MUNICIPAL MORTGAGE & EQUITY LLC
Form 10-K
March 27, 2003

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

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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

Commission file number 001-11981

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

Delaware	52-1449733
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

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

Registrant's telephone number, including area code: (443) 263-2900

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares	New York Stock Exchange, Inc.

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES [X] NO [ ].

The aggregate market value of the Company's Common Shares held by non-affiliates of the registrant as of March 20, 2003 (computed by reference to the closing price of such shares on the New York Stock Exchange) was $635,300,301. The Company had 28,826,284 Common Shares outstanding as of March 20, 2003.

Portions of the Company's Proxy Statement with respect to the 2003 Annual

Meeting of Shareholders to be filed subsequent to the date hereof are incorporated by reference Items 10, 11, 12 and 13 of Part III.

Forward-Looking Information

Assumptions relating to various portions of the Company's Annual Report on Form 10-K involve judgments with respect to, among other things, future economic market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking information included herein are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that such forward-looking information will prove to be accurate. In light of the significant uncertainties inherent in forward-looking information, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

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Part I

Item 1. Description of Business.

General Development of Business.

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 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.

MuniMae is a Delaware limited liability company and is the successor to the business of SCA Tax Exempt Fund Limited Partnership. As a limited liability company, the Company 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 certain 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.

Prior to March 2002, the Company had four types of shares: preferred shares, preferred capital distribution shares ("preferred cd shares"), term growth shares and common shares. The Company's preferred shares, preferred cd shares, term growth shares and common shares differed principally with respect to allocation of income and cash distributions, as provided by the terms of the Company's Operating Agreement. The Company was required to distribute to the holders of preferred shares and preferred cd shares cash flow attributable to such shares as defined in the Company's Operating Agreement. The Company was required to distribute 2.0% of the net cash flow to the holders of term growth shares. The balance of the Company's cash flow was available for distribution to common shares.

The Company's Operating Agreement provided that the preferred shares and the preferred cd shares were subject to partial redemption when any bond

attributable to the shares was sold, or beginning in the year 2000, when any bond attributable to the shares reached par value based on an appraisal. The Company was required to redeem the preferred shares and preferred cd shares within six months of the occurrence of a redemption event.

A portion of the bonds attributable to preferred shares and preferred cd shares reached par value in December 2000. As a result, in June 2001, the Company redeemed a portion of the preferred shares and preferred cd shares. The remaining bonds attributable to the preferred shares and preferred cd shares were either paid off, sold and/or reached par value from September 2001 through January 2002. As a result, in March 2002, the Company redeemed the remaining preferred shares and preferred cd shares. The Operating Agreement required that the term growth shares be redeemed after the last preferred share is redeemed. As a result, the term growth shares, which had no residual value, were also redeemed in 2002. Subsequent to March 2002, the common shares are the Company's only outstanding shares.

Subsidiaries

MuniMae TE Bond Subsidiary, LLC

In 1999, the Company placed a substantial portion of its tax-exempt bonds and residual interests in bond securitizations in an indirect subsidiary of the Company, MuniMae TE Bond Subsidiary, LLC ("TE Bond Sub"). TE Bond Sub sold Series A, Series B and Series A-1 and Series B-1 Cumulative Preferred Shares (collectively, the "TE Bond Sub Preferred Shares") to institutional investors in May 1999, June 2000 and October 2001, respectively. The TE Bond Sub Preferred Shares have a senior claim to the income derived from the investments owned by TE Bond Sub. Any income from TE Bond Sub available after payment of the cumulative distributions of the TE Bond Sub Preferred Shares is allocated to the Company, which holds all of the common equity interests. As a result, the assets of TE Bond Sub and its subsidiaries, while indirectly controlled by MuniMae and thus included in the consolidated financial statements of the Company, are legally owned by TE Bond Sub and are not available to the creditors of the Company. The Company's common equity interest in TE Bond Sub was $271.4 million and $268.4 million at December 31, 2002 and 2001, respectively. The common equity interest in TE Bond Sub held by MuniMae is subject to the claims of the creditors of MuniMae and in certain circumstances could be foreclosed.

The Series A and A-1 Preferred Shares bear interest at 6.875% and 6.30% per annum, respectively, or, if lower, the aggregate net income of the issuing company, TE Bond Sub. The Series A and A-1 Preferred Shares have a senior claim to the income derived from the investments owned by TE Bond Sub. The Series A-1 Shares are equal in priority of payment to the Series A Preferred Shares. The Series B and B-1 Preferred Shares bear interest at 7.75% and 6.80% per annum, respectively, or, if lower, the aggregate net income of the issuing company, TE Bond Sub, after payment of distributions to the Series A and Series A-1 Preferred Shares. The Series B-1 Preferred Shares are equal in priority of payment to the Series B Preferred Shares. Any income from TE Bond Sub available after payment of the cumulative distributions of the TE Bond Sub Preferred Shares is allocated to the Company. Cash distributions on the TE Bond Sub Preferred Shares are paid quarterly on each January 31, April 30, July 31 and October 31. The TE Bond Sub Preferred Shares are subject to remarketing on specified dates. On the remarketing date, the remarketing agent will seek to remarket the shares at the lowest distribution rate that would result in a resale of the TE Bond Sub Preferred Shares at a price equal to par plus all accrued but unpaid distributions. The TE Bond Sub Preferred Shares will be subject to mandatory tender on specified dates and on all subsequent remarketing dates at a price equal to par plus all accrued but unpaid distributions.

MFH

The Company engages in a variety of mortgage banking activities. These activities include the origination, investment in and servicing of investments in multifamily housing, both for its own account and on behalf of third parties. The mortgage banking activities are generally conducted through Midland Financial Holdings, Inc. (together with its subsidiaries, "MFH"), a wholly owned subsidiary of the Company.

The Company acquired MFH in 1999 for a total purchase price of $45.0 million ($46.0 million including acquisition costs). Of this amount, the Company paid approximately $23.0 million in cash and $12.0 million in common shares at the closing of the transaction and $10.0 million in additional common shares paid in three equal installments, the last of which was paid in December 2002. The acquisition has been accounted for as a purchase. The cost of the acquisition was allocated on the basis of the estimated fair value of the net assets acquired, which totaled $7.7 million.

Investment in Tax-Exempt Bonds and Residual Interests in Bond Securitizations

The Company originates investments in tax-exempt bonds and taxable loans primarily to the 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 on the underlying properties. The Company's sources of capital to fund these lending activities include proceeds from equity offerings, securitizations, and draws on 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.

The Company may also structure transactions whereby a third party buys bonds directly from a seller and the Company subsequently purchases a residual interest in securitization trusts holding the tax-exempt bonds.

The Company's strategy includes the maintenance and expansion of a diversified portfolio of tax-exempt bonds and related investments, thereby increasing the interest income earned by the Company. The Company's business plan includes originating $375 million to $450 million in tax-exempt bonds in 2003, of which the Company would expect to retain up to $175 to $200 million in its investment portfolio. For the years ended December 31, 2002 and 2001, the Company structured $300.1 million and $468.4 million in tax-exempt bond transactions, respectively.

Mortgage Banking Activities

The Company engages in a variety of mortgage banking activities. These activities include the origination, investment in and servicing of investments in multifamily housing, both for its own account and on behalf of third parties.

The Company originates construction, permanent and supplemental loans to the multifamily housing industry. Supplemental loans include:

- bridge and pre-development loans, which are project-specific short-term loans for qualifying pre-development and development expenditures and are structured to be repaid from the construction or permanent financing of the same project. Bridge loans fund timing gaps between project expenditures and later installments of equity financing or permanent debt, and pre-development loans fund early stage project expenditures and are repaid by the first installments of equity or construction financing; and

o term loans, lines of credit and workout loans, which have expenditure purposes and sources of repayment that may or may not be limited to a single project. Term loans, lines of credit and workout loans are repaid with general operating cash flow of the development or other capital sources of the borrower, including cash flows from other investments.

Collateral for the supplemental loans can take many forms, including a mortgage against land or other real estate, assignment of syndication proceeds, assignment and pledges of developer fees, assignment and pledge of cash flows from properties, corporate guarantees and personal guarantees.

The Company's sources of capital to fund these construction, permanent and supplemental lending activities include: (1) warehousing facilities and short-term lines of credit with commercial banks; (2) debt and equity financings either through the Midland Affordable Housing Group Trust (the "Group Trust") or the Midland Multifamily Equity REIT ("MMER"); and (3) working capital. The Company earns income from the difference between the interest charged on its loans and the interest due under its notes payable and other funding sources. The Company also earns (1) origination fees, (2) loan servicing fees, or in the case of construction loans, construction administration fees and (3) guarantee and other fees in cases where the Company provides credit support to the obligations of a borrower to a third party.

MFH is a Federal National Mortgage Association ("Fannie Mae") Delegated Underwriter and Servicer ("DUS") and a Federal Housing Administration ("FHA") approved mortgagee. A majority of the construction loans originated by the Company are underwritten and structured so as to be eligible for sale to Fannie Mae or FHA as or shortly after the loans are converted to permanent loans. The Company usually retains the mortgage servicing rights on the permanent loans which its sells to third parties.

The Company grows its mortgage banking business by increasing levels of fees generated by affordable housing tax credit equity syndications, loan servicing and origination services. The Company's business plan includes originating $875 to $975 million in construction, permanent and supplemental loans in 2003.

Equity Investments in Partnerships

The Company makes equity investments for its own account in income-producing real estate operating partnerships. To date, the Company's equity investments have been made in partnership with CAPREIT, Inc. and its affiliates ("CAPREIT"). In 2001, the Company made a $3.4 million equity investment in 12 property partnerships (the "CAPREIT Tera" investment). As a result of the Company's CAPREIT Tera investment, the Company owns a 35% general partnership interest in the 12 property partnerships.

In 2002, MuniMae invested $70.7 million to acquire a 35% general partnership interest in 20 CAPREIT property partnerships and four related swap partnerships (the "CAPREIT 3M" investment). The Company's liquidation percentage in CAPREIT 3M is 30%.

Syndication of Low-Income Housing Tax Credits

The Company 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. 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. The Company also earns asset management fees for managing the low-income housing tax

credits funds syndicated.

The Company syndicated equity investments totaling $152.4 million, $114.7 million and $97.6 million, for the years ended December 31, 2002, 2001 and 2000, respectively. Although the Company has endeavored to expand this product line over the past several years, it estimates that its 2002 syndication volume represents only 2-3% of approximately $6 billion of newly issued low-income housing tax credit financings. Subject to pricing and market conditions, including the potential impact of changes in tax law proposed by the Bush administration in January 2003 (see "Management Discussion and Analysis of Financial Condition and Results of Operations - Factors that Could Affect Future Results"), the Company plans to continue to expand this line of business in order to gain the benefits of economies of scale in marketing, underwriting and asset management. The Company's 2003 business plan includes syndicating $225 million of low-income housing tax credits.

Competition

In seeking out attractive multifamily and other housing-related investment opportunities, the Company competes directly against a large number of lenders - including banks, finance companies and other financial intermediaries - and providers of related services such as portfolio loan servicing. Certain of the Company's competitors, including GMAC, Prudential Mortgage Finance and Lend Lease Mortgage Capital Co., have substantially greater financial and operational resources than the Company. While the Company has historically been able to compete effectively against such competitors on the basis of its service, longstanding relationships with developers and a broad array of product offerings, many of our competitors benefit from substantial economies of scale in their business and have other competitive advantages.

In addition, in seeking permanent financing for their developments, the Company's customers generally evaluate a wide array of taxable and tax-exempt financing options. While tax-exempt financings offer specific attractions for developers, they can be more complicated than taxable financings and can involve ongoing restrictions on the owner's use of the property. As a result, the relative attractiveness of tax-exempt permanent financing may increase or decrease over time based on the availability and cost of taxable financing. In particular, the differential in interest expense between tax-exempt and taxable financing alternatives tends to be lower in a low interest rate environment, which tends to make the Company's tax-exempt multifamily housing bond financings less attractive to developers than taxable alternatives. Consequently, the Company's primary (i.e., newly originated) tax-exempt bond originations have declined to $17.3 million in the year ended December 31, 2002, from $18.2 million and $114.7 million in 2001 and 2000, respectively. In response, the Company has taken advantage of opportunities in the secondary market for these bonds and has begun to invest in other types of housing-related tax-exempt bond financings. While our strategic emphasis on tax-exempt financing will - absent a major change in the tax code - continue, the Company will continue to expand and diversify its other lines of business.

Business Segments

In October 1999, as a result of the MFH acquisition, the Company restructured its operations into two business segments: (1) an operating segment consisting of MFH and other subsidiaries that primarily generate taxable fee income by providing loan servicing, loan origination and other related services and (2) an investing segment consisting primarily of subsidiaries holding investments producing tax-exempt interest income. The revenues associated with the investing segment consist primarily of interest earned on tax-exempt bonds, residual interests in bond securitizations, taxable loans and derivative financial instruments. The revenues associated with the operating segment consist primarily of loan servicing fees, loan origination fees, syndication

fees, asset management fees, and advisory fees. Segment results include all direct revenues and expenses of each segment and allocations of indirect expenses based on specific methodologies. The Company's reportable segments are strategic business units that primarily generate different income streams and are managed separately.

For the years ended December 31, 2002, 2001 and 2000, the Company's revenues, net income and identifiable assets have been distributed among the following segments:

	For the year ended December 31,					
	2002					
(000s)	Investing	Operating	Adjustments (1)	Total	Investing	Operating
Total income	$ 65,329	$ 71,394	$ (3,095)	$ 133,628	$ 57,914	$ 69,948
Net income	23,402	8,642	(3,095)	28,949	19,312	7,390
Identifiable assets	1,004,716	548,202	-	1,552,918	791,199	498,077

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

Prior to October 1999, all of the Company's operations were attributable to the investing segment.

Employees

As of March 26, 2003, the Company had 228 employees. The Company is not a party to any collective bargaining agreement.

Item 2. Properties.

The Company leases office space as follows:

Baltimore, Maryland. In November 1998, the Company assumed the office lease agreement from an affiliate for office space. The office space contains 11,124 square feet and the lease expires in September 2003. In June 2001, the Company entered into a lease agreement for additional space in the same office building. The new office space contains 2,939 square feet and the lease expires in September 2003. In December 2002, the Company entered into a lease agreement for additional space in the same office building. The new office space contains 1,998 square feet and expires in June 2003.

Clearwater, Florida. In January 2001, the Company negotiated a new lease in Clearwater. The office space contains 36,004 square feet and the lease expires in December 2005.

The Company also leases office space for its regional offices in Dallas, Texas, San Francisco, California, Chicago, Illinois, Detroit, Michigan and Washington D.C. The Company believes its facilities are suitable for its requirements and are adequate for its current and contemplated future operations.

Item 3. Legal Proceedings.

None.

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

No matter was submitted to a vote of the Company's shareholders during the three months ended December 31, 2002.

Part II

Item 5. Market for Registrant's Equity Securities and Related Stockholder Matters

The following table sets forth the high and low sale prices per share of the common shares as reported by the NYSE for each calendar quarter in 2002 and 2001 and the distributions declared with respect to such shares allocable to such period.

		High	Low	Distributions Declared
2002:				
	First Quarter	$ 26.40	$ 22.95	$ 0.4350
	Second Quarter	26.16	24.03	0.4375
	Third Quarter	26.35	22.11	0.4400
	Fourth Quarter	25.69	21.75	0.4425
2001:				
	First Quarter	$ 24.33	$ 21.75	$ 0.4250
	Second Quarter	23.50	22.00	0.4275
	Third Quarter	25.25	25.80	0.4300
	Fourth Quarter	25.80	23.11	0.4325

As of March 20, 2003, there were approximaty 2,871 holders of record of common shares.

The Company's current policy is to distribute to holders of common shares at least 80% of cash available for distribution to common shares. The Company pays distributions to its holders of common shares quarterly in February, May, August and November.

The preferred shares and the preferred capital distribution shares ("preferred cd shares") that were redeemed in March 2002 are not listed for trading on any national securities exchange and there was no established public trading market for those shares.

Description of Shares

Prior to March 2002, the Company had four types of shares: preferred shares, preferred cd shares, term growth shares and common shares. The Company's preferred shares, preferred cd shares, term growth shares and common shares differed principally with respect to allocation of income and cash distributions, as provided by the terms of the Company's Operating Agreement.

The Company was required to distribute to the holders of preferred shares and preferred cd shares cash flow attributable to such shares as defined in the Company's Operating Agreement. The Company was required to distribute 2.0% of the net cash flow to the holders of term growth shares. The balance of the Company's cash flow was available for distribution to common shares.

The Company's Operating Agreement provided that the preferred shares and the preferred cd shares were subject to partial redemption when any bond attributable to the shares was sold, or beginning in the year 2000, when any bond attributable to the shares reached par value based on an appraisal. The Company was required to redeem the preferred shares and preferred cd shares within six months of the occurrence of a redemption event.

A portion of the bonds attributable to preferred shares and preferred cd shares reached par value in December 2000. As a result, in June 2001, the Company redeemed a portion of the preferred and preferred cd shares. The remaining bonds attributable to the preferred shares and preferred cd shares were either paid off, sold and/or reached par value from September 2001 through January 2002. As a result, in March 2002, the Company redeemed the remaining preferred shares and preferred cd shares. The Operating Agreement also required that the term growth shares be redeemed after the last preferred share is redeemed. As a result, the term growth shares, which had no residual value, were also redeemed in 2002.

Subsequent to March 2002, the common shares are the Company's only outstanding shares. The common shares have no par value. At December 31, 2002, 29,083,599 common shares were authorized. The holders of the common shares are entitled to distributions as and when declared by the Board of Directors out of funds legally available therefor. As of December 31, 2002, it is the Company's policy to distribute to the holders of the common shares at least 80% of cash available for distribution.

The common shares are not redeemable (except pursuant to certain anti-takeover provisions) and upon liquidation share ratably in any assets remaining after payment of creditors. The holders of the common shares voting as a single class have the right to elect the directors of the Company and have voting rights with respect to a merger or consolidation of the Company in which it is not the surviving entity or the sale of substantially all of its assets, the removal of a director, the dissolution of the Company, and certain anti-takeover provisions. Each common share entitles its holder to cast one vote on each matter presented for shareholder vote.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information regarding the Company's securities authorized for issuance under the Company's equity compensation plans as of December 31, 2002.

	Equity Compensation Plan Inf		
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)		Weighted average exercise price of outstanding options, warrants and rights
Equity compensation plans approved by security holders:			
Non-employee directors' share plans	136,000	$	21.28 (
Employee share incentive plans	967,846 (3)	$	18.19 (

Equity compensation plans not approved by security holders	-	-
Total	1,103,846	

(1) Does not include any restricted shares which have already vested, as such shares are already reflected in the Company's common shares outstanding.
(2) Represents the weighted average exercise price of the outstanding stock options.
(3) Includes 171,407 of unvested deferred shares and 796,439 of stock options.

ITEM 6. SELECTED FINANCIAL DATA

As of and for the year ended December 31,	2002	2001	
INCOME STATEMENT DATA (000s):			
Interest income	$ 96,073	$ 89,864	$
Fee income	28,997	28,956	
Net gain on sales	8,558	8,222	
Total income	133,628	127,042	1
Interest expense	36,596	30,696	
Operating expenses	34,658	33,409	
Amortization expense	1,314	2,509	
Total expenses	72,568	66,614	
Net holding losses on derivatives	(14,863)	(5,572)	
Impairments and valuation allowances related to investments	(730)	(3,256)	
Losses from equity investments in partnerships	(3,057)	(1,279)	
Income tax expense	(1,484)	(1,383)	
Income allocable to preferred shareholders in a subsidiary company	(11,977)	(10,779)	
Cumulative effect on prior years of change in accounting for derivative financial instruments (1)	-	(12,277)	
Net income	$ 28,949	$ 25,882	$
Net income available to common shareholders	$ 28,796	$ 23,847	$
NET INCOME PER SHARE:			
Common shares (diluted earnings per share)	$ 1.13	$ 1.09	$
BALANCE SHEET DATA (000s):			
Investment in tax-exempt bonds, net	$ 770,345	$ 616,460	$ 5
Loans receivable, net	461,448	440,031	3
Investments in partnerships	99,966	5,393	
Residual interests in bond securitizations	11,039	13,295	
Investment in derivative financial instruments	18,762	2,912	
Total assets	1,552,918	1,289,276	9
Notes payable	450,924	420,063	3
Short-term debt	219,945	78,560	

Long-term debt	147,357	134,881	
Investment in derivative financial instruments	49,359	18,646	
Preferred shareholders' equity in a subsidiary company	160,465	160,645	1
Total shareholders' equity	487,064	436,708	3
CASH DISTRIBUTIONS PER SHARE:			
Common shares:			
For the year ended December 31, paid quarterly (2)	$ 1.7550	$ 1.7150	$

(1) The Company has several types of financial instruments that meet the definition of a derivative financial instrument under FAS 133, including interest rate swaps, put option contracts and total return swaps. FAS 133 requires the Company's investment in derivative financial instruments be recorded on the balance sheet with changes in the fair value of these instruments recorded in current earnings. As of January 1, 2001, the Company's put option contracts were recorded on the balance sheet with a fair value of zero and the Company's interest rate swaps and total return swaps were reclassified to trading securities and those with a negative balance were reflected as liabilties on the balance sheet. The cumulative effect of adopting FAS 133 was a decrease to net income of approximately $12.3 million as of January 1, 2001.

(2) This amount represents total dividends declared for the year.

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

General Business

Municipal Mortgage & Equity, LLC ("MuniMae" or, 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 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.

