)	-53.9%	(19,092)
Net interest income	\$ 13,100	100.0%	\$ 15,750	100.0%	\$ 28,412

Net interest income for the quarter ended June 30, 2003 decreased \$2.7 million compared to the same period last year due primarily to: (1) a \$2.5 million decrease in the accrual of interest on bonds, residual interests in bond securitizations and loans; and (2) a \$0.2 million increase in interest expense due to an increase in financing costs related to on-balance sheet securitizations and larger average notes payable balances outstanding during the quarter.

Net interest income for the six months ended June 30, 2003 decreased \$2.4 million compared to the same period last year due primarily to: (1) a \$0.6 million decrease in the accrual of interest on bonds and residual interests in bond securitizations; and (2) a \$1.6 million increase in interest expense due to an increase in financing costs related to on-balance sheet securitizations and larger average notes payable balances outstanding during the 2003 period.

Fee Income

(000s)	For the three months ended June 30,				For the
	2003	%	2002	%	2003
Syndication fees	\$ 1,825	17.6%	\$2,380	30.3%	\$ 3,236
Origination fees	2,219	21.4%	1,505	19.2%	2,917
Loan servicing fees	1,838	17.7%	1,660	21.2%	3,747
Asset management and advisory fees	1,198	11.5%	1,040	13.2%	2,274
Other income	3,309	31.8%	1,259	16.1%	5,506
Total fee income	\$10,389	100.0%	\$7,844	100.0%	\$17,680

Total fee income for the quarter ended June 30, 2003 increased \$2.5 million compared to the same period last year due primarily to: (1) a \$2.1 million increase in other income due primarily to: (i) a \$1.0 million fee collected on a conventional equity deal; (ii) \$0.8 million collected as the result of a collateral release after the sale of a property; (iii) \$0.8 million in prepayment fees collected from the early payment of tax-exempt bond investments; and (iv) a \$0.5 million decrease in commission income; (2) a \$0.7 million increase in origination fees due to increased volume; and (3) a \$0.6 million decrease in syndication fees due to a decrease in the volume of syndications closed.



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Total fee income for the six months ended June 30, 2003 increased \$3.2 million compared to the same period last year due primarily to: (1) a \$3.1 million increase in other income due primarily to: (i) \$1.6 million in fees collected on a conventional equity deal; (ii) \$1.7 million in prepayment fees collected from the early payment of tax-exempt bond investments; (iii) \$0.8 million collected as the result of a collateral release after the sale of a property; and (iv) a \$1.0 million decrease in

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commission income; (2) a \$0.3 million increase in origination fees due to increased volume; (3) a \$0.4 million increase in asset management and advisory fees due to an increase in tax credit equity and MMER assets under management; and (4) a \$0.8 million decrease in syndication fees due to a decrease in the volume of syndications closed combined with taking \$0.5 million in organizational and offering cost reimbursements related to closed syndicated tax credit equity funds into income during the first quarter of 2002, whereas no such fees were recognized during 2003.

### Net Gain on Sales

(000s)	For the three months ended June 30,				For th
	2003	%	2002	%	2003
Gain recorded for capitalized mortgage servicing rights	\$ 197	13.6%	\$561	79.8%	\$ 601
Sales and payoffs of investments	336	23.1%	142	20.2%	1,112
Swap terminations	742	51.1%	--	--	742
Sale of investments in partnerships	178	12.2%	--	--	276
Total net gain on sales	\$1,453	100.0%	\$703	100.0%	\$2,731

Net gain on sales for the quarter ended June 30, 2003 increased \$0.8 million compared to the same period last year due primarily to: (1) a \$0.7 million net gain recorded on the termination of interest rate swaps; (2) a \$0.2 million increase in gain on the sales and payoff of investments due to the increase in premiums on the delivery of loans to HUD; (3) a \$0.4 million decrease in the gain recorded for capitalized mortgage servicing rights due to a decrease in the dollar amount of permanent loans sold; and (4) a \$0.2 million increase in gain on the sale of investments in partnerships. There was no activity for this item until the quarter ended December 31, 2002. This gain relates to the warehousing and subsequent transfer of tax credit equity properties at subsidiaries.