Although the Company has diversified into more fee-oriented lines of business generating taxable income over the past several years, tax-exempt interest income on bonds and residual interests in bond securitizations remains the single largest component of the Company's revenue, as shown in the table below:

(000s)	2002	%	2001	%	200
	For the year ended December 31,				
Interest on bonds and residual interests in bond securitizations	$ 59,923	44.9%	$ 53,443	42.1%	$ 43,
Interest on loans	34,895	26.1%	33,340	26.2%	31,
Interest on short-term investments	1,255	0.9%	3,081	2.4%	4,
Total interest income	96,073	71.9%	89,864	70.7%	79,
Total fee income	28,997	21.7%	28,956	22.8%	19,
Net gain on sales	8,558	6.4%	8,222	6.5%	2,
Total income	$ 133,628	100.0%	$ 127,042	100.0%	$ 100,

MuniMae is a Delaware limited liability company. As a limited liability company, the Company 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, capital gain or loss, deductions and credits is included in each shareholder's income tax return.

Investment in Tax-Exempt Bonds and Residual Interests in Bond Securitizations

The Company originates investments in tax-exempt bonds and taxable loans primarily to the 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 on the underlying properties. The Company also invests in (1) other 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 may also structure transactions whereby a third party buys bonds directly from a seller and the Company subsequently purchases a residual interest in a bond securitization holding the tax-exempt bonds.

The Company's sources of capital to fund these lending activities include proceeds from equity offerings, securitizations, and draws on 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.

The Company's strategy includes the maintenance and expansion of a diversified portfolio of tax-exempt bonds and related investments, thereby increasing the interest income earned by the Company. The Company's business plan includes originating $475 million to $550 million in tax-exempt bonds and related investments in 2003. This range includes $225 million to $250 million of construction production and $250 million to $300 million of permanent

production. Although these construction and permanent loan production totals relate to the same loans, the Company counts them as separate loans for consistency with market practice for tracking of taxable lending, where construction and permanent loans are legally distinct loans. For the years ended December 31, 2002 and 2001, the Company structured $300.1 million and $468.4 million, respectively, in tax-exempt bond transactions.

Mortgage Banking Activities

The Company engages in a variety of mortgage banking activities. These activities include the origination, investment in and servicing of investments in multifamily housing and other real estate financings, both for its own account and on behalf of third parties.

The Company's mortgage banking activities are generally conducted through Midland Financial Holdings, Inc. (together with its subsidiaries, "MFH"), a wholly owned subsidiary of the Company, which the Company acquired in 1999 for a total purchase price of $45.0 million ($46.0 million including acquisition costs). Of this amount, the Company paid approximately $23.0 million in cash, $12.0 million in common shares at the closing of the transaction and $10.0 million in additional common shares paid in three equal annual installments, the last of which was paid in December 2002. The acquisition has been accounted for as a purchase. The cost of the acquisition was allocated on the basis of the estimated fair value of the net assets acquired, which totaled $7.7 million. The results of operations of MFH are included in the consolidated financial statements of the Company.

The Company originates construction, permanent and supplemental loans to the multifamily housing industry. Supplemental loans include:

- bridge and pre-development loans, which are project-specific short-term loans for qualifying pre-development and development expenditures and are structured to be repaid from the construction or permanent financing of the same project. Bridge loans fund timing gaps between project expenditures and later installments of equity financing or permanent debt, and pre-development loans fund early stage project expenditures and are repaid by the first installments of equity or construction financing; and

- term loans, lines of credit and workout loans, which have expenditure purposes and sources of repayment that may or may not be limited to a single project. Term loans, lines of credit and workout loans are repaid with general operating cash flow of the development or other capital sources of the borrower, including cash flows from other investments.

Collateral for the supplemental loans can take many forms, including a mortgage against land or other real estate, assignment of syndication proceeds, assignment and pledges of developer fees, assignment and pledge of cash flows from properties, corporate guarantees and personal guarantees.

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, (2) debt and equity financings, either through the Midland Affordable Housing Group Trust (the "Group Trust") or the Midland Multifamily Equity REIT ("MMER"), and (3) working capital. The Company earns income from the difference between the interest charged on its loans and the interest due under its notes payable and other funding sources. The Company also earns (1) origination fees, (2) loan servicing fees, or in the case of construction loans, construction administration fees and (3) guarantee and other fees in cases where the Company provides credit support to the obligations of a borrower to a third party.

MFH is a Federal National Mortgage Association ("Fannie Mae") Delegated Underwriter and Servicer ("DUS"). A majority of the construction loans originated by the Company are underwritten and structured so as to be eligible for sale to Fannie Mae as or shortly after the loans are converted to permanent loans. The Company usually retains the mortgage servicing rights on the permanent loans which its sells to third parties.

As a Fannie Mae DUS lender, MFH underwrites and originates multifamily housing loans in accordance with Fannie Mae's underwriting guidelines and sells those loans directly to Fannie Mae. Under the DUS loan program, MFH has agreed to bear a portion of any loss incurred on a DUS loan originated by MFH and sold to Fannie Mae in accordance with loss sharing formulas under which MFH would be subject to a maximum responsibility to Fannie Mae of up to 30% of the original principal balance of the defaulted loan.

MFH is also a Federal Housing Administration ("FHA") and US Department of Housing and Urban Development ("HUD") approved mortgagee and is an approved lender under HUD's Multifamily Accelerated Processing ("MAP") program. As a MAP lender, MFH is responsible for underwriting and recommending loans to FHA/HUD for mortgage insurance. As an FHA/HUD approved mortgagee, MFH must maintain a minimum net worth.

MFH is a Government National Mortgage Association ("GNMA") approved securities issuer, seller and servicer. All loans originated under HUD programs are securitized through the GNMA Mortgage Backed Security ("MBS") program and sold in the secondary market. The Company may earn premiums or incur discounts on the securitization of these loans, and the Company retains the servicing rights on all HUD loans sold under the GNMA MBS program. As a GNMA approved issuer, seller and servicer, MFH must maintain a minimum net worth as well as minimum insurance coverages.

As an FHA/HUD approved mortagee, MFH may share in losses relating to under performing loans originated under the HUD programs. If a borrower fails to make payments of principal, interest, taxes or insurance premiums on a HUD loan securitized with GNMA, MFH may be required to make servicing advances to GNMA. If a defaulted loan is assigned to HUD, insurance will generally limit MFH's loss exposure to 1% of the loan's then outstanding unpaid principal balance. However, the Company's loan documents generally hold the borrower liable for any losses incurred by MFH in the event of a default and/or assignment of a loan to HUD. In addition, GNMA allows for partial recovery of expenses for loans that were assigned to HUD after default and subsequently paid out of a GNMA pool.

The Company grows its mortgage banking business by increasing production levels which, in turn, is expected to increase the fees generated by affordable housing tax credit equity syndications, loan servicing and origination services.

The Company's business plan includes originating $875 to $975 million in construction, permanent and supplemental loans in 2003. The following table shows the Company's originations for the years ended December 31, 2002, 2001 and 2000.

(000s)	2002	2001	2000
Construction loans	$ 338,202	$ 175,835	$ 280,548
Permanent loans	351,868	294,900	148,272
Supplemental loans (1)	76,154	-	-
Total	$ 766,224	$ 470,735	$ 428,820

(1) Prior to 2002, supplemental loan originations were not separately tracked.

The table below shows the carrying value of all three loan types as of December 31, 2002 and 2001:

(000s)	2002	2001
Construction loans	$300,266	$268,775
Permanent loans	44,665	86,182
Supplemental loans	80,459	49,885
Total	$425,390	$404,842

Because the majority of the Company's supplemental loans are pre-construction or workout loans, these loans are considered to be riskier than the Company's construction and permanent loans. As a result, the Company attempts to limit the growth of its supplemental loan portfolio; however, as these loans are important to the maintenance of the Company's relationships with developers, the Company expects that they will continue to represent 5%-10% of its origination volume going forward. As shown in the table above, the Company's supplemental loan balances have increased significantly over the past two years. In response, the Company has recently taken measures to upgrade its monitoring and management of the supplemental loans in its portfolio.

Equity Investments in Partnerships

The Company makes equity investments for its own account in income-producing real estate operating partnerships. To date, the Company's equity investments have been made in partnership with CAPREIT, Inc. and its affiliates ("CAPREIT"). In 2001, the Company made a $3.4 million equity investment in 12 property partnerships (the "CAPREIT Tera" investment). As a result of the Company's CAPREIT Tera investment, the Company owns a 35% general partnership interest in the 12 property partnerships.

In 2002, the Company invested $70.7 million to acquire a 35% general partnership interest in 20 CAPREIT property partnerships and four related swap partnerships (the "CAPREIT 3M" investment). The Company's liquidation percentage in the CAPREIT 3M investment is 30%.

Syndication of Low-income Housing Tax Credits

The Company 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. 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. The Company also earns asset management fees for managing the low-income housing tax credit funds syndicated.

The Company syndicated equity investments totaling $152.4 million, $114.7 million and $97.6 million, for the years ended December 31, 2002, 2001 and 2000, respectively. Although the Company has endeavored to expand this product line over the past several years, it estimates that its 2002 syndication volume represents only 2-3% of approximately $6 billion of newly issued low-income housing tax credit financings. Subject to pricing and market conditions, including the potential impact of changes in tax law proposed by the Bush administration in January 2003 (see "Factors that Could Affect Future Results" below), the Company plans to continue to expand this line of business in order

to gain the benefits of economies of scale in marketing, underwriting and asset management. The Company's 2003 business plan includes syndicating $225 million of low-income housing tax credits.

Liquidity and Capital Resources

As noted above, 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. In 2002, the Company completed a common share equity offering and diversified its access to securitization capital to fund its growth in the tax-exempt bond business. The Company also expanded its access to capital through an expansion of its bank lines of credit and in capital from pension funds to fund its mortgage banking activities and tax credit equity business. The Company's sources of capital are discussed below.

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 $300 to $400 million in new capital to meet its 2003 production targets for its lending and tax credit equity business. The Company's February 2003 equity offering generated net proceeds of $72.2 million to satisfy a portion of the new capital needed. The Company has entered into discussions with its existing capital providers to increase their financing commitments. 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 $400 to $450 million.

Pension Funds

The Company's mortgage banking activities depend on capital from a group of pension funds with which MFH has had relationships for over twenty-five years. Through the Group Trust and MMER, these funds provide the Company with debt financing. In addition, from time to time the pension funds make direct investments in debt or equity financings originated by the Company.

The Group Trust was established by a group of pension funds for the purpose of investing in income-producing real estate investments. The Group Trust provides loans and lines of credit to finance a variety of the Company's loan products. MMER is a Maryland real estate investment trust established by the same pension funds that participate in the Group Trust, plus an additional pension fund. MMER invests in market rate income-producing real estate partnerships and provides the Company short-term lines of credit to finance the Company's lending activities. MFH is the investment manager for the Group Trust and MMER and receives advisory fees for these services, as well as origination fees on the placement of equity interests in real estate partnerships with MMER and debt investments with the Group Trust and the placement of direct equity or debt investments with individual pension funds.

During 2002, the Company expanded its credit lines with the Group Trust from $120 million to $160 million. The Company also expanded the use of the credit lines to include providing financing for the Company's tax-exempt bond investments. The following table shows the balance of the Company's borrowings from the Group Trust, MMER and direct pension funds at December 31, 2002 and 2001.

(000s)	December 31, 2002 Notes payable	Lines of Credit (1)	Total	December 31, Notes payable	Lines of Credit
Group Trust	$ 128,152	$ 58,770	$ 186,922	$ 105,272	$ 65,318
MMER	-	30,283	30,283	-	7,459
Direct pension fund investment	64,256	N/A	64,256	77,495	N/A
Total	$ 192,408	$ 89,053	$ 281,461	$ 182,767	$ 72,777

(1) At December 31, 2002, the Company's borrowing facility under its lines of credit with the Group Trust and MMER totaled $160.0 million and $80.0 million, respectively.

For the years ended December 31, 2002 and 2001, the Company structured $47.6 and $46.0 million, respectively, in equity investments for MMER and direct pension fund investments.

Government Sponsored Entities

The Company relies on the GSEs as a source of liquidity and credit enhancement. Consequently, the Company's results may be impacted by changes in the strategic direction of the GSEs, particularly those which diminish their appetite for investments in affordable housing.

A majority of the construction loans originated by the Company are underwritten and structured so as to be eligible for placement with Fannie Mae as or shortly after the loans are converted to permanent loans. For the years ended December 31, 2002 and 2001, the Company delivered $187.8 million and $191.9 million of permanent loans to Fannie Mae through the DUS program. For the years ended December 31, 2002 and 2001, the Company delivered $20.8 million and $10.0 million, respectively, of permanent loans through the FHA/HUD program.

The Company's future results could also be impacted by deterioration in the credit quality of Fannie Mae and Freddie Mac, which provide credit enhancement that facilitate the securitization of certain of the Company's assets. If Fannie Mae or Freddie Mac ceased to provide such support, the Company would have to seek alternative forms of credit support in order to continue to leverage its assets. The Company does not have any reason to believe that either entity will cease to provide such support; nevertheless, the Company is negotiating with other prospective providers of credit enhancement in order to limit this risk.

Fannie Mae and Freddie Mac also benefit from a number of government-confirmed benefits; including, for example, the following: (1) their earnings are exempt from state and local corporate income taxes; (2) their securities are exempt from SEC registration requirements; and (3) their securities are eligible for unlimited investment by federally insured thrifts, national banks and state bank members of the Federal Reserve system. These advantages, coupled with the size and prominence of Fannie Mae and Freddie Mac in the mortgage-backed security market, have led to recent scrutiny of their role in the mortgage market. A number of sizeable financial services companies and trade associations have launched a concerted effort to limit the growth of the GSEs and spur close examination of how the benefits of their GSE status are being employed. While it is impossible to predict the ultimate impact of this lobbying effort, it could conceivably result in a contraction of the GSEs' support of the affordable housing market.

Fannie Mae is the Company's single largest corporate investor in low-income housing tax credits. The Company estimates that Fannie Mae accounts for approximately 30 to 40% of the approximately $4 billion market for syndicated low-income housing tax credits. If Fannie Mae should significantly decrease its demand or lower the price it offers for these credits, the Company's results from operations could be adversely affected. In the fiscal years ended December 31, 2002, 2001 and 2000, Fannie Mae purchased 20.0%, 19.2% and 11.3%, respectively, of the tax credits syndicated by the Company.

Equity Offerings

The Company periodically obtains equity capital from public offerings of common shares and from preferred share equity offerings. The preferred share offerings are conducted by an indirect subsidiary of the Company, MuniMae TE Bond Subsidiary, LLC ("TE Bond Sub"), which the Company formed in 1999 specifically as a vehicle to raise additional capital. When TE Bond Sub was formed, the Company placed a substantial portion of its tax-exempt bonds and residual interests in bond securitizations in TE Bond Sub. TE Bond Sub then sold Series A, Series B and Series A-1 and B-1 Cumulative Preferred Shares (collectively, the "TE Bond Sub Preferred Shares") to institutional investors in May 1999, June 2000 and October 2001, respectively. The TE Bond Sub Preferred Shares have a senior claim to the income derived from the investments owned by TE Bond Sub. Any income from TE Bond Sub available after payment of the cumulative distributions of the TE Bond Sub Preferred Shares is allocated to the Company, which holds all of the common equity interests in TE Bond Sub.

On February 8, 2002, the Company sold to the public 3.0 million of the Company's common shares at a price of $24.70 per share and granted the underwriters an option to purchase up to an aggregate of 450,000 common shares to cover over-allotments at the same price. Net proceeds on the 3.0 million shares approximated $70.5 million. On February 15, 2002, the underwriters partially exercised their over-allotment option to purchase 300,000 common shares generating additional net proceeds of $7.1 million. The net proceeds from this offering were used for general corporate purposes, including funding of new investments, paying down debt and working capital.

In February 2003, the Company sold to the public 3.2 million common shares (including the entire underwriters' over-allotment option) at a price of $23.60 per share. Net proceeds of this offering were $72.2 million. The net proceeds from this offering will be used for general corporate purposes, including funding of new investments, paying down debt and working capital.

Lines of Credit

The Company relies on short-term lines of credit with commercial banks to finance its growth. During 2002, the Company structured a line of credit arrangement with one new bank. The following table summarizes the Company's borrowings under short-term lines of credit as of December 31, 2002 and 2001:

		December 31, 2002	
(000s)	Principal purpose	Aggregate facilities	Balance
General bank lines of credit	Working capital and funding supplemental loans	$ 24,000	$ 15,830
Loan warehousing line	Warehousing construction and permanent loans	100,000	77,618

Tax credit equity warehousing line	Property acquisition and working capital	30,000	17,373
Total		$ 154,000	$ 110,821

At December 31, 2002, the Company was in compliance with all covenants of the facilities listed above.

Securitizations

The Company securitizes assets in order to enhance its overall return on its investments and to generate proceeds that facilitate the acquisition of additional investments. The Company uses various programs to facilitate the securitization and credit enhancement of its bond investments.

The Company securitizes assets by depositing bonds into a trust or structuring a transaction whereby a third party deposits bonds into a trust. The trust issues senior and subordinate certificates and the Company receives cash proceeds from the sale of the senior certificates and retains the subordinate certificates. The interest rate on the senior certificates may be fixed or variable. If the interest rate is variable, the rate on the senior certificates is reset weekly by a remarketing agent. To increase the attractiveness of the senior certificates to investors, the senior certificates are credit enhanced or the bond underlying the senior certificates is credit enhanced. The residual interests retained by the Company are the subordinate security and receive the residual interest on the bond after the payment of all fees and the senior certificate interest. For certain programs, the counterparty or a third party provides liquidity to the senior certificates. Liquidity advances are used to provide bridge funding for the redemption of senior certificates tendered upon a failure to remarket senior certificates or in the event of other mandatory tender events.

During 2002, the Company expanded and diversified its securitization programs through the structuring of a new facility with MBIA Insurance Corporation ("MBIA"). The following table summarizes the results of the Company's efforts to diversify its sources of securitization capital:

(000s)				De	
Sponsor	Nature of Senior Security	Provider of Credit Enhancement	Provider of Liquidity	Fair Value of Total Bond	Face A of Se Secur Outsta
On Balance Sheet Securitizations:					
Merrill Lynch	short-term, floating rate, weekly reset	Merrill Lynch or Fannie Mae	Merrill Lynch	$ 62,695	$ 60,
Freddie Mac	fixed	Freddie Mac	Freddie Mac	91,290	68,

MBIA	short-term, floating rate, weekly reset	MBIA	Bayerische Landesbank	146,624	147,
Term Debt	fixed	MMA Credit Enhancement I, LLC	MMA Credit Enhancement I, LLC	42,829	44,
Other	weekly reset or fixed	Various	N/A	17,612	17,
Subtotal				361,050	339,
Off Balance Sheet Securitizations:					
Merrill Lynch	short-term, floating rate, weekly reset	Merrill Lynch or Fannie Mae	Merrill Lynch	187,404	177,
FSA Bonds	fixed	FSA	N/A	119,188	67,
Subtotal				306,592	245,
Total				$ 667,642	$ 584,

(000s)

Sponsor	Nature of Senior Security	Provider of Credit Enhancement	Provider of Liquidity	De Fair Value of Total Bond	Face A of Se Secur Outsta
On Balance Sheet Securitizations:					
Merrill Lynch	short-term, floating rate, weekly reset	Merrill Lynch or Fannie Mae	Merrill Lynch	$ 104,516	$ 78,
Freddie Mac	fixed	Freddie Mac	Freddie Mac	89,929	69,
MBIA	short-term, floating rate, weekly reset	MBIA	Bayerische Landesbank	-	
Term Debt	fixed	MMA Credit Enhancement I, LLC	MMA Credit Enhancement I, LLC	44,737	44,

Other	weekly reset or fixed	Various	N/A	5,244	5,
Subtotal				244,426	197,
Off Balance Sheet Securitizations:					
Merrill Lynch	short-term, floating rate, weekly reset	Merrill Lynch or Fannie Mae	Merrill Lynch	339,481	334,
FSA Bonds	fixed	FSA	N/A	122,488	67,
Subtotal				461,969	401,
Total				$ 706,395	$ 599,

(1) This percentage is calculated by dividing the face amount of the senior security outstanding from each securitization program by the total face amount of all senior securities outstanding.

Leverage

The Company previously reported its leverage ratio based upon management's assessment of the actual economic risk to the Company of its financial assets and liabilities. The Company employed a formulaic measure of "economic leverage" as an internal management tool.

Recently, management determined to focus instead on a more traditional leverage ratio derived directly from line items on the Company's consolidated balance sheet. This decision was based on several factors:

- the original impetus for the economic measure of leverage was to apprise investors of financial risks that did not appear on the face of the Company's balance sheet under generally accepted accounting principles ("GAAP") then in effect. Since the Company's adoption of Statement of Financial Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("FAS 140") as of January 1, 2001, the majority of those risks have been brought onto the Company's balance sheet, as pre-FAS 140 securitizations recorded as sales (i.e., as off-balance-sheet transactions) have been replaced by new securitizations accounted for as borrowings;
- management concluded that few investors were likely to fully understand the adjustments made to arrive at the Company's economic leverage measure; and
- management determined that a simpler definition would minimize internal administrative burdens and would be more consistent with the recent emphasis of the Securities and Exchange Commission on minimizing the use of non-GAAP financial measures.

The Company's leverage ratio was 55.8% and 51.5% at December 31, 2002 and

2001, 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' equity in a subsidiary company, 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 December 31, 2002, this ratio excludes $245.0 million of securitization interests that are senior to the Company's investments that were previously accounted for as sales and includes $128.2 million of construction loans where the economic risk belongs to a third party.

The Company will continue to try to maintain, through the use of securitizations, 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

In seeking out attractive multifamily and other housing-related investment opportunities, the Company competes directly against a large number of lenders - including banks, finance companies and other financial intermediaries - and providers of related services such as portfolio loan servicing. Certain of the Company's competitors, including GMAC, Prudential Mortgage Finance and Lend Lease Mortgage Capital Co., have substantially greater financial and operational resources than the Company. While the Company has historically been able to compete effectively against such competitors on the basis of its service, longstanding relationships with developers and a broad array of product offerings, many of our competitors benefit from substantial economies of scale in their business and have other competitive advantages.

In addition, in seeking permanent financing for their developments, the Company's customers generally evaluate a wide array of taxable and tax-exempt financing options. While tax-exempt financings offer specific attractions for developers, they can be more complicated than taxable financings and can involve ongoing restrictions on the owner's use of the property. As a result, the relative attractiveness of tax-exempt permanent financing may increase or decrease over time based on the availability and cost of taxable financing. In particular, the differential in interest expense between tax-exempt and taxable financing alternatives tends to be lower in a low interest rate environment, which tends to make the Company's tax-exempt multifamily housing bond financings less attractive to developers than taxable alternatives. Consequently, the Company's primary (i.e., newly originated) tax-exempt bond originations declined to $17.3 million in the year ended December 31, 2002, from $18.2 million and $114.7 million in 2001 and 2000, respectively. In response, the Company has taken advantage of opportunities in the secondary market for these bonds and has begun to invest in other types of housing-related tax-exempt bond financings. While our strategic emphasis on tax-exempt financing will - absent a major change in the tax code - continue, the Company will continue to expand and diversify its other lines of business.

The Company's results of operations could also materially be affected by changes in the performance of the properties underlying its investments. We might receive less income from our investments than we expect due to any number of factors, including:

- Adverse economic conditions, either locally, regionally or nationally, limiting the amount of rent that can be charged for units at the properties. Adverse economic conditions may also result in a reduction in timely rent payments or a reduction in occupancy levels.

- Occupancy and rent levels may decrease due to the construction of

additional housing units or the establishment of rent stabilization or rent control laws or similar agreements.

- A decline in the level of mortgage interest rates may encourage tenants in multifamily rental properties to purchase housing, reducing the demand for rental housing.

- Expenses at the property level, including but not limited to capital needs, real estate taxes and insurance, may increase.

Periods of economic slowdown or recession that result in declining property performance, particularly declines in the value or performance of multifamily properties, may adversely affect our business. Any material decline in property values weakens the collateral value of the properties we invest in, and prolonged poor performance in the affordable housing market segment could result in a decline in demand for financing. Additionally, some of our income comes from contingent interest on participating tax-exempt bonds. A decline in the performance of the related multifamily property would likely have a negative effect on our cash available for distribution.

Other governmental policies relating to affordable housing also directly impact the Company's business. For example, in late 2000 Congress passed legislation increasing the supply of low-income housing tax credits ("LIHTC") and tax-exempt and other "private activity" bonds. The LIHTC, which is determined on a state-by-state basis according to each state's population, was increased from $1.25 per capita in 2000 to $1.50 in 2001 and $1.75 in 2002. This increase has facilitated the increase in the Company's tax credit equity syndications to $152 million in 2002, as compared with $115 million in 2001 and $98 million in 2000. Also in 2000, Congress approved a 50% increase in allocations for tax-exempt and other "private activity" bonds, from $50.00 per state resident for 2000 to $75.00 for 2002. Current legislation provides for inflation-based adjustments to the LIHTC and tax-exempt bond allocations starting in 2003.

The Company's business prospects are directly impacted by governmental tax policies, which affect demand for the Company's debt and equity financing products as well as investor demand for the Company's securities. For example, in January 2003, the Bush Administration proposed changes to the tax laws that would, if enacted as proposed, exclude certain corporate dividends from an individual's taxable income. The proposal would reduce the importance of a primary advantage of investing in municipal bonds - that interest received on these bonds is tax-exempt while dividend income from investments in corporate equity is taxed as ordinary income. This could increase the cost of municipal financings, as interest rates offered by municipal borrowers rise to compensate investors for the loss of the tax advantage. This could lead to a decrease in municipal borrowing activities, which would reduce the Company's opportunities to originate, structure and invest in municipal financings. In addition, the proposed changes could significantly decrease investor demand for the tax credit equity investments syndicated by the Company. Even if this proposal is not enacted, while it is under consideration, borrowers and investors may postpone transactions until the issue is resolved. The proposed changes and any temporary reduction in transaction volume could adversely affect the Company's operations and could negatively affect its net income.

Our future results are also dependent on the Company's maintenance of its relationships with the GSEs participating in the affordable housing market, particularly Fannie Mae. The maintenance of the Company's DUS license with Fannie Mae is critical to the continued productivity and growth of the Company's operating segment. As a DUS Lender, the Company is subject to periodic reviews by Fannie Mae and must comply with a variety of underwriting and servicing guidelines imposed by Fannie Mae contractually. Noncompliance or failure to adhere to these guidelines could result in loss of delegated authority and a

revocation of the Company's DUS license. Alternatively, Fannie Mae could impact the value of the DUS license to the Company by either (1) issuing new DUS licenses to the Company's competitors or (2) changing the delegated authority of its DUS lenders or making it more costly or otherwise more difficult for DUS lenders to underwrite and service loans on Fannie Mae's behalf. In addition, because Fannie Mae is the largest corporate buyer of low-income housing tax credits, any change in its appetite for such credits, or the Company's loss of Fannie Mae as a LIHTC customer, could adversely affect the Company's LIHTC business. See "Government Sponsored Entities" above.

The pension fund participants in the Group Trust and MMER provide significant financial support to the Company's mortgage banking activities. While the Company believes its relations with these pension funds are good, it is possible that these funds will reduce or withdraw their financing commitments in the future. Moreover, these pension funds are relatively small: as of December 31, 2002 their combined assets under management totaled $6.3 billion, and their combined real estate assets under management totaled $0.9 billion. As a result, the Company may not be able to maintain the rate of growth of its mortgage banking activities without establishing relationships with additional pension funds. Consequently, the Company is actively seeking additional pension fund investors.

The Company's capital partners require collateral support for providing capital to the Company. As a result, the Company posts its assets as collateral to support its borrowings under notes payable, lines of credit, and securitization facilities. The degree to which the Company's investments and other assets are pledged as collateral varies according to asset class; however, the Company's collateral arrangements can be summarized as follows:

o Tax-exempt Bonds. The majority (approximately $657.5 million carrying value amount as of December 31, 2002) of the Company's tax-exempt bonds are owned in a subsidiary, TE Bond Sub, which has issued four series of cumulative preferred shares with an aggregate redemption value of $168.0 million. The holders of the preferred shares have a senior claim to the income from this subsidiary. In addition, $372.9 million (the majority of which is held in TE Bond Sub) of the Company's investments in tax-exempt bonds are pledged as collateral for securitization facilities as of December 31, 2002.

o Loans Receivable. Substantially all of the Company's construction loans (approximately $302.4 million as of December 31, 2002) are pledged as collateral to support borrowings under the Company's notes payable, bank lines, pension fund credit lines or other credit facilities. Certain of the Company's supplemental and permanent loans totaling $69.3 million and $41.6 million, respectively, as of December 31, 2002 are pledged as collateral under short-term bank lines of credit. Certain of the Company's other taxable loans totaling $3.8 million as of December 31, 2002 are pledged for securitization facilities and other programs.

o Restricted Assets. The Company's restricted assets include cash and short-term investments pledged as collateral under terms of the Company's interest rate swap contracts, certain guarantees and other obligations (see Note 7 to the Company's consolidated financial statements).

o Investments in Partnerships. A portion of the Company's investments in partnerships is pledged as collateral for borrowings under a line of credit.

The table below shows the proportion of the Company's total assets (excluding goodwill), which was either pledged as collateral or otherwise restricted as of December 31, 2002 and 2001.

(in millions)	2002	2001
Tax-exempt bonds pledged	$ 372.9	$ 358.4
Loans receivable pledged	417.1	406.3
Restricted assets	40.3	16.7
Bonds in securitization trusts	361.1	244.4
Residual interests in bond securitizations, net	9.6	5.3
Investments in partnerships pledged	20.7	-
Total	$ 1,221.7	$ 1,031.1
As % of total assets, excluding goodwill and net of residual interests in bonds securitizations carried as liabilities	80.5%	82.3%

In 2001 the Company embarked on a comprehensive overhaul of its information systems infrastructure in an effort to: (1) standardize the Company's hardware and internal communications platforms; (2) upgrade the Company's accounting and financial systems to an enterprise resource planning (ERP) system; and (3) develop scalable, integrated loan underwriting, deal management and loan servicing systems tailored to the Company's needs and expected growth profile. As of December 31, 2002, the Company had: implemented the accounting modules, begun implementation of treasury and cash management modules and replaced its local-area networks; and implemented a multi-year outsourcing arrangement with an application services provider for wide-area network connectivity, secure internet access and ERP application hosting. Management expects these information systems upgrades to continue at least through 2004. The Company believes that successful implementation of the upgrades will increase the Company's efficiency in future years; however, delays or complications in implementation may have an adverse impact on the Company's operations.

Contractual Obligations

The following table provides the Company's commitments, as of December 31, 2002, to make future payments under the Company's debt agreements and other contractual obligations:

	Payments due by Period			
(000s)	Total	Less than 1 year	1-3 years	3-5 years
Short-term debt	$ 219,945	$ 219,945	$ -	$
Notes payable	450,924	326,284	124,640	
Long-term debt	147,357	-	12,239	69,79
Operating lease obligations	5,247	2,241	2,659	29
Unfunded loan commitments	311,136	311,136	-	
Unfunded equity commitments	74,516	74,516	-	

Total	$ 1,209,125	$ 934,122	$ 139,538	$ 70,08

Guarantees and Off-Balance Sheet Arrangements

The Company's maximum exposure under its guarantee obligations is not indicative of the Company's 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 major group at December 31, 2002.

(in millions)		December 31, 2002		
Guarantee	Note	Maximum Exposure	Carrying Amount	Supporting Co
Loss-Sharing Agreements with Fannie Mae and GNMA	(1)	$ 162.1	$ -	$4.9 million Letter of Cre
Bank Line of Credit Guarantees	(2)	182.0	-	Investment in partnership
Tax Credit Related Guarantees	(3)	42.8	0.1	None
Other Financial/Payment Guarantees	(4)	414.3	1.8	None
Put Options	(5)	101.6	-	$30 million of loans and t
Letter of Credit Guarantees	(6)	25.9	-	None
Indemnification Contracts	(7)	12.7	-	None
		$ 941.4	$ 1.9	

Notes:

(1) As a Fannie Mae DUS lender and GNMA loan servicer, MFH may share in losses relating to under performing 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 MFH and sold to Fannie Mae, of principal, interest, taxes or insurance premiums, MFH may be required to make servicing advances to Fannie Mae. Also, MFH may participate in a deficiency after foreclosure on DUS and GNMA loans. As a DUS lender, MFH 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 30 years.

(2) The Company, or its subsidiaries, 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.

(4) The Company, or its subsidiaries, 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 26, 2003 and April 1, 2007.

(6) The Company, or its subsidiaries, provide 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 credits 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, 2003 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.

The Company originates investments in tax-exempt bonds to the affordable multifamily housing industry. From time to time, depending on its capital position and needs, the Company may structure transactions whereby a third party buys tax-exempt bonds directly from a seller. The third party subsequently deposits the bonds into trusts and the trusts issue senior and subordinate certificates. The senior certificates are sold to third party investors and the Company purchases a residual interest in a bond securitization holding the tax-exempt bonds. The Company has also structured transactions where the Company deposited a bond into a trust and accounted for this transaction as a sale arrangement. As a result of structuring transactions where a third party buys the bond directly from the seller or in securitization transactions structured as sale arrangements, the Company reports its investment in the subordinate (residual) interest in a bond securitization on the balance sheet, however, the senior certificate is not reflected on the balance sheet of the Company. The senior certificates in securitization trusts that are not reflected on the Company's balance sheet at December 31, 2002 totaled $245 million (face amount). The effect on the Company's liquidity, capital resources, and market risk are the same for securitization transactions regardless of whether the senior certificates are accounted for as on- or off-balance-sheet debt (see discussion in the Securitization section above).

Dividend Policy and Cash Available for Distribution

Consistent with its strategy of maximizing shareholder value through steady increases in cash distributions to holders, 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 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 four primary differences between CAD and GAAP income. The first is the treatment of loan origination fees, which for CAD purposes are recognized as income when received but for GAAP purposes are amortized into income over the life of the associated investment. The second difference is the non-cash gain and loss recognized for GAAP associated with valuations, sales of investments and capitalization of mortgage servicing rights, 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. The fourth difference is the treatment of goodwill, which, until January 1, 2002, was amortized into expense for GAAP, but not included in the calculation of CAD. After January 1, 2002, amortization of goodwill was discontinued for GAAP reporting.

Since the first quarter of 2002, when the Company completed the redemption of preferred shares and term growth shares, the Company's 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 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 years ended December 31, 2002, 2001 and 2000.

	2002	2001	2000
CAD available to common shares (000s)	$ 50,628	$ 41,566	$ 32,575
CAD per common share (1)	2.00	1.92	1.86
Dividend per common share	1.7550	1.7150	1.6725
Payout ratio	87.9%	89.2%	90.0%

(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 years ended December 31, 2002, 2001 and 2000:

	For the yea	
(000s)	2002	2001
Net income allocated to common shares - GAAP Basis	$ 28,796	$ 23,847

Conversion to Cash Available for Distribution:		
(1) Mark to market and cumulative effect adjustments	$ 14,863	$ 17,849
(2) Equity investments	6,603	1,612
(3) Net gain on sales	(6,572)	(8,019)
(3) Amortization of capitalized mortgage servicing fees	1,314	936
(4) Amortization of goodwill	-	1,573
(5) Origination fees and other income, net	3,553	(127)
(6) Valuation allowances and other-than-temporary impairments	730	3,256
(7) Deferred tax expense	1,341	639
Cash Available for Distribution (CAD) (unaudited)	$ 50,628	$ 41,566

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.

(2) For GAAP reporting, the Company accounts for various investments in partnerships using the equity method of accounting. As a result, the Company's allocable share of the net 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.

(3) For GAAP reporting, the Company recognizes non-cash gains and losses associated with the sale of assets and the 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) For GAAP reporting, the amortization of goodwill was recognized as expense, but was not included in the calculation of CAD. After Janurary, 1, 2002, the amortization of goodwill was discontinued for GAAP reporting.

(5) 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.

(6) 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.

(7) 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.

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.

Cash Flow - GAAP

At December 31, 2002 and 2001, the Company had cash and cash equivalents of approximately $43.7 million and $97.4 million, respectively. Cash flow from operating activities was $56.1 million, $28.3 million and $31.5 million for the years ended December 31, 2002, 2001 and 2000, respectively. The increase in operating cash flow for 2002 versus 2001 is due primarily to a decrease in other receivables (included in other assets on the consolidated balance sheet), as a result of draws on a new line of credit replacing the Company's warehousing of tax credit equity properties using operating cash. The decrease in cash flow from operating activities between 2001 and 2000 was the result of an increase in the tax credit equity business and the growth of the tax-exempt bond portfolio. These two factors increased the Company's net income and cash flow from operating activities, however, the increase in income was fully offset by a corresponding increase in receivables included in other assets and interest receivable.

Results of Operations and Critical Accounting Estimates

Net Interest Income

	For the year ended December 31,				
(000s)	2002	%	2001	%	2000
Interest on bonds and residual interests in bond securitizations	$ 59,923	100.7%	$ 53,443	90.3%	$ 43,
Interest on loans	34,895	58.7%	33,340	56.4%	31,
Interest on short-term investments	1,255	2.1%	3,081	5.2%	4,
Total interest income	96,073		89,864		79,
Interest expense	(36,596)	-61.5%	(30,696)	-51.9%	(31,
Net interest income	$ 59,477	100.0%	$ 59,168	100.0%	$ 48,

Total interest income for the year ended December 31, 2002 increased $6.2 million over 2001 due primarily to an $8.0 million increase in collections of interest on bonds, residual interests in bond securitizations, other notes and loans due to an increase in on-balance sheet assets related to securitizations and larger average notes receivable balances, offset by a decrease in interest on short-term investments resulting from funding of operations as well as lower investment yields. Interest expense increased $5.9 million primarily due to an increase in financing costs related to on-balance sheet securitizations and larger average notes payable balances outstanding during the year.

Total interest income for the year ended December 31, 2001 increased $10.6 million over 2000 due primarily to a $10.4 million increase in interest on bonds and residual interests in bond securitizations resulting from growth in the Company's investments and increased payments of additional interest paid on participating bonds in 2001 compared with 2000.

Fee Income

	For the year ended December 31,				
(000s)	2002	%	2001	%	2000
Syndication fees	$ 7,221	24.9%	$ 5,480	18.9%	$ 4
Origination fees	6,631	22.9%	6,451	22.3%	3
Loan servicing fees	6,823	23.5%	6,982	24.1%	5
Asset management and advisory fees	3,887	13.4%	2,961	10.2%	2
Other income	4,435	15.3%	7,082	24.5%	3
Total fee income	$ 28,997	100.0%	$ 28,956	100.0%	$ 19

Total fee income for the year ended December 31, 2002 was unchanged as compared to 2001. The most significant variances included a $1.7 million increase in syndication fees and a $0.9 million increase in asset management and advisory fees, offset by a $2.6 million decrease in other income. The increase in syndication fees is due primarily to the volume of syndications closed. The $0.9 million increase in asset management and advisory fees is due to an increase in tax credit equity and MMER assets under management. The decrease in other income is due to $3.3 million of non-recurring income earned in 2001 associated with the assumption of a purchase obligation on two bonds, partially offset by a $0.2 million increase in commission fees on tax credit equity funds in 2002. The increase in commission fees on tax credit equity funds is due to an increase in the volume of syndications closed.

Total fee income for the year ended December 31, 2001 increased $9.6 million over 2000 due to: (1) a $1.1 million increase in syndication fees due to an increase in the volume of syndications closed; (2) a $2.9 million increase in origination fees due to an increase in loan production; (3) a $1.4 million increase in loan servicing fees due to increase in loan production; (4) a $0.5 million increase in asset management and advisory fees due to an increase in tax credit equity assets under management; and (5) a $3.8 million increase in other income due to $3.3 million of non-recurring income earned in 2001 associated with the assumption of a purchase obligation on two bonds and a $0.5 million increase in commissions.

Net Gain on Sales

	For the year ended December 31,				
(000s)	2002	%	2001	%	2000
Permanent loans sold	$ 3,167	37.0%	$ 3,169	38.5%	$ 1,
Sales and payoffs of investments	4,915	57.4%	2,743	33.4%	
Sale of investment in partnerships	282	3.3%	2,322	28.2%	
Other	194	2.3%	(12)	-0.1%	
Total net gain on sales	$ 8,558	100.0%	$ 8,222	100.0%	$ 2,

Net gain on sales for the year ended December 31, 2002 remained relatively stable compared to 2001. The most significant variances were a $2.2 million increase in sales and payoffs of investments, partially offset by a decrease of $2.0 million in the sale of investment in partnerships. The increase in sales and payoffs of investments was primarily due to a $1.4 million gain realized on the purchase and resale of two related investments and a $1.0 million gain on sale resulting from the restructuring of a securitization trust. The securitization trust was restructured to increase the senior certificates outstanding in the trust. The restructuring of this trust resulted in the Company selling its larger interest in the old securitization trust and re-purchasing a smaller interest in the new trust. The decrease in the gain on sale of investment in partnerships is due to a one-time gain of $2.3 million on the re-syndication of certain tax credits in 2001.

In 2001, net gain on sales increased $5.9 million, primarily due to: (1) a $1.2 million increase in gains on the sale of permanent loans; (2) a one time gain of $2.3 million on the re-syndication of certain tax credits through a sale of the related partnership interests; and (3) a $2.2 million gain from the pay-off of a $10.1 million (face amount) bond in 2001.

Operating Expenses and Amortization

	For the year ended December 31,				
(000s)	2002	%	2001	%	2000
Salaries and benefits	$ 22,678	63.0%	$ 21,381	59.5%	$ 15,
General and administrative	7,020	19.5%	6,527	18.2%	4,
Professional fees	4,960	13.8%	5,501	15.3%	4,
Amortization of goodwill and mortgage servicing rights	1,314	3.7%	2,509	7.0%	1,
	$ 35,972	100.0%	$ 35,918	100.0%	$ 26,

Total expenses for the year ended December 31, 2002 were relatively unchanged as compared to 2001. The most significant variances were: (1) a $1.3 million increase in salaries and benefits due to a $2.0 million increase in salaries and other compensation, offset by a $0.7 million decrease in bonuses; and (2) a $1.2 million decrease in amortization expense due to changes in accounting guidelines relating to amortization of goodwill.

Total expenses for the year ended December 31, 2001 increased $9.8 million over the 2000 fiscal year, primarily due to: (1) a $6.1 million increase in salary and related benefits expense, including additional bonuses associated with increased syndication production; (2) a $1.9 million increase in general and administrative expenses due primarily to a $0.6 million charitable contribution made in 2001, an increase in rental expense due to additional office space leased in 2001 versus 2000 and an increase in computer related costs; (3) a $1.2 million increase in professional fees associated with various information system initiatives and an increase in commissions paid on equity syndication funds; and (4) a $0.6 million increase in goodwill and other intangibles amortization.

Net Holding Losses on Derivatives and Cumulative Effect of Change in Accounting Policy

As a result of the adoption of FAS 133, the Company recorded a negative cumulative effect adjustment of $12.3 million on January 1, 2001. The Company recorded net holding losses for mark-to-market adjustments on derivative financial instruments of $14.9 million and $5.6 million for the years ended December 31, 2002 and 2001, respectively.

Impairments and Valuation Allowances Related to Investments

In accordance with the Company's valuation and impairment policies, the Company recorded $0.7 million in impairments and valuation allowances related to four bonds and one taxable loan with an aggregate face amount of $57.6 million in 2002. In 2001, the Company recorded an other-than-temporary impairment of $3.3 million on two bonds with an aggregate face amount of $21.5 million. In 2000, the Company recorded $1.5 million in impairments and valuation allowances related to one bond and one taxable loan with an aggregate face amount of $19.6 million.

Net Losses from Equity Investments in Partnerships

Net losses from equity investments in partnerships increased by $1.8 million for the year ended December 31, 2002, primarily due to losses generated from investments totaling $70.7 million in income-producing real estate operating partnerships and related swap partnerships made in 2002. While these investments generate cash flow to the Company in the form of quarterly distributions, on a GAAP basis for 2002 they generated a net loss due to non-cash adjustments for depreciation and mark-to-market adjustments related to the swap partnerships.