Net gain on sales for the six months ended June 30, 2003 decreased \$0.1 million compared to the same period last year due primarily to: (1) a \$0.7 million net gain recorded on the termination of interest rate swaps; (2) a \$0.3 million increase in gain on the sale of investments in partnerships as this activity was new beginning the quarter ended December 31, 2002; and (3) a \$1.1 million decrease in the gain recorded for capitalized mortgage servicing rights due to a decrease in the volume and dollar amount of permanent loans sold.

### Operating Expenses and Amortization

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(000s)	For the three months ended June 30,				For the six m	
	2003	%	2002	%	2003	%
Salaries and benefits	\$ 8,671	71.8%	\$5,930	59.7%	\$14,637	68.
General and administrative	2,113	17.5%	1,697	17.1%	3,938	18.
Professional fees	877	7.3%	1,967	19.8%	1,866	8.
Amortization of mortgage servicing rights and other intangibles	414	3.4%	333	3.4%	803	3.
	\$12,075	100.0%	\$9,927	100.0%	\$21,244	100.

Total operating expenses and amortization for the quarter ended June 30, 2003 increased \$2.1 million compared to the same period last year due primarily to: (1) a \$2.7 million increase in salaries

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and benefits resulting from a \$0.8 million increase in salaries and other compensation and a \$2.0 million increase in bonus expense; (2) a \$0.4 million increase in general and administrative expenses due primarily to: (i) increases totaling \$0.3 million due to telephone, bank fees, memberships and dues and costs related to the integration of HCI; and (ii) a \$0.1 million increase in travel and entertainment; and (3) a \$1.1 million decrease in professional fees due primarily to: (i) a \$0.5 million decrease in commission expense; and (ii) a \$0.4 million decrease in legal fees due to information systems and other corporate initiatives in the prior year. Commission expense is no longer incurred by the Company because the pass-through of commission income and expense has been transferred to the syndicated tax credit equity funds.

Total operating expenses and amortization for the six months ended June 30, 2003 increased \$3.8 million compared to the same period last year due primarily to: (1) a \$3.9 million increase in salaries and benefits resulting from a \$1.0 million increase in salaries and other compensation and a \$2.9 million increase in bonus expense; (2) a \$0.5 million increase in general and administrative expenses due primarily to: (i) increases totaling \$0.4 million due to telephone, bank fees, letter of credit fees, memberships and dues and costs related to the integration of HCI; and (ii) a \$0.1 million increase in investment acquisition expenses; and (3) a \$0.7 million decrease in professional fees due primarily to: (i) a \$1.0 million decrease in commission expense; and (ii) a \$0.3 million increase in consulting fees due to an internal controls project and the acquisition of HCI.

Net Holding Gains on Derivatives

The Company recorded net holding losses for mark-to-market adjustments on derivative financial instruments of \$2.4 million and \$7.7 million for the quarters ended June 30, 2003 and 2002, respectively. This \$5.3 million decrease is due primarily to the termination of interest rate swaps with a total notional amount of \$105.7 million.

The Company recorded net holding gains of \$0.4 million for the six months ended June 30, 2003 for mark-to-market adjustments on derivative financial instruments, which was a \$5.0 million decrease from the \$4.6 million of losses recorded in 2002. This \$5.0 million decrease is due primarily to the termination of interest rate swaps with a total notional amount of \$105.7 million.

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### Impairments and Valuation Allowances Related to Investments

In accordance with the Company's valuation and impairment policies, the Company recorded other-than-temporary impairments and valuation allowances totaling \$1.1 million during the quarter ended June 30, 2003. The impairments included a \$0.7 million impairment on a bond with a face amount of \$19.5 million and \$0.4 million of impairments on three taxable loans with total face amounts of \$7.0 million. During the quarter ended June 30, 2002, the Company did not record any other-than-temporary impairments.

The Company recorded other-than-temporary impairments totaling \$1.1 million during the six months ended June 30, 2003. The impairments included a \$0.7 million impairment on a bond with a face amount of \$19.5 million and \$0.4 million of impairments on three taxable loans with

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total face amounts of \$7.0 million. During the six months ended June 30, 2002, the Company recorded impairments totaling \$0.1 million on a bond with a face amount of \$0.7 million.