Net losses from equity investments in partnerships increased $1.3 million for the year ended December 31, 2001 as compared with 2000, as 2001 was the first year the Company made a significant investment in partnerships.

Income Tax Expense

Income tax expense for the year ended December 31, 2002 remained relatively stable compared to 2001. The most significant variances include a decrease in the deferred tax benefit relating to tax credits in 2002 versus 2001, partially offset by a decrease in current tax expense as a result of tax benefits derived from the Company's equity investment in the partnerships. These deductions result from depreciation expenses generated by the underlying real estate properties that collateralize the Company's investments in partnerships.

Income tax expense decreased $0.6 million for the year ended December 31, 2001 as compared with 2000, primarily as a result of the tax benefits resulting from low-income housing tax credits earned in 2001 and the $0.6 million charitable contribution in the same year.

Income Allocable to Preferred Shareholders in a Subsidiary Company

Income allocable to preferred shareholders in a subsidiary company increased by $1.2 million for 2002 as compared with 2001. The 2002 figure reflects a full year of income allocable to the two new series of preferred shares issued in October 2001.

Income allocable to preferred shareholders in a subsidiary company increased by $2.3 million for 2001 as compared with 2000 because: (1) 2001 reflects a full year of income allocable to the preferred shares that were issued in June 2000; and (2) 2001 also reflects income allocable to the two new

series of preferred shares from their issuance in October 2001.

Net Income

Net income for the year ended December 31, 2002 increased by $3.1 million compared to 2001, due primarily to: (1) a $3.0 million decrease in net holding losses on securities and cumulative effect of a change in accounting method; (2) a $2.5 million decrease in impairments and valuation allowance related to investments; (3) a $0.3 million increase in the Company's operating income (total income excluding net gain on sales less total expenses) due to growth in the Company's investments; partially offset by (4) a $1.8 million increase in net losses from equity investments in partnerships; and (5) a $1.2 million increase in income allocable to preferred shareholders in a subsidiary company.

Net income for the year ended December 31, 2001 decreased by $5.7 million as compared with 2000, due primarily to: (1) net holding losses on derivative securities totaling $17.9 million, consisting of (a) a $12.3 million cumulative effect adjustment upon adoption of FAS 133 and (b) $5.6 million of net holding losses for mark-to-market adjustments in 2001 (prior to adoption of FAS 133 as of January 1, 2001, these adjustments had been recorded through other comprehensive income rather than net income); (2) a $1.7 million increase in impairments and valuation allowances related to investments; (3) a $2.3 million increase in income allocable to preferred shareholders in a subsidiary company; partially offset by (4) an $11.0 million increase in the Company's operating income (total income excluding net gain on sales less total expenses) due to growth in the Company's loan production volume and investments; and (5) a $5.9 million increase in gain on sales.

Other Comprehensive Income

For the year ended December 31, 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 $1.5 million. After a reclassification adjustment for gains of $4.9 million included in net income, other comprehensive loss for the year ended December 31, 2002 was $3.4 million and total comprehensive income was $25.6 million.

For the year ended December 31, 2001, the net adjustment to other comprehensive income for unrealized holding losses on tax-exempt bonds and residual interests in bond securitizations available for sale was $7.0 million. After a reclassification adjustment for losses of $8.1 million included in net income, other comprehensive income for the year ended December 31, 2001 was $1.1 million and total comprehensive income was $27.0 million.

For the year ended December 31, 2000, the net adjustment to other comprehensive income for unrealized holding losses on tax-exempt bonds and residual interests in bond securitizations available for sale was $2.1 million. After a reclassification adjustment for gains of $0.2 million included in net income, other comprehensive loss for the year ended December 31, 2000 was $2.3 million and total comprehensive income was $29.3 million.

Critical Accounting Policies and Estimates

The Company's discussion of its financial condition and results of operations is based upon the Company's consolidated financial statements, which are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The Company believes the following critical accounting policies contain significant estimates used in the preparation of its consolidated financial statements.

Mortgage Servicing Rights

The Company accounts for its mortgage servicing rights under FAS 140. FAS 140 requires servicing rights retained by the Company after the origination and sale of the related loan to be capitalized by allocating the carrying amount between the loan and the servicing rights based on their relative fair values. The fair value of the mortgage servicing rights is based on the expected future net cash flow to be received over the estimated life of the loan discounted at market discount rates. The capitalization of the mortgage servicing rights is reported in the income statement as a gain or loss on sale and results in an offsetting asset or liability. Mortgage servicing rights are amortized over the estimated life of the serviced loans. The amortization expense is included in amortization of goodwill and mortgage servicing rights in the consolidated statements of income.

The Company selected a discount rate of 12% for the year ended December 31, 2002. Using a lower discount rate of 10% would result in increasing the recorded asset on the Company's balance sheet by approximately $279,000, with an offsetting increase in the Company's corresponding gain on sale of loans. Using a higher discount rate of 14% would result in decreasing the recorded assets on the Company's balance sheet by approximately $244,000, with an offsetting decrease in the Company's corresponding gain on sale of loans.

The Company evaluates all capitalized mortgage servicing rights for impairment when changes indicate that impairment is probable, but no less than at each reporting date. The mortgage servicing rights are considered to be impaired when the carrying amount exceeds the fair value of the expected future net cash flows to be received under the servicing contract. Impairment, if any, is recognized through a valuation allowance.

Other-than-Temporary Impairments and Valuation Allowances

The Company evaluates on an on-going basis the credit risk exposure associated with its assets to determine whether other-than-temporary impairments exist or a valuation allowance is needed. When the Company believes that it is probable that it will not collect all amounts due, including principal and interest, under the terms of an investment, it records an other-than-temporary impairment or valuation allowance. The Company bases its measure of impairment of an investment on the present value of expected future cash flows discounted at the investment's effective interest rate, or the fair value of the collateral if the investment is collateral dependent.

Goodwill

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

recorded by the Company were indefinitely lived, therefore, amortization of these intangible assets has not ceased.

The Company bases its test for impairment on the present value of estimates of the future cash flows generated by the acquired business discounted at market discount rates. The Company selected a discount rate of 9% for the year ended December 31, 2002. Increasing the discount rate by 10% and 20% would result in a decrease in the estimated value of the business of $3.7 million and $7.0 million, respectively. These decreases in value would not require the Company to record impairment.

The Company estimated the growth in the future cash flows generated by the acquired business based on assumptions of 4.0% annual growth in revenue and 4.0% annual growth in expenses. Decreasing the assumed annual revenue growth rate by 10% and 20% would cause a decrease in the value of the asset and the Company would record impairment of zero and $11.9 million, respectively. Increasing the assumed annual expense rate by 10% and 20% would cause a decrease in the value of the asset and the Company would record impairment of zero and $11.4 million, respectively.

Investment in Tax-Exempt Bonds and Residual Interests in Bond Securitizations

Investment in tax-exempt bonds and residual interests in bond securitizations (collectively, "investments in bonds") are accounted for under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"). All investments in bonds are classified and accounted for as available-for-sale debt securities and are carried at fair value; unrealized gains or losses arising during the period are recorded through other comprehensive income in shareholders' equity, while realized gains and losses and other-than-temporary impairments are recorded through operations. The Company evaluates on an on-going basis the credit risk exposure associated with these assets to determine whether any other-than-temporary impairments exist in accordance with the Company's policy discussed under the Other-than-Temporary Impairment section of this discussion. Future adverse changes in market conditions or poor operating results from the underlying real estate could result in losses or an inability to recover the carrying value of the investments.

The Company determines the fair value of participating bonds (i.e., bonds that participate in the net cash flow and net capital appreciation of the underlying properties) that are wholly collateral dependent and for which only a limited market exists by discounting the underlying collateral's expected future cash flows using current estimates of discount rates and capitalization rates. The Company selected discount rates ranging from 11.0% to 13.3% and selected capitalization rates ranging from 8.3% to 12.0% for the year ended December 31, 2002. Increasing the discount rates by 50 basis points and the capitalization rates by 100 basis points would result in decreasing the recorded asset on the Company's balance sheet by approximately $12.8 million, with an offsetting decrease to other comprehensive income.

The Company bases the fair value of non-participating bonds and residual interests in bond securitizations, which also have a limited market, on quotes from external sources, such as brokers, for these or similar bonds or investments. Net operating income is one of the key assumptions used to value the non-participating bonds and residual interests in bond securitizations. Had net operating income been decreased by 10% and 20%, the fair value of the bonds and residual interests in bond securitizations would have decreased by approximately $6.2 million and $13.7 million, respectively.

Because the Company's investment in tax-exempt bonds and residual interests in bond securitizations are secured by non-recourse mortgage loans on real

estate properties, the value of the Company's assets is subject to all of the factors affecting bond and real estate values, including macro-economic conditions, interest rate changes, demographics, local real estate markets and individual property performance. Further, many of the Company's investments are subordinated to the claims of other senior interests and uncertainties may exist as to a borrower's ability to meet principal and interest payments.

New Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board approved Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. FIN 45 is effective for guarantees issued or modified after December 31, 2002. The disclosure requirements under FIN 45 are effective for 2002 calendar year-end financial statements. The Company believes the provision pertaining to the recognition of a liability for the fair value of the obligation it assumes under the guarantee may have a significant impact on the total liabilities and net income of the Company, but is unable to estimate the effect at this time. The Company incorporated the appropriate disclosure requirements in the Note 11 to the consolidated financial statements for the year ended December 31, 2002.

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 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. The Company will continue to review new investments in order to determine if they should be accounted for in accordance with FIN 46.

Related Party Transactions

Pension Fund Advisory Business

The Company has established relationships with pension funds through the Group Trust and MMER. The Group Trust was established by a group of pension funds for the purpose of investing in income-producing real estate investments. The Group Trust provides loans and lines of credit to finance a variety of the Company's loan products. MMER is a Maryland real estate investment trust established by the same pension funds that participate in the Group Trust, plus one other pension fund. MMER provides the Company short-term lines of credit to finance the Company's lending activities, in addition to investing in income-producing real estate partnerships. MFH is the investment manager for the Group Trust and MMER and receives advisory fees for these services. Furthermore, MFH earns origination fees on the placement of permanent loans with the Group Trust. MFH also earns origination fees on the placement of equity interests in real estate partnerships with MMER. The Company's fees earned from the Group Trust for the years ended December 31, 2002, 2001, and 2000 were $2.5 million, $2.0 million and $1.0 million, respectively. The Company's fees earned from MMER for the years ended December 31, 2002, 2001 and 2000 were $1.6 million, $1.4 million and zero, respectively.

As of December 31, 2002, the Company had $89.1 million outstanding on its

credit lines with the Group Trust and MMER. The Group Trust loans outstanding to various subsidiaries of the Company totaled $128.2 million. For the years ended December 31, 2002, 2001 and 2000, the Company recorded interest expense on these borrowing arrangements of $11.1 million, $11.3 million, and $13.0 million, respectively.

The Group Trust and MMER engage in business transactions exclusively with the Company. Four of the five trustees of the Group Trust (Mr. Michael L. Falcone, the Company's President and Chief Operating Officer, Mr. Robert J. Banks, the Company's Vice Chairman, Mr. Keith J. Gloeckl, the Company's Chief Investment Officer, and Mr. Gary A. Mentesana, the Company's Chief Capital Officer) are officers of the Company. In addition, three of the six trustees of MMER (Messrs. Falcone, Banks and Gloeckl) are Company officers. These officers are not paid for Group Trust or MMER service. The Group Trust and MMER are deemed to be affiliates of the Company.

The Shelter Group

Mr. Mark K. Joseph, the Company's Chief Executive Officer and Chairman of its Board of Directors, controls and is an officer of Shelter Development Holdings, Inc. ("Shelter Holdings"), which owns a minority interest in Shelter Development, LLC and Shelter Properties, LLC (collectively, the "Shelter Group"), engages in real estate development and provides property management services to a wide variety of commercial and residential properties. One of the Shelter Group companies provides property management functions for a number of properties that serve as collateral for the Company's bond investments. Mr. Falcone had an ownership interest in and was a board member of this entity until he relinquished these positions in 2000.

The Shelter Group receives fees pursuant to management contracts for properties which it manages. During 2002, 2001 and 2000, the Shelter Group had 10, 10, and 12, respectively, property management contracts for properties that collateralize the Company's investments with fees at or below market rates. During the years ended December 31, 2002, 2001 and 2000, these fees approximated $1.1 million, $1.1 million, and $1.3 million, respectively. In addition, the Shelter Group is the general partner in a real estate operating partnership that the Company held a limited partner interest in at December 31, 2002. As of December 31, 2002, the Company had invested $1.0 million in the property, and the Shelter Group had received $58,063 in developer fees.

Each affiliate property management contract is presented to the independent members of the Company's Board of Directors for approval with information documenting the comparability of the proposed fees to those in the market area of the property. Mr. Joseph has agreed to abstain from any involvement, as a partner in the Shelter Group, in the structuring or review of any contracts or transactions between the Shelter Group and the Company. He has likewise agreed to excuse himself from review or involvement, as an officer or director of the Company, in contracts and transactions involving the Shelter Group. The Company's Board of Directors has approved all contracts and transactions involving the Shelter Group and conducts an annual review of all property management contracts between the Shelter Group and any properties that collateralize the Company's investments.

Management of Defaulted Assets

In certain circumstances involving the Company's tax-exempt bonds, borrowers have defaulted on their debt obligations to the Company. In such circumstances the Company has, after evaluating its options, chosen not to foreclose on the property. Instead, the Company has negotiated the transfer of a property's deed in lieu of foreclosure to, or replaced the general partner of a property with, an entity affiliated with the Company. The Company has done so in order to preserve the original tax-exempt bond obligations and its participation

in cash flow from the property, consistent with its overall goal of providing tax-exempt income to its shareholders.

Following the transfer of the property's deed to an affiliated entity, that entity controls the collateral for certain investments held by the Company. These affiliated entities are controlled by or are managed by certain officers of the Company. The following table outlines these affiliate relationships at December 31, 2002:

Affiliate Entity	Number of Properties Owned (directly or indirectly)	Carrying Value of Co Investment at December
SCA Successor, Inc. (1)	4	$ 53,563,000
SCA Successor II, Inc. (1)	12	51,788,000
MMA Affordable Housing Corporation (2)	2	47,734,000
MuniMae Foundation, Inc. (3) / MMA Successor I, Inc. (1)	3	12,035,000
Total	21	$165,120,000

(1) These corporations are general partners of the operating partnerships whose property collateralizes the Company's investments. Mr. Joseph controls the general partners of these operating partnerships and is a limited partner in eight of these partnerships. Mr. Falcone and Mr. William S. Harrison, the Company's Chief Financial Officer and Senior Vice President, serve as officers and directors of one such general partner. Ms. Angela A. Barone, the Company's Vice President of Finance and Budgeting, serves as a director in one such general partner.

(2) MMA Affordable Housing Corporation ("MMAHC") is a 501(c)(3) non-profit entity organized to provide charitable donations on behalf of the Company. Mr. Joseph is the Chairman and one of five directors of the MMAHC. Mr. Falcone, Mr. Harrison, Mr. Gary A. Mentesana, the Company's Chief Capital Officer, and Mr. Earl W. Cole, III, Senior Vice President of the Company, are also officers and directors of MMAHC.

(3) MuniMae Foundation Inc., is a private non-profit entity organized to provide charitable donations on behalf of the Company. Mr. Joseph is the Chairman and one of four directors of the MuniMae Foundation. Mr. Falcone and Mr. Mentesana are also officers and directors of the MuniMae Foundation.

The officers of the Company who serve as directors or officers of the affiliated entities listed above are neither compensated for their services as officer or director thereof, nor derive any other economic benefit from those entities except for Mr. Joseph, who controls SCA Successor I, Inc., SCA Successor II, Inc. and MMA Successor I, Inc.

Such entities could have interests that do not fully coincide with, or even are adverse to, the interests of the Company. Such entities could choose to act in accordance with their own interests, which could adversely affect the Company. Among the actions such entities could take might be selling a property, thereby causing a redemption event, at a time and under circumstances that would not be advantageous to the Company.

Other Relationships

The Company leases office space from an affiliate. Mr. Joseph and a member of the Company's Board of Directors have ownership interests in the partnership that leases the office space to the Company. For the years ended December 31, 2002, 2001 and 2000, the Company paid $230,000, $208,000 and $178,000, respectively, in rental lease payments under the related lease agreements. These lease agreements with an affiliate were negotiated at market rate.

Mr. Banks and Mr. Gloeckl hold limited partnership interests in various limited partnerships that function as the general partner of certain syndicated low-income housing tax credit funds. The Company is the general partner in these limited partnerships. The limited partnerships are as follows: Midland Equity IV LP, Midland Equity V LP, Midland Equity VI LP, Midland Equity VII LP, Midland Equity VIII LP, Midland Equity IX LP and Midland Equity X LP. Mr. Banks and Mr. Gloeckl are also invested in Midland Tax Credit Investors Partnership, which is a general partnership that invests as a limited partner in certain syndicated low-income tax credit funds.

Mr. Banks and Mr. Gloeckl own shares in three corporations that are invested in real estate operating partnerships as the general partner. In addition, Mr. Banks and Mr. Gloeckl are directly invested in a real estate operating partnership as the general partner with Mr. Gloeckl acting as the managing general partner. All four of the real estate operating partnerships are involved in equity transactions with certain of the Company's low-income housing tax credit funds.

Until 2002, the Company owned a 75% interest in Whitehawk Capital, LLC and Whitehawk Capital IV, LLC (collectively, "Whitehawk"). Mr. Charles M. Pinckney and Mr. Mark S. Begeny, employees of Whitehawk, owned the remaining 25%. During 2002, the Company purchased the remaining 25% interest in Whitehawk from Mr. Pinckney and Mr. Begeny for a total purchase price of $1.2 million ($1.1 million in cash and $0.1 million in common shares of the Company). Subsequent to the purchase of the 25% interest in Whitehawk, Mr. Pinckney and Mr. Begeny became employees of the Company. In addition, each of Mr. Pinckney and Mr. Begeny receives $32,500 per year through 2010 from the Company for deferred consulting fees earned prior to becoming employees of the Company.

In conjunction with the sale of certain taxable notes in 1998 and 1999, the Company provided a guarantee on behalf of 11 operating partnerships for the full and punctual payment of interest and principal due under the taxable notes. These taxable notes have a face amount of $16.2 million at December 31, 2002. Mr. Joseph controls the general partners of these operating partnerships. The Company's obligation under this guarantee is included in the summary of the Company's guarantees in Note 11.

Shelter Development Holdings, Inc. (the "Special Shareholder") is personally liable for the obligations and liabilities of the Company. Mr. Joseph controls and is an officer of the Special Shareholder. In the event that a business combination or change in control occurs, and the Special Shareholder does not approve of such transaction, the Special Shareholder has the right to terminate its status as the Special Shareholder. In the event of such termination, the Company would be obligated to pay the Special Shareholder $1.0 million.

In 2000 and 2001, prior to his employment with the Company, Mr. William S. Harrison, Senior Vice President and Chief Financial Officer of the Company, provided consulting services to the Company through a corporation wholly owned by Mr. Harrison. The Company paid approximately $31,000 and $79,000 in 2001 and 2000, respectively, for these services.

A member of the Company's Board of Directors is the managing general partner of the law firm of Gallagher, Evelius and Jones LLP ("GEJ"), which provides corporate and real estate legal services to the Company. For the year

ended December 31, 2002, $1.2 million in legal fees to GEJ was generated by transactions structured by the Company, of which $0.8 million was directly incurred by the Company. The total amount of $1.2 million represented 8% of GEJ's total revenues for 2002. For the year ended December 31, 2001, $1.6 million in legal fees to GEJ was generated by transactions structured by the Company, of which $1.0 million was directly incurred by the Company. The total amount of $1.6 million represented 12.6% of GEJ's total revenues for 2001.

Until the redemption of the term growth shares in 2002 (see Note 13 to the Company's consolidated financial statements), an affiliate of Merrill Lynch owned 1,250 term growth shares of the Company. The Company may from time to time enter into various investment banking, financial advisory and other commercial services with Merrill Lynch for which Merrill Lynch receives and will receive customary compensation. The Company also enters into various securitizations and interest rate swap transactions with Merrill Lynch on terms generally available in the marketplace.

The Company is the general partner in various partnerships that provide low-income tax credits for investors. The Company sells the limited partner interests in these partnerships to third party investors. In addition, the Company may provide certain performance guarantees on the underlying properties owned by the partnerships (see Note 11). The Company receives asset management fees from these partnerships. For the year ended December 31, 2002, 2001, and 2000, the Company earned $3.0 million, $2.4 million and $1.9 million in asset management fees, respectively.

For the year ended December 31, 2001, the Company made a $600,000 charitable contribution to MMA Affordable Housing Corporation.

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. The Company 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.

The Company has elected under Section 754 of the Internal Revenue Code to adjust the basis of the Company's property on the transfer of shares to reflect the price each shareholder paid for its shares. 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. The capital gain and loss allocated from the Company may be different for each shareholder due to the Company's Section 754 election and is a function of, among other things, the timing of the shareholder's purchase of shares and the timing of transactions that generate gains or losses for the Company. This means that for assets purchased by the Company prior to a shareholder's purchase of shares, the shareholder's basis in the assets may be significantly different than the Company's basis in those same assets. Although the procedure for allocating the basis adjustment is complex, the result of the election is that each share is homogeneous, while each shareholder's basis in the assets of the Company may be different. Consequently, the capital gains and losses allocated to individual shareholders may be significantly different than the capital gains and losses recorded by the Company.

In January 2003, the Company applied to have its election under Section 754 of the Internal Revenue Code revoked effective January 1, 2003. The Company applied for the revocation due to the increased administrative burden attributable to this election resulting form the increased numbers of partners and frequency of shifts in ownership. The Internal Revenue Service has not yet responded to the Company's application to revoke its election under Section 754.

A portion of the Company's interest income is derived from private activity bonds that for income tax purposes are considered tax preference items for purposes of alternative minimum tax ("AMT"). AMT is a mechanism within the Internal Revenue Code to ensure that all taxpayers pay at least a minimum amount of taxes. All taxpayers are subject to the AMT calculation requirements although the vast majority of taxpayers will not actually pay AMT. As a result of AMT, the percentage of the Company's income that is exempt from federal income tax may be different for each shareholder depending on that shareholder's individual tax situation.

The Company has numerous corporate subsidiaries, which 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 7A. Quantitative and Qualitative Disclosures about Market Risk.

The Company invests in a variety of financial instruments and other investments, including available-for-sale investments in tax-exempt bonds and residual interests in bond securitizations, taxable construction, permanent and related loans and investments in income-producing real estate partnerships, which are subject to various forms of market risk including real estate risk, interest rate risk, credit and liquidity risk and prepayment risk. The Company seeks to prudently and actively manage such risks, to earn sufficient compensation to justify the undertaking of such risks and to maintain capital levels consistent with the risks the Company undertakes.

The following is a discussion of various categories of risk that the Company may be subject to in the foreseeable future.

Real Estate Risk

The Company's investments in bonds and residual interests in bond securitizations are primarily collateralized by non-recourse mortgage loans on real estate properties. One of the major risks of owning investments collateralized by multifamily residential properties is the possibility that the owner of a property collateralizing the investment will not make the payments due to the Company and therefore defaults on the debt obligation. Defaults are subject to a wide variety of factors, including, but not limited to, property performance, property management, supply and demand forces, economic trends, interest rates and other factors beyond the control of the Company. Adverse economic conditions may limit the amounts of rent that can be charged for rental units at the properties or may reduce a property's occupancy level. Occupancy and rent levels may decrease due to the construction of additional housing units. City, state or federal housing programs that subsidize many of the properties may impose rent limitations and may limit the ability of a property to increase rents. The property may experience an increase in expenses, including but not limited to capital needs, real estate taxes and insurance. All of these conditions and events may increase the possibility that a property owner may be unable to meet its obligations to the Company under its tax-exempt

bond. This could affect the Company's cash available for distribution to shareholders. The Company manages this risk through a diligent underwriting process and by carefully monitoring loan performance.

The Company may be adversely affected by periods of economic slowdown or recession that result in declining property values or property performance, particularly declines in the value or performance of multifamily properties. Any material decline in property values weakens the value of the properties as collateral for the Company's investments and increases the possibility of a loss in the event of a default. Additionally, some of our income comes from additional interest on participating tax-exempt bonds. The collection of additional interest may decrease in times of economic slowdown due to lower cash available from the properties. Further, many of the Company's investments are subordinated to the claims of other senior interests and uncertainties may exist as to a borrower's ability to meet principal and interest payments. As a result of these factors, debt service on the investments, and therefore cash flow available for distribution to shareholders, is dependent upon the performance of the underlying properties. Accordingly, a decline in the performance of the related multifamily property could have a negative effect on our cash available for distribution to shareholders.

Interest Rate Risk

Interest rate risk is highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. The interest income collected on investments that bear interest at fixed rates or pay interest based on the cash flow available from the underlying property are not directly impacted by fluctuations in interest rates, unless the investment is prepaid as discussed below. In contrast, certain of the Company's investments in residual interests in bond securitizations, which bear interest at floating rates, are directly impacted by fluctuations in market interest rates. If interest rates had changed by 100 basis points and 200 basis points at December 31, 2002, the Company's annual interest income on these investments would have changed by $479,000 and $958,000, respectively. If interest rates had changed by 100 basis points and 200 basis points at December 31, 2001, the Company's annual interest income on these investments would have changed by $95,000 and $200,000, respectively.

The majority of Company's loans receivable and notes payable related to the Company's mortgage banking activities are generally not expected to be directly subject to interest rate risk. The Company typically provides loans to borrowers (loans receivable) by borrowing from third parties (notes payable). The Company earns net interest income that represents the difference between the interest charged to borrowers and the interest paid to the Company's lenders. The Company typically attempts to match the terms and rates of its loans receivable and notes payable to fix the interest income the Company will receive.

Changing interest rate environments could reduce the demand for multifamily tax-exempt and taxable financing, which could limit the Company's ability to structure transactions. Conversely, falling interest rates may prompt historical renters to become first time homebuyers, in turn potentially reducing the demand for multifamily housing. In addition, in a falling interest rate environment, demand for taxable financing could increase relative to tax-exempt financing.

Developing an effective interest rate management strategy can be complex, and no strategy can insulate the Company from all potential risks associated with interest rate changes. Management believes the majority of the Company's interest rate risk arises in connection with: (1) certain of its residual interests in bond securitizations; (2) CAPREIT; and (3) to the extent not match-funded as described above, floating-rate debt used to finance the Company's mortgage banking activities. The Company manages its interest rate

exposure on its investments in certain residual interests in bond securitizations, which are inverse floaters, through the use of interest rate swaps in the notional amount of the outstanding senior interests in the securitization trusts. Historically, the Company has attempted to hedge substantially all of the floating interest rate exposure arising from residual interests; however, from time to time, a portion of this floating rate exposure may not be fully mitigated by hedging instruments. As a result, changes in interest rates could result in either an increase or decrease in the Company's interest income and cash flows associated with these investments. Also, certain of the interest rate swap agreements are subject to risk of early termination, possibly at times unfavorable to the Company. There can be no assurance that the Company will be able to acquire hedging instruments at favorable prices, or at all, when the existing arrangements expire or are terminated. In this case, the Company would be fully exposed to interest rate risk to the extent the hedging instruments are terminated by the counterparty while the securitization trust remains in existence.

In addition, there is no guarantee that the securitization trust will be in existence for the duration of the hedge, as these securitization trusts would be collapsed if the related credit enhancement or liquidity facilities are not renewed.

The interest required to be paid on certain of the Company's floating senior interests in bond securitization trusts includes a remarketing spread over market interest rate. This remarketing spread varies on a weekly basis and is not mitigated by the hedging instruments discussed above. As a result, changes in the remarketing spread could result in either an increase or decrease in the Company's interest income and cash flows associated with its residual interests in bond securitizations. At December 31, 2002, the Company's weighted average remarketing spread was 0.16%. If the remarketing spread had changed by 50% and 100% at December 31, 2002, the Company's annual interest income on these investments would have changed by $318,000 and $636,000, respectively.

The Company's investments in tax-exempt bonds, residual interests in bond securitizations, and investments in derivative financial instruments are carried at fair value. Significant changes in market interest rates could affect the amount and timing of unrealized and realized gains or losses on these investments. If interest rates had changed by 100 basis points and 200 basis points at December 31, 2002, the market value of these investments would have changed by 6% and 11%, respectively. If interest rates had changed by 100 basis points and 200 basis points at December 31, 2001, the market value of these investments would have changed by 8% and 16%, respectively. However, for the participating tax-exempt bonds for which the fair value is determined by discounting the underlying collateral's expected future cash flows using current estimates of discount rates and capitalization rates, changes in market interest rates do not have a strong enough correlation to discount and capitalization rates from which to draw a conclusion. There are many mitigating factors to consider in determining what causes discount and capitalization rates to change, such as macroeconomic issues, real estate capital markets, economic events and conditions, and investor risk perceptions.

Credit and Liquidity Risks

Substantially all of the Company's bonds and residual interests in bond securitization investments lack a regular trading market and are illiquid. This lack of liquidity could be exacerbated during turbulent market conditions or if any of the tax-exempt bonds become taxable or go into default. If the Company were required to raise additional cash during a turbulent market, the Company might have to liquidate its investments on unfavorable terms. In addition, the illiquidity associated with the Company's bond and residual interests in bond securitization investments can result in increased volatility in the fair value of the Company's investments, which could impact the Company's balance sheet and

other comprehensive income (loss).

There can also be significant credit risk assigned by investors to the types of investments held by the Company. The illiquid assets held by the Company trade at yields that can be traced to spreads over "investment grade" instruments. On occasion there may be periods of market volatility during which the market investors demand an increased credit spread to "investment grade' investments for the investments owned by the Company. During these times, the market value of the Company's investments may decline significantly. If the investors' required rate of return on the Company's investments had changed 100 basis points and 200 basis points at December 31, 2002, the market value of these investments would have changed by 6% and 11%, respectively. If the investors' required rate of return on the Company's investments had changed 100 basis points and 200 basis points at December 31, 2001, the market value of these investments would have changed by 8% and 16% respectively.

Under the terms of the Company's interest rate swap agreements with counterparties and certain other transactions (see Note 7 to the consolidated financial statements), the Company is required to maintain cash deposits with its counterparties (margin call deposits). These cash margin call deposits have risen from $15.1 million at December 31, 2001 to $30.0 million at December 31, 2002. There is a risk that the Company could be required to liquidate investments to satisfy margin calls on its interest rate swap contracts if interest rates rise or fall dramatically. Additionally, the Company is exposed to the credit risks of the Company's counterparties in the interest rate swap. The Company's counterparties, under certain circumstances, may not pay or perform under the contracts or they may terminate the contract at times unfavorable to the Company.

In order to facilitate the securitization of certain assets at higher than normal leverage ratios, the Company has pledged additional bonds that act as collateral for the senior interests in the securitization trusts. In the event that a securitization trust cannot meet its obligations, all or a portion of the bonds pledged as collateral may be sold to satisfy the obligations of the senior interest in the securitization trust. In addition, if short-term tax-exempt interest rates rise dramatically and exceed the coupon rate of the underlying fixed rate bond in a securitization trust, the securitization trust would be collapsed as a result of insufficient interest from the underlying fixed rate bond available to service the floating senior interest obligation.

Prepayment Risk

A decrease in market interest rates may result in the redemption of an investment or a borrower prepaying or refinancing the investment prior to its stated maturity. The Company may not be able to reinvest the proceeds of the redeemed investment at an attractive rate of return. This may affect the Company's ability to generate sufficient cash to pay distributions.

Risk Associated with Securitizations

Through securitizations, the Company seeks to enhance its overall return on its investments and to generate proceeds that facilitate the acquisition of additional investments. In certain of the Company's securitization trusts, the investment bank (the "credit enhancer") provides liquidity to the trust and credit enhancement to the bonds, which enables the senior interests to be sold to certain accredited third party investors seeking investments rated "AA" or better. The liquidity and credit enhancement facilities are generally for one-year terms and are renewable annually by the credit enhancer. To the extent that the credit enhancer is downgraded below "AA", either an alternative credit enhancement provider would be substituted to reinstate the desired investment rating or the senior interests would be marketed to other accredited investors. In either case, it is anticipated that the return on the residual interests

would decrease, which would negatively impact the Company's income. If the credit enhancer does not renew the liquidity or credit enhancement facilities, the Company would be forced to find alternative liquidity or credit enhancement facilities, repurchase the underlying bonds or liquidate the underlying bond and its investment in the residual interests. If the Company is forced to liquidate its investment in the residual interests and potentially the related interest rate swaps (discussed above), the Company would recognize gains or losses on the liquidation, which may be significant depending on market conditions. As of December 31, 2002, $385.4 million and $165.7 million of the Company's senior interests in securitization trusts were subject to annual "rollover" renewal for liquidity and credit enhancement, respectively. As of December 31, 2001, $412.7 million and $280.7 million of the Company's senior interests in securitization trusts were subject to annual "rollover" renewal for liquidity and credit enhancement, respectively. The Company has already extended, in advance, the liquidity and credit enhancement of the senior interests for a period of one year on each trust. The expiration of each facility is staggered for the trusts so that the annual renewals are not concentrated in any one month. In addition, the Company entered an agreement whereby the liquidity and credit enhancement facilities will be automatically extended for six month increments on each six month anniversary thereafter unless notified by the credit enhancer six months in advance of their termination of the facilities. The extension and renewal of the liquidity and credit enhancement facilities have the same terms as the original facilities. The Company continues to review alternatives that would reduce and diversify credit risks.

Item 8. Financial Statements and Supplementary Data.

The consolidated financial statements of the Company, together with the report thereon of PricewaterhouseCoopers LLP dated February 27, 2003, are listed in Item 14(a)(1) and included at the end of this report.

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

None.

Part III

Item 10. Directors and Executive Officers of the Registrant.

The information required by Item 10 is contained in the Company's proxy statement for its 2003 annual shareholders meeting under the captions "Election of Directors," "Identification of Executive Officers," and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by Item 11 is contained in the Company's proxy statement for its 2003 annual shareholders meeting under the heading "Report of the Compensation Committee of the Board of Directors" and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by Item 12 is contained in the Company's proxy statement for its 2003 annual shareholders meeting under the same caption and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

The information required by Item 13 is contained in the Company's proxy statement for its 2003 annual shareholders meeting under the same caption and is incorporated herein by reference.

Item 14. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

The term "disclosure controls and procedures" is defined in Rules 13a-14(c) and 15d-14(c) of the Securities and Exchange Act of 1934 (the "Exchange Act"). These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of a date within 90 days before the filing of this annual 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 December 31, 2002, there were no significant changes to our internal controls or in other factors that could significantly affect our internal controls.

Part IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) (1) List of Financial Statements. The following is a list of the consolidated financial statements included at the end of this report:

Report of Independent Accountants
Consolidated Balance Sheets as of December 31, 2002 and 2001
Consolidated Statements of Income for the Years Ended December 31, 2002, 2001 and 2000
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2002, 2001 and 2000
Consolidated Statements of Cash Flows for the Years Ended December 31, 2002, 2001 and 2000
Consolidated Statement of Shareholders' Equity for the Years Ended December 31, 2002, 2001 and 2000
Notes to Consolidated Financial Statements

(2) List of Financial Statement Schedules.

All schedules prescribed by Regulation S-X have been omitted as the required information is inapplicable or the information is presented elsewhere in the consolidated financial statements or related notes.

(3) List of Exhibits. The following is a list of exhibits furnished.

3.1 Second Amended and Restated Certificate of Formation and Operating Agreement of the Company dated as of August 12, 2002.

3.4 Amended and Restated By-laws of the Company

10.1 Master Repurchase Agreement among the Registrant, Trio Portfolio Investors, L.L.C., Rio Portfolio Partners, L.P., Blackrock Capital Finance, L.P., Brazos Fund, L.P. and M.F. Swapco, Inc. dated June 30, 1997 (filed as Item 7 (c) Exhibit 10.4 to the Company's report on Form 8-K, filed with the Commission on January 28, 1998 and incorporated by reference herein).

10.2 Stock Purchase and Contribution Agreement among the Registrant and Messrs. Robert J. Banks, Keith J. Gloeckl and Ray F. Mathis dated September 30, 1999 (filed as Item 7 (c) Exhibit 2.1 to the Company's report on Form 8-K, filed with the Commission on November 8, 1999 and incorporated by reference herein).

10.3 Registration Rights Agreement among the Registrant and Messrs. Robert J. Banks, Keith J. Gloeckl and Ray F. Mathis dated October 20, 1999 (filed as Item 16 Exhibit 2.2 to the Company's report on Form S-3, File No. 333-56049, filed with the Commission on January 24, 2000 and incorporated by reference herein).

10.4 Employment Agreement between the Registrant and Robert J. Banks, dated October 20, 1999 (filed as part of the Company's Form 10-K for the fiscal year ended December 31, 1999 and incorporated by reference herein).

10.5 Employment Agreement between the Registrant and Keith J. Gloeckl, dated October 20, 1999 (filed as part of the Company's Form 10-K for the fiscal year ended December 31, 1999 and incorporated by reference herein).

10.6 Employment Agreement between the Registrant and Mark K. Joseph, dated December 31, 1999 (filed as part of the Company's Form 10-K, as amended, for the fiscal year ended December 31, 1999 and incorporated by reference herein).

10.7 Employment Agreement between the Registrant and Michael L. Falcone, dated December 31, 1999 (filed as part of the Company's Form 10-K, as amended, for the fiscal year ended December 31, 1999 and incorporated by reference herein).

10.8 Employment Agreement between the Registrant and Gary A. Mentesana, dated December 31, 1999 (filed as part of the Company's Form 10-K, as amended, for the fiscal year ended December 31, 1999 and incorporated by reference herein).

10.9 Employment Agreement between the Registrant and William S. Harrison, dated April 9, 2001 (filed as Item 6 (a) Exhibit 10.13 to the Company's report on Form 8-K, filed with the Commission on May 15, 2001.

10.10Employment Agreement between the Registrant and Keith J. Gloeckl, dated August 30, 2001 (filed as Item 6 (a) Exhibit 10.1 to the Company's report on Form 8-K, filed with the Commission on August 14, 2001.

10.11Employment Agreement between the Registrant and Robert J. Banks, dated August 30, 2001 (filed as Item 6 (a) Exhibit 10.1 to the Company's report on Form 8-K, filed with the Commission on November

13, 2001.

21 Subsidiaries

23 Consent of PricewaterhouseCoopers LLP

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

(b) Reports on Form 8-K.

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

SIGNATURES

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

Municipal Mortgage & Equity, LLC

By: /s/ Mark K. Joseph

Mark K. Joseph
Chief Executive Officer
Date: March 26, 2003

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

Signature	Title	Date
/s/ Mark K. Joseph ----------------------- Mark K. Joseph	Chairman of the Board, Chief Executive Officer (Principal Executive Officer), and Director	March 26, 2003
/s/ Robert J. Banks ----------------------- Robert J. Banks	Vice Chairman and Director	March 26, 2003
/s/ Michael L. Falcone ----------------------- Michael L. Falcone	President, Chief Operating Officer and Director	March 26, 2003
/s/ William S. Harrison ----------------------- William S. Harrison	Senior Vice President, Chief Financial Officer and Secretary	March 26, 2003
/s/ Charles Baum ----------------------- Charles Baum	Director	March 26, 2003
/s/ Richard O. Berndt -----------------------	Director	March 26, 2003

Richard O. Berndt

/s/ Robert S. Hillman Robert S. Hillman	Director	March 26, 2003
/s/ Douglas A. McGregor Douglas A. McGregor	Director	March 26, 2003
/s/ Carl W. Stearn Carl W. Stearn	Director	March 26, 2003

CERTIFICATIONS

I, William S. Harrison, certify that:

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

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

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

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

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

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

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

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

   a. all significant deficiencies in the design or operation of

internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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

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

Date: March 26, 2003

/s/ William S. Harrison

Name: William S. Harrison
Title: Chief Financial Officer

I, Mark K. Joseph, certify that:

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

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

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

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

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

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

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

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the

audit committee of the registrant's board of directors:

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

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

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

Date: March 26, 2003

/s/ Mark K. Joseph

Name: Mark K. Joseph
Title: Chief Executive Officer

Report of Independent Accountants

To the Shareholders and Board of Directors of Municipal Mortgage & Equity, LLC:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows, and shareholders' equity present fairly, in all material respects, the financial position of Municipal Mortgage & Equity, LLC and its subsidiaries at December 31, 2002 and December 31, 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Baltimore, Maryland
February 27, 2003

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

	December 31, 200
ASSETS	
Investment in tax-exempt bonds, net (Note 2)	$ 770,34
Loans receivable, net (Note 3)	461,44
Investments in partnerships (Note 4)	99,96
Residual interests in bond securitizations (Note 5)	11,03
Investment in derivative financial instruments (Note 6)	18,76
Cash and cash equivalents	43,74
Interest receivable	16,15
Restricted assets (Note 7)	40,31
Other assets	46,59
Mortgage servicing rights, net (Note 8)	11,00
Goodwill	33,53
Total assets	$ 1,552,91
LIABILITIES AND SHAREHOLDERS' EQUITY	
Notes payable (Note 9)	$ 450,92
Short-term debt (Note 9)	219,94
Long-term debt (Note 9)	147,35
Residual interests in bond securitizations (Note 5)	1,44
Investment in derivative financial instruments (Note 6)	49,35
Accounts payable and accrued expenses	14,11
Unearned revenue and other liabilities	19,25
Distributions payable	2,99
Total liabilities	905,38
Commitments and contingencies (Note 11)	
Preferred shareholders' equity in a subsidiary company (Note 12)	160,46
Shareholders' equity:	
Preferred shares:	
Series I (0 and 10,995 shares issued and outstanding, respectively)	
Series II (0 and 3,176 shares issued and outstanding, respectively)	
Preferred capital distribution shares:	
Series I (0 and 5,742 shares issued and outstanding, respectively)	
Series II (0 and 1,391 shares issued and outstanding, respectively)	
Term growth shares (0 and 2,000 shares issued and outstanding, respectively)	
Common shares, par value $0 (29,083,599 shares authorized, including 25,571,580 shares issued and outstanding, and 29,844 deferred shares at December 31, 2002 and 24,594,597 authorized, 21,857,312 shares issued and outstanding, and 22,254 deferred shares at December 31, 2001)	471,94
Less common shares held in treasury at cost (55,444 and 59,330 shares respectively)	(85
Less unearned compensation (deferred shares) (Note 15)	(3,27
Accumulated other comprehensive income	19,24
Total shareholders' equity	487,06

Total liabilities and shareholders' equity	$ 1,552,91

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

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

	For the year e	
	2002	2
INCOME:		
Interest income		
Interest on bonds and residual interests in bond securitizations	$ 59,923	$
Interest on loans	34,895	
Interest on short-term investments	1,255	
Total interest income	96,073	
Fee income		
Syndication fees	7,221	
Origination fees	6,631	
Loan servicing fees	6,823	
Asset management and advisory fees	3,887	
Other income	4,435	
Total fee income	28,997	
Net gain on sales	8,558	
Total income	133,628	
EXPENSES:		
Interest expense	36,596	
Salaries and benefits	22,678	
General and administrative	7,020	
Professional fees	4,960	
Amortization of goodwill and mortgage servicing rights	1,314	
Total expenses	72,568	
Net holding losses on derivatives	(14,863)	
Impairments and valuation allowances related to investments (Notes 2 and 3)	(730)	
Net losses from equity investments in partnerships	(3,057)	
Net income before income taxes, income allocated to preferred shareholders in a subsidiary company, and cumulative effect of accounting change	42,410	
Income tax expense	1,484	
Net income before income allocated to preferred shareholders in a subsidiary company and cumulative effect of accounting change	40,926	
Income allocable to preferred shareholders in a subsidiary company (Note 12)	11,977	