### Net Losses from Equity Investments in Partnerships

Net losses from equity investments in partnerships increased by \$1.7 million for the quarter ended June 30, 2003 compared to the same period last year due primarily to: (1) \$0.4 million in losses generated from investments in real estate operating partnerships that are being warehoused before transfer to syndicated tax credit equity funds; and (2) a \$1.3 million increase in losses from an investment in income-producing real estate operating partnerships and related swap partnerships. While these investments generate cash flow to the Company in the form of quarterly distributions, on a GAAP basis they generate a net loss due to non-cash adjustments for depreciation and mark-to-market adjustments related to the swap partnerships. The mark-to-market adjustments cause volatility in the losses that are recorded.

Net losses from equity investments in partnerships increased by \$2.1 million for the six months ended June 30, 2003 compared to the same period last year due primarily to: (1) \$0.9 million in losses generated from investments in real estate operating partnerships that are being warehoused before transfer to syndicated tax credit equity funds; and (2) a \$1.2 million increase in losses from an investment in income-producing real estate operating partnerships and related swap partnerships.

### Income Tax Expense

Income tax expense for the quarter ended June 30, 2003 decreased \$1.4 million compared to the same period last year. This decrease is due primarily to a decrease in net income within the operating segment, which contains corporations that are subject to income taxes.

Income tax expense for the six months ended June 30, 2003 decreased \$2.3 million compared to the same period last year. This decrease is due primarily to a decrease in net income within the operating segment, which contains corporations that are subject to income taxes.

### Income Allocable to Preferred Shareholders and Minority Interests in Subsidiary Companies

Income allocable to preferred shareholders in a subsidiary company remained the same for the quarter ended and six months ended June 30, 2003 as compared to the same periods last year. There have not been any new series of

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preferred shares issued since October 2001.

Expense allocable to minority interests in subsidiary companies increased by \$0.1 million and \$0.3 million for the quarter ended and six months ended June 30, 2003, respectively. This expense was not present during 2002.

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### Discontinued Operations

During the quarter ended June 30, 2003, the Company acquired a property by deed in lieu of foreclosure. This property previously served as collateral for a tax-exempt bond held by the Company. The Company sold the property for net proceeds of \$38.1 million, which resulted in a \$26.8 million gain. The \$26.8 million gain and \$1.0 million of losses from operations of the property were classified as discontinued operations in the consolidated statements of income.

### Net Income

Net income for the quarter ended June 30, 2003 increased by \$28.2 million compared to the same period last year due primarily to: (1) a \$25.7 million increase from discontinued operations; (2) a \$5.3 million decrease in net holding losses on derivatives; (3) a \$2.1 million increase in other income; (4) a \$1.4 million decrease in income tax expense; offset by (5) a \$2.7 million increase in salaries and benefits; (6) a \$2.5 million decrease in the accrual of interest on bonds, residual interests in bond securitizations and loans; and (7) a \$1.7 million increase in net losses from equity investments in partnerships.

Net income for the six months ended June 30, 2003 increased by \$27.1 million compared to the same period last year due primarily to: (1) a \$25.7 million increase from discontinued operations; (2) a \$5.0 million decrease in net holding losses on derivatives; (3) a \$3.1 million increase in other income; (4) a \$2.3 million decrease in income tax expense; offset by (5) a \$3.9 million increase in salaries and benefits; (6) a \$2.1 million increase in net losses from equity investments in partnerships; (7) a \$1.6 million increase in interest expense; and (8) a \$1.0 million increase in other-than-temporary impairments recorded in 2003.

### Other Comprehensive Income (Loss)

For the quarter ended June 30, 2003, the net adjustment to other comprehensive income for unrealized holding gains on tax-exempt bonds and residual interests in bond securitizations available for sale was \$16.5 million. After a reclassification adjustment for gains of \$24.7 million included in net income, other comprehensive loss for the quarter ended June 30, 2003 was \$8.2 million and total comprehensive income was \$22.9 million.

For the quarter ended June 30, 2002, the net adjustment to other comprehensive income for unrealized holding gains on tax-exempt bonds and residual interests in bond securitizations available for sale was \$2.9 million, and total comprehensive income was \$5.8 million.

For the six months ended June 30, 2003, the net adjustment to other comprehensive income for unrealized holding gains on tax-exempt bonds and residual interests in bond securitizations available for sale was \$21.1 million. After a reclassification adjustment for gains of \$24.7 million included in net income, other comprehensive loss for the six months ended June 30, 2003 was \$3.6 million and total comprehensive income was \$41.4 million.