Net income before cumulative effect of accounting change	28,949
Cumulative effect on prior years of change in accounting for derivatives	-
Net income	$ 28,949
Net income allocated to:	
Preferred shares:	
Series I	$ -
Series II	-
Preferred capital distribution shares:	
Series I	$ -
Series II	-
Term growth shares	$ 153
Common shares	$ 28,796

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

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

	For the year e
	2002
Basic earnings per share:	
Preferred shares:	
Series I	$ -
Series II	$ -
Preferred capital distribution shares:	
Series I	$ -
Series II	$ -
Common shares:	
Earnings before cumulative effect of accounting change	$ 1.16
Cumulative effect on prior years of change in accounting for derivatives	-
Basic earnings per common share	$ 1.16
Weighted average common shares outstanding	24,904,437
Diluted earnings per share:	
Common shares:	

Earnings before cumulative effect of accounting change	$ 1.13	$
Cumulative effect on prior years of change in accounting for derivatives	-	
Diluted earnings per common share	$ 1.13	$
Weighted average common shares outstanding	25,473,815	21,

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

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

	For the year	
	2002	2
Net income	$ 28,949	$
Other comprehensive income (loss):		
Unrealized gains (losses) on investments:		
Unrealized holding gains (losses) arising during the period	1,536	
Reclassification adjustment for (gains) losses included in net income	(4,887)	
Other comprehensive income (loss)	(3,351)	
Comprehensive income	$ 25,598	$

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

MUNICIPAL MORTGAGE & EQUITY, LLC
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except share data)

	Preferred Shares		Preferred Capita Distribution Sha	
	Series I	Series II	Series I	Series
Balance, January 1, 2000	$ 10,105	$ 5,720	$ 3,756	$ 1,
Net income	840	472	338	
Unrealized losses on investments, net of reclassifications	-	-	-	
Distributions	(1,351)	(1,324)	(605)	(
Purchase of treasury shares	-	-	-	

Reissuance of treasury shares	-	-	-	
Options exercised	-	-	-	
Issuance of common shares	-	-	-	
Deferred shares issued under the Non-Employee Directors' Share Plans (Note 15)	-	-	-	
Deferred share grants (Note 15)	-	-	-	
Amortization of deferred compensation (Note 15)	-	-	-	
Balance, December 31, 2000	9,594	4,868	3,489	1,
Net income	720	109	324	
Unrealized gains on investments, net of reclassifications	-	-	-	
Distributions	(602)	(1,101)	(237)	(
Redemption of preferred shares	(2,798)	(1,550)	(1,024)	(
Reissuance of treasury shares	-	-	-	
Options exercised	-	-	-	
Issuance of common shares	-	-	-	
Deferred shares issued under the Non-Employee Directors' Share Plans (Note 15)	-	-	-	
Deferred share grants (Note 15)	-	-	-	
Amortization of deferred compensation (Note 15)	-	-	-	
Tax benefit from exercise of options and vesting of deferred shares	-	-	-	
Balance, December 31, 2001	6,914	2,326	2,552	
Net income	-	-	-	
Unrealized losses on investments, net of reclassifications	-	-	-	
Distributions	(115)	(15)	(49)	
Redemption of preferred shares	(6,799)	(2,311)	(2,503)	(
Options exercised	-	-	-	
Issuance of common shares	-	-	-	
Reissuance of treasury shares	-	-	-	
Deferred shares issued under the Non-Employee Directors' Share Plans (Note 15)	-	-	-	
Deferred share grants (Note 15)	-	-	-	
Amortization of deferred compensation (Note 15)	-	-	-	
Tax benefit from exercise of options and vesting of deferred shares	-	-	-	
Balance, December 31, 2002	$ -	$ -	$ -	$

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

				A
	Common Shares	Treasury Shares	Unearned Compensation	Co In
Balance, January 1, 2000	$ 324,443	$ (2,481)	$ (3,468)	$
Net income	29,076	-	-	
Unrealized losses on investments, net of reclassifications	-	-	-	

Distributions	(29,011)	-	-	
Purchase of treasury shares	-	(191)	-	
Reissuance of treasury shares	(1,707)	1,728	-	
Options exercised	895	-	-	
Issuance of common shares	3,415	-	-	
Deferred shares issued under the Non-Employee Directors' Share Plans (Note 15)	115	-	-	
Deferred share grants (Note 15)	1,764	-	(1,764)	
Amortization of deferred compensation (Note 15)	-	-	1,088	
Balance, December 31, 2000	328,990	(944)	(4,144)	
Net income	23,847	-	-	
Unrealized gains on investments, net of reclassifications	-	-	-	
Distributions	(35,195)	-	-	
Redemption of preferred shares	(1,363)	-	-	
Reissuance of treasury shares	(32)	32	-	
Options exercised	2,558	-	-	
Issuance of common shares	85,992	-	-	
Deferred shares issued under the Non-Employee Directors' Share Plans (Note 15)	151	-	-	
Deferred share grants (Note 15)	1,418	-	(1,418)	
Amortization of deferred compensation (Note 15)	-	-	1,417	
Tax benefit from exercise of options and vesting of deferred shares	367	-	-	
Balance, December 31, 2001	406,733	(912)	(4,145)	
Net income	28,796	-	-	
Unrealized losses on investments, net of reclassifications	-	-	-	
Distributions	(42,683)	-	-	
Redemption of preferred shares	(7,275)	-	-	
Options exercised	3,541	-	-	
Issuance of common shares	81,286	-	-	
Reissuance of treasury shares	(55)	55	-	
Deferred shares issued under the Non-Employee Directors' Share Plans (Note 15)	190	-	-	
Deferred share grants (Note 15)	830	-	(830)	
Amortization of deferred compensation (Note 15)	-	-	1,701	
Tax benefit from exercise of options and vesting of deferred shares	583	-	-	
Balance, December 31, 2002	$ 471,946	$ (857)	$ (3,274)	$

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

MUNICIPAL MORTGAGE & EQUITY,
CONSOLIDATED STATEMENT OF SHAREHOLD
(In thousands, except share

	Preferred Shares		Preferred Capital Distribution Shares	
SHARE ACTIVITY:	Series I	Series II	Series I	Series II

Balance, January 1, 2000	14,933	7,226	7,798	3,164
Purchase of treasury shares	-	-	-	-
Reissuance of treasury shares	-	-	-	-
Options exercised	-	-	-	-
Issuance of common shares	-	-	-	-
Deferred shares issued under the Non-Employee Directors' Share Plans (Note 15)	-	-	-	-
Balance, December 31, 2000	14,933	7,226	7,798	3,164
Redemption of preferred shares	(3,938)	(4,050)	(2,056)	(1,773)
Reissuance of treasury shares	-	-	-	-
Options exercised	-	-	-	-
Issuance of common shares	-	-	-	-
Issuance of common shares under employee share incentive plans (Note 15)	-	-	-	-
Deferred shares issued under the Non-Employee Directors' Share Plans (Note 15)	-	-	-	-
Balance, December 31, 2001	10,995	3,176	5,742	1,391
Redemption of preferred shares	(10,995)	(3,176)	(5,742)	(1,391)
Options exercised	-	-	-	-
Issuance of common shares	-	-	-	-
Reissuance of treasury shares	-	-	-	-
Issuance of common shares under employee share incentive plans (Note 15)	-	-	-	-
Deferred shares issued under the Non-Employee Directors' Share Plans (Note 15)	-	-	-	-
Balance, December 31, 2002	-	-	-	-

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

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

	For th
	2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 28,949
Adjustments to reconcile net income to net cash provided by operating activities:	
Income allocated to preferred shareholders in a subsidiary company	11,977
Cumulative effect of accounting change	-
Net holding losses on trading securities	14,863
Impairments and valuation allowances related to investments	730
Net gain on sales	(8,558)
Loss from investments in partnerships	3,057
Distributions received from equity investments	497
Net amortization of premiums, discounts and fees on investments	(203)
Depreciation and amortization	1,856
Tax benefit from deferred share benefit	583
Deferred share compensation expense	1,701

Common and deferred shares issued under the Non-Employee Directors' Share Plans	224
Director fees paid and share awards made by reissuance of treasury shares	-
Net change in assets and liabilities:	
Increase in interest receivable	(298)
Increase in other assets	(3,651)
Increase in accounts payable, accrued expenses and other liabilities	4,349
Net cash provided by operating activities	56,076
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of tax-exempt bonds and residual interests in bond securitizations	(191,619)
Loan originations	(384,787)
Acquisition of an unconsolidated subsidiary	(1,100)
Purchases of property and equipment	(290)
Net reduction (investment) in restricted assets	(23,387)
Principal payments received	364,755
Investment in partnerships	(123,351)
Return of capital invested in partnerships	25,328
Proceeds from sales of investments	33,149
Net cash used in investing activities	(301,302)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings from credit facilities	711,002
Repayment of credit facilities	(680,141)
Proceeds from short-term debt	179,700
Repayment of short-term debt	(38,315)
Proceeds from long-term debt	13,063
Repayment of long-term debt	(587)
Issuance of common shares	77,821
Issuance of preferred shares in a subsidiary company	-
Redemption of preferred shares	(19,298)
Proceeds from stock options exercised	3,541
Purchase of treasury shares	-
Distributions on common shares	(43,245)
Distributions to preferred shareholders in a subsidiary company	(11,943)
Net cash provided by financing activities	191,598
Net (decrease) increase in cash and cash equivalents	(53,628)
Cash and cash equivalents at beginning of period	97,373
Cash and cash equivalents at end of period	$ 43,745

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

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

	For th
	2002

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid	$ 29,399
Income taxes paid	1,180
DISCLOSURE OF NON-CASH ACTIVITIES:	
Disposal of advance to related party	$ 2,618
Investment in partnership under a note payable obligation	-
Contribution of investment in partnership to a subsidiary	-
Issuance of common stock in connection with the acquisition of an unconsolidated subsidiary	100
Issuance of common stock in connection with MFH acquisition	3,331

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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.

MuniMae is a Delaware limited liability company. As a limited liability company, the Company 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.

Basis of Presentation

The consolidated financial statements of the Company are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States ("GAAP"). The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates. Certain amounts in prior years' financial statements have been reclassified to conform to the current year presentation.

The following is a summary of the Company's significant accounting policies.

Consolidation

The consolidated financial statements include the accounts of MuniMae, its wholly owned subsidiaries and its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated. Preferred shareholders' equity in a subsidiary company represents a minority ownership interest in the Company.

Investment in Tax-Exempt Bonds and Residual Interests in Bond Securitizations

The Company originates investments in tax-exempt bonds and taxable loans primarily to the 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 on the underlying properties. The Company's sources of capital to fund these lending activities include proceeds from equity offerings, securitizations, and draws on 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.

The Company may also structure transactions whereby a third party buys bonds directly from a seller and the Company subsequently purchases a residual interest in a bond securitization holding the tax-exempt bonds.

General Terms of Tax-Exempt Bonds

The Company's rights under the bonds it holds are defined by the terms of the underlying mortgage loans, which are pledged to the Company to secure the payment of principal and interest under the bonds. The mortgage loans are first mortgage or subordinate loans on multifamily housing developments and are generally nonrecourse, except upon the occurrence of certain events. The mortgage loans bear interest at rates determined by arm's-length negotiations that reflect market conditions existing at the time the bonds were acquired or originated by the Company. Non-participating bonds, which account for the majority of the Company's tax-exempt bonds (see Note 2), provide for payment of a fixed rate of interest. Participating bonds have additional interest features that allow the Company to participate in the growth of the underlying property. The participating bonds provide for payment of additional interest from available cash flow of the property in addition to the base interest. The terms of the additional interest to be received on a bond are specific to that bond and are set forth in the bond documents. Certain participating and non-participating bonds are considered subordinate bonds, as the payment of interest and principal on the bonds occurs only after payment of principal and interest on a bond that has priority to the cash flow of the underlying collateral.

Principal amortization on the bonds, if any, is received in accordance with amortization tables set forth in the bond documents. If no principal amortization is required during the bond term, the outstanding principal balance will be required to be repaid or refinanced in a lump sum payment at the end of the holding period or at such earlier time as the Company may require. The mortgage loans are non-assumable except with the consent of the Company. The bonds contain provisions that prohibit prepayment of the bond for a specified period of time.

Securitization Programs

The Company securitizes assets in order to enhance its overall return on its investments and to generate proceeds that, along with equity offering proceeds, facilitate the acquisition of additional investments. The Company uses various programs to facilitate the securitization and credit enhancement of its bond investments.

Summary of Major Securitization Programs

To date, the Company securitizes mortgage bonds in its portfolio primarily through three programs: (1) the Merrill Lynch Pierce Fenner & Smith Incorporated ("Merrill Lynch") Puttable Floating Option Tax-Exempt Receipts ("P-FLOATsSM") program, (2) a tender option bond program with the Federal Home Loan Mortgage Corporation ("Freddie Mac"), and (3) a securitization program with MBIA Insurance Corporation ("MBIA"). The Company securitizes assets by depositing bonds into a trust or structuring a transaction whereby a third party deposits bonds into a trust. The trust issues senior and subordinate certificates and the Company receives cash proceeds from the sale of the senior certificates and retains the subordinate certificates. The interest rate on the senior certificates may be fixed or variable. If the interest rate is variable, a remarketing agent typically resets the rate on the senior certificates weekly. To increase the attractiveness of the senior certificates to investors, the senior certificates are credit enhanced or the bond underlying the senior certificates is credit enhanced. The residual interests retained by the Company are subordinate securities and receive the residual interest on the bond after the payment of all fees and the senior certificate interest. For certain programs, a counterparty provides liquidity to the senior certificates. In such programs, liquidity advances would be used to provide bridge funding for the redemption of senior certificates tendered upon a failure to remarket senior certificates or in the event of other mandatory tender events. The Company also enters into various forms of interest rate protection in conjunction with these securitization programs (See "Financial Risk Management and Derivatives" in Note 1).

Term Securitization Facility

In March 1999, the Company securitized $67.0 million in bonds through a long-term securitization trust ("Term Securitization Facility"). In July 2001, the Company refinanced this Term Securitization Facility. The result of the refinancing was a reduction of the outstanding bonds in the facility from $67.0 million to $45.0 million. The Term Securitization Facility issued two classes of certificates, Class A and Class B. The Class A certificates, which are senior to the Class B certificates, were sold to qualified third party investors and bear interest at a fixed tax-exempt rate of 4.95% per annum through the remarketing date, August 15, 2005. The interest rate will be reset on the remarketing date to the lowest rate that would result in the sale of the Class A certificates at par plus any appreciation in the value of the underlying bonds attributable to the Class A certificates. The Company owns the Class B certificates. The Class B certificates receive the residual interest from the Term Securitization Facility after payment of (1) trustee fees and expenses, (2) all interest and any principal due on the Class A certificates in accordance with the terms of the documents and (3) servicing fees. The Term Securitization Facility is subject to

optional liquidation in whole, but not in part, on each February 15, May 15, August 15 and November 15, at the direction of a majority of the Class B certificate holders. The Class A certificates are subject to mandatory tender on the remarketing date. The Term Securitization Facility terminates on August 1, 2008. The Company receives a fee of 0.15% of the weighted average balance of the trust certificates outstanding per annum for acting as the servicer of the Term Securitization Facility. In conjunction with this transaction, a subsidiary of the Company provides credit enhancement for the bonds and liquidity support for the Class A certificates in the Term Securitization Facility. In fulfillment of this obligation, the Company pledged assets as collateral to the Term Securitization Facility.

FSA Securitization Facility

In February 1995, the Company securitized 11 bonds with an aggregate principal of $126.6 million through a long-term securitization trust (the "FSA Securitization Facility"). Prior to this transaction, the 11 bonds were refunded into a Series A Bond and a Series B Bond with aggregate principal amounts of $67.7 million and $58.9 million, respectively. The Company deposited the Series A Bonds and the Series B Bonds into a trust. The Series A Bonds, which are senior to the Series B Bonds, were credit enhanced by Financial Security Assurance Inc. ("FSA") and sold to qualified third party investors. The Series A Bonds bear interest at various fixed rates ranging from 7.05% to 7.40% per annum. The Series A Bonds mature January 1, 2030 and are subject to mandatory sinking fund redemptions. The Company retained the Series B Bonds. The Series B Bonds mature January 1, 2030.

Other Securitization Programs

From time to time, the Company will securitize a single bond investment with a new counterparty. The terms of these securitizations are similar to the programs described in the "Summary of Major Securitization Programs" discussed above.

Management of Counterparty Risk

The Company attempts to manage counterparty risk by diversifying its securitization programs. The following table summarizes the results of the Company's efforts to diversify its sources of securitization capital:

(000s)				De	
Sponsor	Nature of Senior Security	Provider of Credit Enhancement	Provider of Liquidity	Fair Value of Total Bond	Face A of Se Secur Outsta
On Balance Sheet Securitizations:					
Merrill Lynch	short-term, floating rate, weekly reset	Merrill Lynch or Fannie Mae	Merrill Lynch	$ 62,695	$ 60,
Freddie Mac	fixed	Freddie Mac	Freddie Mac	91,290	68,
	short-term, floating rate,		Bayerische		

MBIA	weekly reset	MBIA	Landesbank	146,624	147,
Term Debt	fixed	MMA Credit Enhancement I, LLC	MMA Credit Enhancement I, LLC	42,829	44,
Other	weekly reset or fixed	Various	N/A	17,612	17,
Subtotal				361,050	339,
Off Balance Sheet Securitizations:					
Merrill Lynch	short-term, floating rate, weekly reset	Merrill Lynch or Fannie Mae	Merrill Lynch	187,404	177,
FSA Bonds	fixed	FSA	N/A	119,188	67,
Subtotal				306,592	245,
Total				$ 667,642	$ 584,

(000s)

				De	
Sponsor	Nature of Senior Security	Provider of Credit Enhancement	Provider of Liquidity	Fair Value of Total Bond	Face A of Se Secur Outsta
On Balance Sheet Securitizations:					
Merrill Lynch	short-term, floating rate, weekly reset	Merrill Lynch or Fannie Mae	Merrill Lynch	$ 104,516	$ 78,
Freddie Mac	fixed	Freddie Mac	Freddie Mac	89,929	69,
MBIA	short-term, floating rate, weekly reset	MBIA	Bayerische Landesbank	-	
Term Debt	fixed	MMA Credit Enhancement I, LLC	MMA Credit Enhancement I, LLC	44,737	44,
Other	weekly reset or fixed	Various	N/A	5,244	5,

Subtotal				244,426	197,
Off Balance Sheet Securitizations:					
Merrill Lynch	short-term, floating rate, weekly reset	Merrill Lynch or Fannie Mae	Merrill Lynch	339,481	334,
FSA Bonds	fixed	FSA	N/A	122,488	67,
Subtotal				461,969	401,
Total				$ 706,395	$ 599,

(1) This percentage is calculated by dividing the face amount of the senior security outstanding from each securitization program by the total face amount of all senior securities outstanding.

Fannie Mae Credit Enhancement

The Company participates in a structured finance program developed by Federal National Mortgage Association ("Fannie Mae") to facilitate the credit enhancement of bonds for which there is shared risk. Under this program, Fannie Mae provides credit enhancement to the assets in a cross-collateralized pool. In order to provide credit enhancement to the bonds secured by this facility, the Company pledged additional collateral to this facility. The Company is required to post collateral as part of the risk sharing agreement. To date, the Company has credit enhanced $100 million in bonds through this program. This program is open-ended, which allows the Company to add additional assets to the program.

Collateral

In order to facilitate the securitization of certain assets at higher leverage ratios than otherwise available to the Company without the posting of additional collateral, the Company has pledged additional bonds and taxable loans as collateral for senior interests in certain securitization trusts and credit enhancement facilities. The following table summarizes the carrying amount of the bonds and taxable loans pledged as collateral for the programs discussed above.

	Carrying Value at December 31,	
(000s)	2002	2001
Merrill Lynch P-FLOATs	$ 190,462	$ 260,371
MBIA	86,366	-
Term Securitization Facility	41,816	41,986

Fannie Mae	28,595	19,455
FSA	-	-
Other	-	-
Total (1)	$ 347,239	$ 321,812

(1) This table reflects collateral pledged for the securitization and credit enhancement facilities discussed above. The Company has other assets pledged as collateral to secure other programs, as discussed in Notes 2, 3, and 7.

The Company's significant accounting policies that directly relate to the investment in tax-exempt bonds and residual interests in bond securitizations are described below.

Investment in Tax-Exempt Bonds and Residual Interests in Bond Securitizations

Investment in tax-exempt bonds and residual interests in bond securitizations (collectively, "investments in bonds") are accounted for under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"). All investments in bonds are classified and accounted for as available-for-sale debt securities and are carried at fair value; unrealized gains or losses arising during the period are recorded through other comprehensive income in shareholders' equity, while realized gains and losses and other-than-temporary impairments are recorded through operations. The Company evaluates on an on-going basis the credit risk exposure associated with these assets to determine whether any other-than-temporary impairments exist in accordance with the Company's policy discussed in the "Other-than-Temporary Impairments and Valuation Allowances on Investments" section of this Note.

The Company determines the fair value of bonds that participate in the net cash flow and net capital appreciation of the underlying properties and/or that are wholly collateral dependent and for which only a limited market exists by discounting the underlying collateral's expected future cash flows using current estimates of discount rates and capitalization rates. The Company bases the fair value of all other bonds and residual interests in bond securitizations on quotes from external sources, such as brokers, for these or similar investments.

The Company recognizes base interest on the bonds as revenue as it accrues. Interest income in excess of the base interest ("participation interest'") may be available to the Company through participation features of a bond. Participation interest is recognized as income when received. Delinquent bonds are placed on non-accrual status for financial reporting purposes when collection of interest is in doubt, which is generally considered to be after 90 days of non-payment. The Company applies interest payments on non-accrual bonds first to previously recorded accrued interest and, once previously accrued interest is satisfied, as interest income when received. The accrual of interest income would be reinstated once a bond's ability to perform is adequately demonstrated and all interest has been paid.