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For the six months ended June 30, 2002, the net adjustment to other

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comprehensive income for unrealized holding losses on tax-exempt bonds and residual interests in bond securitizations available for sale was \$1.2 million. After a reclassification adjustment for gains of \$1.0 million included in net income, other comprehensive loss for the six months ended June 30, 2002 was \$2.2 million and total comprehensive income was \$15.8 million.

### Critical Accounting Policies and Estimates

The Company's 2002 Form 10-K contains a detailed description of the Company's critical accounting policies and estimates. Since December 31, 2002, there has been no material change to the information related to critical accounting policies and estimates.

### New Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board approved Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("FAS 150"). FAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify those financial instruments with certain debt-like characteristics as liabilities. The scope of FAS 150 includes financial instruments issued in the form of mandatorily redeemable shares. These types of shares embody an unconditional obligation requiring the issuer to redeem them by transferring assets at a specified date. Management has determined that the Company's preferred shareholders' equity in a subsidiary company appears to fall within the scope of FAS 150. Therefore, the Company will be required to reclassify its preferred shareholders' equity of \$160.5 million to the liability section of the consolidated balance sheets. In addition, amounts currently classified as distributions paid to the preferred shareholders will be recorded as interest expense. FAS 150 is effective for instruments held by the Company at the beginning of the first interim period beginning after June 15, 2003.

In January 2003, the Financial Accounting Standards Board approved Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires the consolidation of a Company's equity investment in a variable interest entity ("VIE") if the Company is the primary beneficiary of the VIE and if risks are not effectively dispersed among the owners of the VIE. The Company is considered to be the primary beneficiary of the VIE if the Company absorbs the majority of the losses of the VIE. FIN 46 is effective for VIEs created after January 31, 2003. For any VIE in which the Company held an interest that it acquired before February 1, 2003, FIN 46 is effective for the first interim reporting period beginning after June 15, 2003. The Company is currently reviewing the impact of FIN 46 on the tax credit syndication funds that a wholly owned subsidiary of the Company sponsors and asset manages, as well as investments accounted for under the equity method of accounting. The Company will continue to review new investments in order to determine if they should be accounted for in accordance with FIN 46.

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### RELATED PARTY TRANSACTIONS

The Company's 2002 Form 10-K contains a detailed description of the Company's related party transactions. Except as disclosed below, there has been no material change since December 31, 2002 to the information related to related party transactions.

In June 2003, the Company received approximately \$0.8 million in cash and a 34.1% limited partnership interest in SCA Associates 86-II Limited Partnership ("SCA86-II") from SCA Custodial Co., Inc. ("SCAC"). The general

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partner of SCA86-II is Shelter Development Holdings, Inc. ("SHELTER HOLDINGS"). Mr. Mark K. Joseph, the Company's Chief Executive Officer and Chairman of its Board of Directors, controls and is an officer of Shelter Holdings. Mr. Joseph also owns a 20.8% limited partnership interest in SCA86-II. In addition, Mr. Michael L. Falcone, the Company's President and Chief Operating Officer, owns a 3% limited partnership interest in SCA86-II. SCAC is indirectly wholly owned by The Shelter Policy Institute, Inc., which is controlled by Mr. Joseph.

The cash received by the Company was recorded as other income in the consolidated statements of income and is an accumulation of distributions from the 34.1% limited partnership interest in SCA86-II. SCA86-II's sole asset is shares of the Company. Therefore, the shares allocated to the Company's interest in SCA86-II are classified as treasury shares on the consolidated balance sheets. The partnership interest was held by SCAC as collateral for guaranteed obligations related to a tax-exempt bond held by the Company. In April 2003, the Company acquired the property that collateralized this bond by deed in lieu of foreclosure and subsequently sold the property to a third party (See Note 9). The sale of the property fulfilled all remaining guaranteed obligations and allowed the release of the collateral held by SCAC.

The Company no longer leases office space from an affiliate due to the sale of the building to a third party in February 2003.

### 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. Therefore, 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. MuniMae records cash dividends received from subsidiaries organized as corporations as dividend income for tax purposes. Shareholders' distributive share of MuniMae's income, deductions and credits are reported to shareholders on Internal Revenue Service Schedule K-1.

While the bulk of the Company's recurring interest 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. Until January 1, 2003, the Company had elected under Section 754 of the Internal Revenue Code to adjust the tax basis of

the Company's property on the transfer of shares to reflect the price each shareholder paid for its shares. As a result, for shares purchased prior to January 1, 2003, the capital gain and loss allocated to those shares may be different for each shareholder due to the Company's Section 754 election and will depend on, among other things, the timing of the shareholder's purchase of the shares, the timing of transactions that generate gains or losses for the Company and the difference (the "Basis Difference") between the Company's tax basis in its property and a shareholder's tax basis in the shares. 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 individual shareholders may be significantly different than the capital gains and losses recorded by the Company.

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In January 2003, the Company applied to have its election under Section 754 of the Internal Revenue Code revoked. The Company applied for this revocation due to the increasing administrative burden attributable to this election resulting from the increased numbers of common shareholders and the increasing frequency both of events generating capital gain or loss and of purchases and sales of common shares.

In May 2003, the Internal Revenue Service approved the Company's application to revoke its election under Section 754 for the Company's tax year ending December 31, 2003. As a result, for common shares purchased on or after January 1, 2003, the capital gain and loss allocated from the Company will be based on their pro-rata share of the Company's gain and loss allocated without regard to the Basis Difference. In other words, for shares purchased prior to January 1, 2003, portions of the Basis Difference may from time to time be recognized and reported on the shareholder's Schedule K-1 as and when the Company's assets are sold. While for shares purchased on or after January 1, 2003, the Basis Difference will be eliminated when the shareholder sells the shares.

This change in the method of calculating the Company's tax basis in its assets could result in the shareholder being allocated more or less income in any given year than he or she would have received if the Section 754 election remained in place; however, it is difficult to predict the precise impact of the change for individual shareholders. The revocation of the Company's 754 election may result in shareholders who purchase shares on or after January 1, 2003, experiencing a difference in the overall character of income allocated or recognized.

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 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.

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The Company has numerous corporate subsidiaries that are 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.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

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Since December 31, 2002 there has been no material change to the information included in Item 7A of the Company's 2002 Form 10-K.

### Item 4. Controls and Procedures

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#### (a) Evaluation of disclosure controls and procedures

The term "disclosure controls and procedures" is defined in Rules 13a-14(c) and 15d-14(c) of the Securities and Exchange Act of 1934 (the

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

### (b) Changes in internal controls

We maintain a system of internal accounting controls that are designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed. For the quarter ended June 30, 2003, there were no significant changes to our internal controls or in other factors that could significantly affect our internal controls.

## PART II. OTHER INFORMATION

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

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#### (a) Exhibits:

31.1 Certification of Mark K. Joseph, Chief Executive Officer of Municipal Mortgage & Equity, LLC Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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31.2 Certification of William S. Harrison, Chief Financial Officer of Municipal Mortgage & Equity, LLC Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Mark K. Joseph, Chief Executive Officer and Chairman of the Board of Municipal Mortgage & Equity, LLC Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of William S. Harrison, Chief Financial Officer of Municipal Mortgage & Equity, LLC Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

#### (b) Reports on Form 8-K:

On April 23, 2003, the Company filed a Form 8-K containing the earnings package reported to securities analysts for the quarter ended March 31, 2003, an earnings press release and financial statements related to the Company's performance for the quarter ended March 31, 2003 and a production press release related to the Company's production volume for the quarter ended March 31, 2003.

On May 15, 2003, the Company filed a Form 8-K containing a press



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release announcing that it had entered into a definitive Purchase Agreement to acquire the Housing and Community Investing business segment from Lend Lease Corporation Limited.

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### 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.

DATE: December 11, 2003

MUNICIPAL MORTGAGE & EQUITY, LLC

By: /s/ Mark K. Joseph

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

DATE: December 11, 2003

By: /s/ Mark K. Joseph

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Name: Mark K. Joseph  
Title: Chairman of the Board, Chief  
Executive Officer (Principal  
Executive Officer) and Director

DATE: December 11, 2003

By: /s/ William S. Harrison

-----  
Name: William S. Harrison  
Title: Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

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