For tax purposes, the Company recognizes base interest as income as it accrues. For certain investments, in accordance with the terms of the bond document, the Company may also recognize participation interest as income as it accrues for tax reporting. Base interest and participation interest in certain bonds is accrued for tax purposes even when the interest income is not collected. Base interest recognized on the bonds is exempt from federal income tax purposes for the shareholders. In accordance with the terms and conditions of the underlying bond documents and tax regulations, participation interest in

certain bonds may be taxable to the shareholders for federal income tax purposes.

Securitization Transactions

For financial reporting purposes, transactions where the Company securitizes a bond and subsequently purchases or retains a residual interest are accounted for in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" "FAS 140"). Under FAS 140, the accounting for these transactions is partially dependent on certain call provisions. If the residual interest holder is granted a call provision under the terms of the transaction, then effective control over the transferred assets has not been relinquished and the transaction is accounted for as a borrowing. When the residual interest holder is not granted a call provision and effective control has been relinquished, the transaction is accounted for as a sale and the Company recognizes gains and losses on the sale of its bonds. The portion of the unrealized gain or loss on a bond that is recognized as a result of the sale is determined by allocating the net amortized cost at the time of sale between the senior interest and the corresponding residual interest based upon their relative fair values, in accordance with FAS 140. The Company may also structure transactions whereby a third party buys bonds directly from a seller and the Company subsequently purchases or retains residual interests related to the bonds. In this case, the Company may retain the call provision associated with its investment in the residual interest position without requiring borrowing treatment because the Company does not own the bond.

Origination Fees and Premiums and Discounts on Purchased Investments

Origination fees and premiums and discounts on purchased investments are deferred and amortized into income to approximate a level yield over the estimated lives of the related investments. Upon the sale of an investment, the unamortized balance of origination fees and premiums and discounts is recorded as income through the calculation of gains and losses on the sale of investments.

Mortgage Banking Activities

The Company engages in a variety of mortgage banking activities. These activities include the origination, investment in and servicing of investments in multifamily housing, both for its own account and on behalf of third parties. The mortgage banking activities are generally conducted through Midland Financial Holdings, Inc. (together with its subsidiaries, "MFH"), a wholly owned subsidiary of the Company.

The Company acquired MFH in 1999 for a total purchase price of $45.0 million ($46.0 million including acquisition costs). Of this amount, the Company paid approximately $23.0 million in cash and $12.0 million in common shares at the closing of the transaction and $10.0 million in additional common shares paid in three equal installments, the last of which was paid in December 2002. The acquisition has been accounted for as a purchase. The cost of the acquisition was allocated on the basis of the estimated fair value of the net assets acquired, which totaled $7.7 million. The results of operations of MFH are included in the consolidated financial statements of the Company.

The Company originates construction, permanent and supplemental loans within the multifamily housing industry. Supplemental loans include:

- bridge and pre-development loans, which are project-specific short-term loans for qualifying pre-development and development expenditures and are structured to be repaid from the construction or permanent financing of the same project. Bridge loans fund timing gaps between project expenditures

and later installments of equity financing or permanent debt, and pre-development loans fund early stage project expenditures and are repaid by the first installments of equity or construction financing; and

o term loans, lines of credit and workout loans, which have expenditure purposes and sources of repayment that may or may not be limited to a single project. Term loans, lines of credit and workout loans are repaid with general operating cash flow of the development or other capital sources of the borrower, including cash flows from other investments.

Collateral for the supplemental loans can take many forms, including a mortgage against land or other real estate, assignment of syndication proceeds, assignment and pledges of developer fees, assignment and pledge of cash flows from properties, corporate guarantees and personal guarantees.

The Company's sources of capital to fund these construction, permanent, and supplemental lending activities include notes and warehousing facilities with various pension funds and commercial banks, various short-term bank lines of credit, and working capital. The Company generates profit from the difference between the interest earned on its loans and the interest due under its notes payable and other funding sources. The Company also earns (1) origination fees, (2) loan servicing fees, or in the case of construction loans, construction administration fees and (3) guarantee and other fees in cases where the Company provides credit support to the obligations of a borrower to a third party.

The Company has established relationships with pension funds through the Midland Affordable Housing Group Trust (the "Group Trust") and the Midland Multifamily Equity REIT ("MMER"). The Group Trust was established by a group of pension funds for the purpose of investing in income-producing real estate investments. The Group Trust provides loans and lines of credit to finance a variety of the Company's loan products. MMER is a Maryland real estate investment trust established by the same pension funds that participate in the Group Trust. MMER provides the Company short-term lines of credit to finance the Company's lending activities, in addition to investing in income-producing real estate partnerships. MFH is the investment manager for the Group Trust and MMER and receives advisory fees for these services. Furthermore, MFH earns origination fees on the placement of permanent loans with the Group Trust. MFH also earns origination fees on the placement of equity interests in real estate partnerships with MMER.

MFH is a Fannie Mae Delegated Underwriter and Servicer ("DUS"). A majority of the construction loans originated by the Company are underwritten and structured so as to be eligible for sale to Fannie Mae as or shortly after the loans are converted to permanent loans. The Company usually retains the mortgage servicing rights on the permanent loans which its sells to third parties.

As a Fannie Mae DUS lender, MFH may share in losses relating to under performing real estate mortgage loans delivered to Fannie Mae (see Note 11). More specifically, if the borrower fails to make a payment of principal, interest, taxes or insurance premiums on a DUS loan originated by MFH and sold to Fannie Mae, MFH may be required to make servicing advances to Fannie Mae. Also, MFH may participate in a deficiency after foreclosure. As a DUS lender, MFH must maintain a minimum net worth and collateral with a custodian. Its financial exposure, however, is subject to certain deductibles and loss limits. The servicing portfolio balance originated through the DUS program was $752.6 million and $584.6 million at December 31, 2002 and 2001, respectively. MFH is indemnified by the Group Trust against losses it may incur in connection with its servicing of $312.3 million of these loans. As of December 31, 2002, the Company had not incurred any losses on this portfolio.

MFH is a Federal Housing Administration ("FHA") and US Department of Housing and Urban Development ("HUD") approved mortgagee and is an approved lender under HUD's Multifamily Accelerated Processing ("MAP") program. As a MAP

lender, MFH is responsible for underwriting and recommending loans to FHA/HUD for mortgage insurance. As an FHA/HUD approved mortgagee, MFH must maintain a minimum net worth.

MFH is also a Government National Mortgage Association ("GNMA") approved securities issuer, seller and servicer. All loans originated under HUD programs are securitized through the GNMA Mortgage Backed Security ("MBS") program and sold in the secondary market. The Company may earn premiums or incur discounts on the securitization of these loans, and the Company retains the servicing rights on all HUD loans sold under the GNMA MBS program. As a GNMA approved issuer, seller and servicer, MFH must maintain a minimum net worth as well as minimum insurance coverages.

As an FHA/HUD approved mortagee, MFH may share in losses relating to underperforming loans originated under the HUD programs. If a borrower fails to make payments of principal, interest, taxes or insurance premiums on a HUD loan securitized with GNMA, MFH may be required to make servicing advances to GNMA. If a defaulted loan is assigned to HUD, insurance will generally limit MFH's loss exposure to 1% of the loan's then outstanding unpaid principal balance. However, the Company's loan documents generally hold the borrower liable for any losses incurred by MFH in the event of a default and/or assignment of a loan to HUD. In addition, GNMA allows for partial recovery of expenses for loans that were assigned to HUD after default and subsequently paid out of a GNMA pool. The servicing portfolio originated through the FHA/HUD program was $273.6 million and $208.1 million at December 31, 2002 and 2001, respectively. As of December 31, 2002, the Company had not incurred any losses on this portfolio.

The Company's significant accounting policies that directly relate to the mortgage banking activities are described below.

Loans Receivable

The Company's loans receivable consist of construction loans, permanent loans, and supplemental loans. The Company carries loans receivable at net realizable value. The Company evaluates on an on-going basis the credit risk exposure associated with these assets to determine whether any impairment exists in accordance with the Company's policy discussed in this Note. When the Company believes that it is probable that it will not collect all amounts due, including principal and interest, under the terms of a loan, it records a valuation allowance.

The Company recognizes interest on loans as revenue as it accrues. The Company places delinquent loans on non-accrual status for financial reporting purposes when collection of interest is in doubt, which is generally considered to be after 90 days of non-payment. The Company applies interest payments on non-accrual loans first to previously recorded accrued interest and then, once previously accrued interest has been satisfied, as interest income when received. The accrual of interest income would be reinstated once a loan's ability to perform is adequately demonstrated. Interest income is also recognized for the portion of any principal payments received in excess of GAAP basis, including payments for previously unaccrued interest.

Mortgage Servicing Rights

When the Company sells a loan to a third party but retains the right to service the loan, the Company recognizes as an asset or liability the right to service the mortgage loan. The Company accounts for these mortgage servicing rights in accordance with FAS 140. FAS 140 requires servicing rights retained by the Company after the origination and sale of the related loan to be capitalized by allocating the carrying amount between the loan and the servicing rights based on their relative fair values. The fair value of the mortgage servicing rights is based on the expected future net cash flow to be received over the estimated life of the loan discounted at market discount rates. The

capitalization of the mortgage servicing rights is reported in the income statement as a gain or loss on sale and results in an offsetting asset or liability. Mortgage servicing rights are amortized over the estimated life of the serviced loans. The amortization expense is included in amortization of goodwill and mortgage servicing rights in the consolidated statements of income.

The Company evaluates all capitalized mortgage servicing rights for impairment when changes indicate that impairment is probable, but no less than at each reporting date. The mortgage servicing rights are considered to be impaired when the carrying amount exceeds the fair value of the expected future net cash flows to be received under the servicing contract. Impairment, if any, is recognized through a valuation allowance.

Origination Fees

The Company earns origination fees on the origination of permanent and supplemental loans. Origination fees on permanent loans are recognized into income at the time Fannie Mae or other investors (via the GNMA MBS program) commit to purchase the loan and collectibility is reasonably assured. Origination fees on supplemental loans are deferred and amortized into income to approximate a level yield over the estimated life of the related loan.

Loan Servicing and Construction Administration Fees

Loan servicing and construction administration fees are recognized into income over the period in which the Company performs the associated services. Construction administration fees are included in loan servicing fees on the consolidated statements of income.

Asset Management and Advisory Fees

Asset management fees, derived from the Company's tax credit equity syndication business, and advisory fees, derived from serving as investment manager to the Group Trust and MMER, are recognized into income over the period in which the Company performs the associated services.

Investments in Partnerships

The Company's investments in partnerships consist of equity interests in real estate operating partnerships. The Company's investments in partnerships are accounted for using the equity method. The Company uses the equity method of accounting when the Company owns an interest in a partnership and can exert significant influence over the partnership's operations but cannot control the partnership's operations. Under the equity method, the Company's ownership interest in the partnership's capital is reported as an investment on the consolidated balance sheets and the Company's allocable share of the income or loss from the partnership is reported as income (loss) from equity investments in partnerships in the consolidated statements of income.

Investments in Income-Producing Real Estate Operating Partnerships

The Company makes equity investments in income-producing real estate operating partnerships. To date, the Company's equity investments have been made in partnership with CAPREIT, Inc. and its affiliates ("CAPREIT").

Tax Credit Equity Funds: Limited Partner Investments in Real Estate Operating Partnerships

The Company earns revenues from the syndication of low-income housing tax credits. The Company acquires, through limited partnership interests, equity interests in properties expected to earn such tax credits and, as and when it has a sufficient number of such limited partnership interests and has identified

tax credit investors, transfers those interests to a syndicated fund for the investors' benefit. The Company typically owns these partnership interests for three to nine months before they are transferred to a fund.

Tax Credit Equity Funds: General Partner Interests

The Company is also the general partner in the syndicated low-income housing tax credit funds, which it originates. The Company's general partner interests represent a one percent or less interest in each such fund.

Financial Risk Management and Derivatives

The Company's investments in residual interests in certain securitization trusts bear interest at floating rates. These floating rate investments expose the Company to interest rate risk. To reduce the Company's exposure to interest rate risks on residual interests retained, the Company may enter into interest rate swaps. Historically, the Company has attempted to offset substantially all of its floating interest rate exposure related to securitization trusts; however, from time to time, a portion of this floating rate exposure may not be fully mitigated by hedging instruments. As a result, changes in interest rates could result in either an increase or a decrease in the Company's interest income and cash flows associated with these investments. Under the terms of the Company's interest rate swap agreements with counterparties, the Company is required to maintain cash deposits ("margin call deposits"). The margin call deposit requirements are specific to each counterparty. The Company must make margin call deposits when the total fair value of the Company's outstanding swap obligations to any one counterparty is greater than $1.0 million. In certain cases, the Company is also required to post up-front collateral on the swap contracts.

The Company has occasionally 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. Under the put options, the Company may receive an annual payment for assuming the purchase obligation and providing asset management services on the underlying investments. The purchase price can be reduced in the event of a material adverse change (as defined in the put agreements). (See Note 11, "Guarantees, Commitments and Contingencies.")

The Company's significant accounting policies that directly relate to the Company's financial risk management and derivatives are described below.

Investment in derivative financial instruments is accounted for under the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" and Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." These statements (collectively, "FAS 133") establish accounting and reporting standards for derivative financial instruments, including certain derivative financial instruments embedded in other contracts, and for hedging activity. FAS 133 requires the Company to recognize all derivatives as either assets or liabilities in its financial statements and to record these instruments at their fair values. In order to achieve hedge accounting treatment, hedging activities must be appropriately designated, documented and proven to be effective as a hedge pursuant to the provisions of FAS 133.

The Company has elected, as permitted by FAS 133, not to prove the hedging effectiveness of its derivative investments due to the cost and administrative burden of complying with FAS 133. As a result, changes in fair value of

derivatives are recorded through current earnings.

The Company has several types of financial instruments that meet the definition of a derivative financial instrument under FAS 133, including interest rate swap agreements and put options. Under FAS 133, the Company's investment in these derivative financial instruments is recorded on the balance sheet with changes in the fair value of these instruments recorded in current earnings.

The adoption of FAS 133 does not affect cash available for distribution, the Company's ability to pay distributions, the characterization of the tax-exempt income or the borrowers' financial obligations under the bonds. Upon its adoption of FAS 133, the Company reclassified its interest rate swap agreements as trading securities and those with a negative balance were reflected as liabilities on the balance sheet. As of January 1, 2001, the Company's put option contracts were recorded on the balance sheet with a fair value of zero. The cumulative effect of adopting FAS 133 was a decrease to net income of approximately $12.3 million as of January 1, 2001, and is reflected in the income statement as a cumulative effect of accounting change. The Company recognized a decrease in net income of $14.9 and $5.6 million for the years ended December 31, 2002 and 2001, respectively, due to the change in fair value of its derivative instruments. These changes are reflected in net holding losses on derivatives in the consolidated statements of income.

Prior to the adoption of FAS 133 in January 2001, the interest rate swap agreements were accounted for as hedges and were carried at fair value and included in residual interests in bond securitizations, with unrealized gains or losses included in accumulated other comprehensive income.

The Company determines the fair value of its investment in interest rate swap agreements based on quotes from external sources, such as brokers, for these or similar investments. Investments in interest rate swap agreements with market values below zero are reflected as liabilities in the accompanying consolidated balance sheets. The Company recognizes the differential paid or received under these agreements as an adjustment to interest income. Net swap payments received by the Company, if any, will be taxable income, even though the investment being hedged pays tax-exempt interest.

The Company determines the fair value of its put option agreements by discounting the underlying collateral's expected future cash flows using current estimates of discount rates and capitalization rates. Income received on put options for assuming the purchase obligation and providing asset management services on the underlying investment is recognized ratably over the term of the associated put option and guarantee agreements and is included in other income in the consolidated statements of income.

Syndication of Low-Income Housing Tax Credits

The Company 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. 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 (see Note 11). The Company also earns asset management fees for managing the low-income housing tax credit funds syndicated. Syndication fees are considered earned and are recognized as income upon receipt of the initial cash payment from investors into the syndicated low-income housing tax credit funds and after the following have occurred: (1) the properties for funds are identified; (2) a firm contract exists that requires an investor to fund capital contribution installments; (3) all services required to earn the fee have been performed to contract specifications; and (4) all appropriate documents have been executed.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of investments in money market mutual funds and short-term marketable securities with original maturities of 90 days or less, all of which are readily convertible to known amounts of cash in seven days or less. Cash equivalents are carried at cost, which approximates fair value.

Other Assets

The Company's investment in other assets includes prepaid expenses, other receivables, debt issue costs, property and equipment, and certain investments in interest-only securities. Prepaid expenses and debt issue costs are amortized over the contract period or the estimated life of the related debt.

Property and equipment, consisting primarily of furniture, fixtures, computer hardware, computer software, and leasehold improvements, is stated at cost. Depreciation of property and equipment are provided on the 150% declining balance method over the estimated useful lives of the assets as follows:

	Years
Furniture and fixtures	10
Computer hardware	5
Computer software	5
Leasehold improvements	10

Accumulated depreciation was $1.8 million and $1.4 million at December 31, 2002 and 2001, respectively.

The Company holds interest-only securities (see Note 11), which represent the right to receive the excess interest on certain mortgage loans sold to Fannie Mae. These rights result from the contractual right to receive the difference between the interest paid at the borrower's loan rate and interest paid to Fannie Mae at the rate at which the loan was sold to Fannie Mae. The Company classifies these investments as available-for-sale securities under FAS 115 and carries them at fair value with unrealized gains and losses included in accumulated other comprehensive income. The fair value of the interest-only securities is estimated by discounting the expected future cash flows. Due to the existence of a related obligation to pay all or a portion of these cash flows to the Group Trust, a corresponding liability is reflected on the balance sheet in other liabilities.

Goodwill

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

$1.6 million. In 2002, all goodwill was tested for impairment in accordance with the provisions of FAS 142 and the Company found no instances of impairment. The Company determined that none of the intangible assets recorded by the Company were indefinitely lived, therefore, amortization of these intangible assets , other than goodwill, has not ceased.

The Company's goodwill at December 31, 2002 and December 31, 2001 represents the excess of cost over market value of the net assets acquired from the acquisition of businesses in the Company's operating segment. For the year ended December 31, 2002, the Company's carrying value of goodwill increased by $4.5 million as a result of an acquisition of an unconsolidated subsidiary and the final installment payment for the purchase of MFH. The following table shows the effect of goodwill amortization on net income and earnings per share for the periods presented:

	For the year ended December		
	2002	2001	
Reported net income allocated to common shares	$ 28,796	$ 23,847	$
Add back: goodwill amortization	-	1,572	
Adjusted net income allocated to common shares	$ 28,796	$ 25,419	$
Basic earnings per share:			
Reported earnings per share	$ 1.16	$ 1.12	$
Goodwill amortization	-	0.07	
Adjusted earnings per share	$ 1.16	$ 1.19	$
Diluted earnings per share:			
Reported earnings per share	$ 1.13	$ 1.09	$
Goodwill amortization	-	0.07	
Adjusted earnings per share	$ 1.13	$ 1.16	$

Other-than-Temporary Impairments and Valuation Allowances on Investments

The Company evaluates on an on-going basis the credit risk exposure associated with its assets to determine whether other-than-temporary impairments exist or a valuation allowance is needed. When the Company believes that it is probable that it will not collect all amounts due, including principal and interest, under the terms of an investment, it records an other-than-temporary impairment or valuation allowance. The Company bases its measure of impairment of an investment on the present value of expected future cash flows discounted at the investment's effective interest rate, or the fair value of the collateral if the investment is collateral dependent.

Other Income

The Company's other income includes income from put options, guarantee fees and other miscellaneous income. Put option and guarantee income is recognized ratably over the term of the associated put option and guarantee agreements.

Stock Compensation Plans

The Company accounts for both the non-employee director share plans and the employee share incentive plans (see Note 15) 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 2002, 2001 or 2000. Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," requires the Company to make certain disclosures as if the compensation expense for the Company's plans had been determined based on the fair value on the date of grant for awards under those plans. The Company estimated the fair value of each option awarded in 2002, 2001 and 2000 using the Black-Scholes option-pricing model with the following assumptions:

	2002	2001	2000
Risk-free interest rate	4%	5%	5
Dividend yield	6.9%	6.8%	7.5
Volatility	18%	19%	19
Expected option life	7.5 years	7.5 years	7.5 year
Weighted average fair value of options	$ 1.79	$ 2.67	$ 2.7

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":

(000s)	2002	2001	
Net income allocated to common shares, as reported	$ 28,796	$ 23,847	$
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(54)	(281)	
Net income allocated to common shares, pro forma	$ 28,742	$ 23,566	$
Earnings per common share:			
Basic - as reported	$ 1.16	$ 1.12	$
Basic - pro forma	$ 1.15	$ 1.11	$
Diluted - as reported	$ 1.13	$ 1.09	$
Diluted - pro forma	$ 1.13	$ 1.08	$

Earnings per Share

The Company calculates earnings per share in accordance with the provisions

of Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("FAS 128"). FAS 128 requires the dual presentation of basic and diluted earnings per share on the face of the income statement for all entities with complex capital structures.

Income Taxes

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. The Company 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 each shareholder on Internal Revenue Service Schedule K-1.

Prior to January 2003, the Company had elected under Section 754 of the Internal Revenue Code to adjust the basis of the Company's property on the transfer of shares to reflect the price each shareholder paid for his or her shares. 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. The capital gain and loss allocated from the Company may be different for each shareholder due to the Company's Section 754 election and is a function of, among other things, the timing of the shareholder's purchase of shares and the timing of transactions that generate gains or losses for the Company. This means that for assets purchased by the Company prior to a shareholder's purchase of shares, the shareholder's basis in the assets may differ significantly from 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 differ significantly from the capital gains and losses recorded by the Company.

In January 2003, the Company applied to have its election under Section 754 of the Internal Revenue Code revoked effective January 1, 2003. The Company applied for the revocation due to the administrative burden attributable to this election resulting from the increased numbers of partners and frequency of shifts in ownership. The Internal Revenue Service has not yet responded to the Company's application to revoke its election under Section 754.

A portion of the Company's interest income is derived from private activity bonds that for income tax purposes are considered tax preference items for purposes of alternative minimum tax ("AMT"). AMT is a mechanism within the Internal Revenue Code to ensure that all taxpayers pay at least a minimum amount of taxes. All taxpayers are subject to the AMT calculation requirements although the vast majority of taxpayers will not actually pay AMT. As a result of AMT, the percentage of the Company's income that is exempt from federal income tax may be different for each shareholder depending on that shareholder's individual tax situation.

The Company has numerous corporate subsidiaries which 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 (see Note 10).

New Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board approved Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. FIN 45 is effective for guarantees issued or modified after December 31, 2002. The disclosure requirements under FIN 45 are effective for 2002 calendar year-end financial statements (See Note 11). The Company believes the provision pertaining to the recognition of a liability for the fair value of the obligation it assumes under the guarantee may have a significant impact on the total liabilities and net income of the Company, but is unable to estimate the effect at this time.

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 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. The Company will continue to review new investments in order to determine if they should be accounted for in accordance with FIN 46.

Use of Estimates

The use of estimates is inherent in the preparation of all financial statements, but is especially important in the case of the Company, which is required under FAS 115 to carry a substantial portion of its assets at fair value even though only a limited market exists for them. Because only a limited market exists for most of the Company's investments, fair value is estimated by the Company in accordance with the Company's valuation procedures discussed above. These estimates involve uncertainties and matters of judgment and therefore cannot be determined with precision. The assumptions and methodologies selected by the Company were intended to estimate the amounts at which the investments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Changes in assumptions and market conditions could significantly affect these estimates. These estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

NOTE 2 - INVESTMENT IN TAX-EXEMPT BONDS

As of December 31, 2002 and 2001, the Company held $770.3 million and $616.5 million of tax-exempt bonds, respectively. The following table summarizes tax-exempt bonds by type.

December 31, 2002

(000s)	Face Amount	Amortized Cost	Unrealized Gain (Loss)	Fa Va
Non-participating bonds	$ 651,737	$ 621,594	$ (4,692)	$ 6
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	
Total	$ 812,518	$ 757,049	$ 13,296	$ 7

	December 31, 2001			
(000s)	Face Amount	Amortized Cost	Unrealized Gain (Loss)	Fa Va
Non-participating bonds	$ 489,081	$ 457,625	$ 2,327	$ 4
Participating bonds	83,078	82,190	1,388	
Subordinate non-participating bonds	18,407	17,215	33	
Subordinate participating bonds	60,379	35,799	19,883	
Total	$ 650,945	$ 592,829	$ 23,631	$ 6

Annual maturities of investment in tax-exempt bonds that mature on a single maturity date are as follows:

(000s)	Face Amount	Fair Value
Due in less than one year	$ 900	$ 873
Due between one and five years	56,013	54,297
Due after five years	74,845	67,906
	$ 131,758	$ 123,076

The Company has 96 tax-exempt bonds that pay principal monthly, semi-annually or annually with final maturity dates ranging from July 2007 to July 2045.

2002 Transactions

During 2002, the Company invested in tax-exempt bonds with a face amount of

$192.0 million for $190.0 million. Of the total face amount of $192.0 million, $17.3 million represents the Company's new primary investments (bonds which the Company originated), $18.3 million reflects new secondary market investments (previously issued bonds purchased from third parties) and the remaining $156.4 million reflects the repurchase of bonds that the Company had previously securitized. From time to time the Company may purchase or sell in the open market interests in bonds that it has securitized depending on the Company's capital position and needs. The following table summarizes the new primary and secondary market investment activity for 2002:

(000s)		Face Amount	Purchase Amount
Non-participating bonds	(1)	$ 34,897	$ 33,832
Subordinate non-participating bonds		653	606
Total		$ 35,550	$ 34,438

(1) Of this amount, $7.5 million was an initial funding of 19 bonds; the remaining balance of the bonds, which totals approximately $98.9 million, is expected to be funded by the Company through 2003 and 2004.

In 2002, a tax-exempt bond with a $10.3 million face amount was repaid; because the Company had previously recorded impairment with respect to this bond, the repayment at face resulted in a $2.2 million gain. In addition, the Company sold its investment in a tax-exempt bond with a face amount of $9.6 million, resulting in a gain of $0.4 million.

2001 Transactions

During 2001, the Company invested in tax-exempt bonds with a face amount of $161.0 million for $156.7 million. Of the total face amount of $161.0 million, $18.2 million represents the Company's new primary investments (bonds which the Company originated), $82.5 million reflects new secondary market investments (previously issued bonds purchased from third parties) and the remaining $60.3 million reflects the repurchase of bonds that the Company had previously securitized. The following table summarizes the new investment activity for 2001:

(000s)		Face Amount	Purchase Amount
Non-participating bonds	(1)	$ 94,474	$ 90,648
Subordinate non-participating bonds		6,220	6,043
Total		$ 100,694	$ 96,691

(1) Of this amount, $2.4 million was additional funding of a bond initially funded in 1998. The total amount of the draw down bond funded was $11.0 million.

In 2001, a tax-exempt bond with a $10.1 million face amount was repaid; because the Company had previously recorded impairment with respect to this bond, the repayment at face resulted in a $2.2 million gain.

Other-than-Temporary Impairments

In 2002, the Company recorded other-than-temporary impairments totaling $0.4 million on four bonds.

In 2001, the Company assumed the obligation to purchase two bonds for their face amount ($21.5 million). In consideration for assuming this obligation, the Company received $1.9 million in cash and a $2.0 million (face amount) taxable note with a fair value of $1.4 million. The Company recognized a $3.3 million other-than-temporary impairment upon the assumption of this obligation. This amount represented the difference between the fair value of the bonds and the face amount of the bonds at the time the Company assumed the purchase obligation. Upon the purchase of the bonds, the Company recognized $3.3 million in income that represented the value of the cash and taxable loan consideration received.

The Company recorded an other-than-temporary impairment totaling $1.0 million on one bond in 2000.

Investments on Non-Accrual Status

In accordance with the Company's policy discussed in Note 1, the Company places delinquent bonds on non-accrual status for financial reporting purposes when collection of interest is in doubt, which is generally considered to be after 90 days of non-payment. At December 31, 2002, 2001, and 2000, there were $163.3 million, $132.1 million and $149.4 million (face value) of tax-exempt bonds on non-accrual status. Interest income recognized on these bonds was $12.7 million, $10.2 million and $11.0 million for the years ended December 31, 2002, 2001, and 2000, respectively. Additional interest income that would have been recognized by the Company had these bonds not been placed on non-accrual status was approximately $1.0 million, $1.2 million and $0.5 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Tax-Exempt Bonds Pledged

In order to facilitate the securitization of certain assets at higher leverage ratios than otherwise available to the Company without the posting of additional collateral, the Company has pledged additional bonds to a pool that acts as collateral for senior interests in certain securitization trusts. From time to time, the Company also pledges bonds as collateral for letters of credit, lines of credit, and other derivative agreements. At December 31, 2002 and 2001, the total carrying amount of the tax-exempt bonds pledged as collateral was $372.9 million and $358.4 million, respectively.

NOTE 3 - LOANS RECEIVABLE

The Company's loans receivable consist primarily of construction loans, permanent loans, supplemental loans and other taxable loans. The following table summarizes loans receivable by loan type at December 31, 2002 and 2001.

(000s)	December 31, 2002	December 31, 2001
Loan Type:		
Construction loans	$ 300,266	$ 268,775
Taxable permanent loans	44,665	86,182
Supplemental loans	80,459	49,885
Other taxable loans	37,130	35,964
	462,520	440,806
Allowance for loan losses	(1,072)	(775)
Total	$ 461,448	$ 440,031

Allowance for Loan Losses

The Company's allowance for loan losses is based on the Company's continuing evaluation of the loans receivable and is intended to maintain an allowance adequate to absorb probable losses on these loans. The Company assesses individual loans for impairment based on the Company's policy on other-than-temporary impairments (see Note 1). Adjustments to the allowance due to changes in measurement of impaired loans are recorded in the provision for loan loss. The allowance for loan losses was $1.1 million and $0.8 million at December 31, 2002 and 2001, respectively.

Loans on Non-Accrual Status

In accordance with the Company's policy discussed in Note 1, the Company places delinquent loans on non-accrual status for financial reporting purposes when collection of interest is in doubt, which is generally considered to be after 90 days of non-payment. At December 31, 2002, 2001, and 2000, there were $12.6 million, $3.3 million and $3.3 million (face value) of loans on non-accrual status. Interest income recognized on these loans was $1.3 million, $0.2 million and $0.1 million for the years ended December 31, 2002, 2001, and 2000, respectively. Additional interest income that would have been recognized by the Company had these loans not been placed on non-accrual status was approximately $248,000, $56,000 and $37,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Loans Receivable Pledged

The Company pledges its construction loans and permanent 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 to the Company without the posting of additional collateral, 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 December 31, 2002 and 2001, the total carrying amount of the loans receivable pledged as collateral was $417.1 million and $406.3 million, respectively.

NOTE 4 - INVESTMENTS IN PARTNERSHIPS

The Company's investments in partnerships consist of equity interests in real estate operating partnerships. The Company's investments in partnerships are accounted for using the equity method and are recorded as "Investments in partnerships" on the Balance Sheet.

Investment in CAPREIT

The Company makes equity investments in income-producing real estate operating partnerships. To date, the Company's equity investments have been made in partnership with CAPREIT. In 2001, the Company made a $3.4 million equity investment in 12 property partnerships (the "CAPREIT Tera" investment). As a result of the CAPREIT Tera investment, the Company owns a 35% general partnership interest in the 12 property partnerships.

At December 31, 2002 and 2001, the Company's investment in CAPREIT Tera totaled ($1.3) million and $1.7 million, respectively.

In 2002, the Company invested $70.7 million to acquire a 35% general partnership interest in 20 CAPREIT property partnerships and 4 related swap partnerships (the "CAPREIT 3M" investment). The Company's liquidation percentage in CAPREIT 3M is 30%.

At December 31, 2002, the Company's investment in CAPREIT 3M totaled $70.6 million.

Tax Credit Equity Funds: Limited Partner Investments in Real Estate Operating Partnerships

The Company's limited partner investments typically represent a 99% interest in the partnership. The 1% general partner interest is owned by the developer of the property (see further discussion in Note 1).

At December 31, 2002 and 2001, the Company's limited partner investments in real estate operating partnerships totaled $30.8 million and $3.8 million, respectively.

Tax Credit Equity Funds: General Partner Interests

The Company is also the general partner in the syndicated low-income housing tax credit funds which it originates. The Company's general partner interests represent a one percent or less interest in each such fund.

At December 31, 2002 and 2001, the Company's general partner interests in syndicated low-income housing tax credit funds totaled ($0.1) million.

NOTE 5 - RESIDUAL INTERESTS IN BOND SECURITIZATIONS

At December 31, 2002 and 2001, the Company's residual interests in bond securitizations are investments in Residual Interest Tax-Exempt Securities Receipts ("RITESSM"). The following table provides certain information with respect to the residual interests in bond securitizations held by the Company at December 31, 2002 and 2001.

(000s)	December 31, 2002					
				Fair Value (1)		
	Face Amount	Amortized Cost	Unrealized Gain (Loss)	Assets	Liabilities (2)	
Total RITESSM(3)	$ 334	$ 3,639	$ 5,953	$ 11,039	$ (1,447)	$

	December 31, 2001					
				Fair Value (1)		
	Face Amount	Amortized Cost	Unrealized Gain (Loss)	Assets	Liabilities (2)	
Total RITESSM(3)	$ 5,700	$ 6,347	$ (1,031)	$ 13,295	$ (7,979)	$

(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 P-FloatsSM, which are senior to the Company's RITESSM investments and which are not reflected in the Company's balance sheet, was $177.8 million and $334.2 million at December 31, 2002 and 2001, respectively.

In 2002, the Company structured three transactions whereby Merrill Lynch bought bonds from third parties with a face amount of $25.3 million. The Company purchased RITESSM interests with a face value of $15,000 for $1.6 million in 2002 related to these transactions. The Company did not recognize any origination fees on these structured transactions. The Company sold a $1.3 million and a $3.2 million RITESSM interest for gains totaling $2.0 million.

In 2001, the Company structured five transactions whereby Merrill Lynch bought bonds from third parties with a face amount of $79.2 million. The Company purchased RITESSM interests with a face value of $1.3 million for $0.2 million in 2001 related to these transactions. The Company recognized $0.7 million in origination fees on these structured transactions. There were no sales of RITESSM in 2001 that resulted in significant capital gains or losses.

RITESSM Valuation Analysis

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

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

(In thousands)	2002	2001

Fair value of retained interests, net	$9,592	$5,316
Residual cash flows discount rate (annual rate)	3.8% - 8.1%	4.5%- 12.9%
Impact on fair value of 10% adverse change	$9,108	$22,821
Impact on fair value of 20% adverse change	$17,444	$43,783

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 6 - INVESTMENT IN DERIVATIVE FINANCIAL INSTRUMENTS

The following table provides certain information with respect to the derivative financial instruments held by the Company at December 31, 2002 and 2001.

	December 31, 2002			
	Notional Amount (1)	Fair Value (2) Assets	Fair Value (2) Liabilities(3)	Notional Amount (1)
Interest rate swap agreements	$ 349,810	$ 18,762	$ (49,359)	$ 422,230
Put option agreements	98,539	-	-	107,275
Total investment in derivative financial instruments		$ 18,762	$ (49,359)	

(1) For the interest rate swap agreements, notional amount represents total amount of the Company's interest rate swap contracts ($598,415 and $650,335 as of December 31, 2002 and December 31, 2001, respectively) less the total amount of the Company's reverse interest rate swap contracts ($248,605 and $228,105 as of December 31, 2002 and December 31, 2001, respectively). 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.

Interest rate swaps

The Company enters into interest rate swap agreements to reduce its exposure to interest rate risk as more fully discussed in Note 1. From time to time, the Company may terminate interest rate swap agreements or enter into interest rate swap contracts that offset certain of the Company's existing swaps ("reverse interest rate swaps"). The Company may do this for a number of reasons, including in conjunction with converting portions of the Company's short-term floating rate debt to longer-term, fixed-rate facilities.

Under the interest rate swap agreements, the Company is obligated to pay the counterparty a fixed rate. In return, the counterparty will pay the Company a floating rate equivalent to the BMA Municipal Swap Index, an index of weekly tax-exempt variable rate issues. Under the reverse interest rate swap agreements, the counterparty is obligated to pay the Company a fixed rate. In return, the Company will pay the counterparty a floating rate equivalent to the BMA Municipal Swap Index. Net swap payments received, if any, are taxable income, even though the investment being hedged pays tax-exempt interest. The Company recognizes taxable capital gains or losses upon the termination of an interest rate swap contract. The average BMA rate for 2002, 2001 and 2000 was approximately 1.38%, 2.63% and 4.14%, respectively.

Put Options

The Company has occasionally 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. Under the put options, the Company may receive an annual payment for assuming the purchase obligation and providing asset management services on the underlying investments. The purchase price can be reduced in the event of a material adverse change (as defined in the put agreements). The Company had six and four put options with a fair value of zero at December 31, 2002 and 2001, respectively. The Company's aggregate obligation under these put options was $98.5 million and $107.3 million at December 31, 2002 and 2001, respectively. The Company received $0.9 million, $1.0 million, and $1.2 million in income from put options in 2002, 2001 and 2000, respectively.

NOTE 7 - RESTRICTED ASSETS

Under the terms of the Company's interest rate swap agreements with counterparties, the Company is required to maintain cash deposits ("margin call deposits"). The margin call deposit requirements are specific to each counterparty. The Company must make margin call deposits when the total fair value of the Company's outstanding swap obligations to any one counterparty is greater than $1.0 million. In certain cases, the Company is also required to post up-front collateral on the swap contracts. At December 31, 2002 and 2001, the balances in the Company's margin call deposit accounts were $26.0 million and $15.1 million, respectively.

Under the terms of the Company's investment in CAPREIT (see Note 4), the Company is required to post either bond collateral or cash collateral for the CAPREIT total return swaps. At December 31, 2002, the Company had posted $4.0 million in cash collateral.

As discussed in Notes 1 and 2, in order to facilitate the securitization of certain assets at higher leverage ratios than otherwise available to the Company without the posting of additional collateral, the Company has pledged additional bonds to a pool that acts as collateral for senior interests in certain securitization trusts. From time to time, the Company may also post cash collateral to this pool. At December 31, 2002, the Company had posted $8.7 million in cash collateral. The Company did not have any cash posted to the pool at December 31, 2001.

In conjunction with a guarantee provided by the Company related to the sale of certain taxable notes in December 1998 and March 1999, the Company deposited $1.3 million in cash in an account with a counterparty. This money serves as collateral for the Company's obligation under the guarantee; however, the Company's obligation under the guarantee is not limited to this deposit. In the event that any of the properties cannot fund their payments on the loan, the money in this account can be used to fund any shortfalls. The Company does not believe that any loss is likely. These funds will not be released to the Company

until the interest and principal obligations on all the loans are fulfilled. The Company does not believe it will have to perform under the guarantee. As of December 31, 2002 and 2001, the balance of this cash, including interest earned, was $1.4 million.

NOTE 8 - MORTGAGE SERVICING RIGHTS

At December 31, 2002 and 2001, the Company had capitalized mortgage servicing rights with a carrying value of $10.9 million and $9.0 million, respectively, net of accumulated amortization of $3.0 million and $1.7 million, respectively. The December 31, 2002 balance of $10.9 million represents $11.0 million in mortgage servicing right assets offset by $0.1 million in mortgage servicing rights liabilities (included in other liabilities). The December 31, 2001 balance of $9.0 million represents $9.2 million in mortgage servicing right assets offset by $0.2 million in mortgage servicing rights liabilities. The following table shows the activity for the years ended December 31, 2002 and 2001.

(In thousands)	
Balance, December 31, 2000	$6,776
Capitalized mortgage servicing rights	3,168
Amortization	(936)
Valuation allowance	-
Balance, December 31, 2001	$9,008
Capitalized mortgage servicing rights	3,167
Amortization	(1,314)
Valuation allowance	-
Balance, December 31, 2002	$10,861

At December 31, 2002 and 2001, the fair value of the mortgage servicing rights approximated the carrying amount. The fair value of the mortgage servicing rights was estimated by discounting estimated net servicing income over the future life of the related loan using a market discount rate. The market discount rate was estimated to be 12% at December 31, 2002 and 2001, respectively. The estimated lives of the loans were determined by considering yield maintenance periods and contractual prepayment penalties, if any. Credit losses were estimated to be zero based on historical performance of the underlying loans.

NOTE 9 - 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 purchased by Fannie Mae. The Company's short and long-term debt relates to securitization transactions that the Company has recorded as borrowings. The following table summarizes notes payable and debt at December 31, 2002 and 2001.

		December 31,	
(000s)	Total of Facilities	2002	
Short-term notes payable	N/A	$ 126,410	$

Lines of credit - unaffiliated entities	$ 154,000	110,821	
Lines of credit - affiliated entities	$ 240,000	89,053	
Short-term debt	N/A	219,945	
Other	N/A	-	
Total short-term notes payable and debt		546,229	
Long-term notes payable	N/A	124,640	
Long-term debt	N/A	147,357	
Total long-term notes payable and debt		271,997	
Total notes payable and debt		$ 818,226	$

Long-term notes payable consists of amounts borrowed to finance construction lending activities. These amounts mature at various times through 2005. Interest rates on long-term notes payable range from 4.50% to 6.96%.

Long-term debt consists of amounts related to securitization transactions recorded as borrowings. These amounts mature at various times through 2042. Interest rates on long-term debt range from 4.35% to 12.00%.

Annual maturities of notes payable and debt are as follows:

(000s)	
2003	$ 546,229
2004	99,206
2005	37,673
2006	68,924
2007	868
Thereafter	65,326
Total	$ 818,226

The weighted average interest rate on notes payable and debt due in one year was 3.90% and 5.45% at December 31, 2002 and 2001, respectively.

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 is in compliance with its debt covenants at December 31, 2002.

NOTE 10 - INCOME TAXES

Certain subsidiaries of MuniMae are corporations and are therefore subject to federal and state income taxes. The following table summarizes the provision for income taxes at December 31, 2002, 2001 and 2000:

(000s) Federal income tax expense:	2002	2001	2000
Current	$ 422	$ 862	$ 1,177
Deferred	625	175	536
State income tax expense:			
Current	305	250	201
Deferred	132	96	92
Total	$1,484	$1,383	$ 2,006

During 2002, 2001, and 2000 the Company recognized approximately $583,000, $367,000 and zero, respectively, of benefits for deductions associated with the exercise of employee stock options and vesting of deferred shares. These benefits were added directly to capital surplus, and are not reflected in income tax expense on the income statement.

The of the difference between the effective income tax rate and the statutory federal income tax rate, as applied to the income of the Company's subsidiaries, which are subject to federal and state taxes, is as follows for the years ended December 31, 2002, 2001 and 2000:

	2002	2001	2000
Provision for income taxes computed using the statutory federal income tax rate	34.0%	34.0%	34.0%
State income taxes, net of federal tax effect	9.2	7.9	6.5
Goodwill amortization	(2.4)	16.4	9.3
Difference in deferred share expense	-	-	(1.1)
Minority interest	1.3	2.9	-
Tax credits	(3.7)	(21.9)	-
Other	(1.0)	2.3	0.7
Provision for income taxes	37.4%	41.6 %	49.4%

Components of the Company's deferred tax assets and liabilities, included in other assets and liabilities, are as follows at December 31, 2002 and 2001:

(000s)	2002	2001
Deferred tax assets:		
Tax credit carryover	$ 529	$ 383
Rental expenses	52	68
Mortgage servicing rights	56	58
Equity investment market value adjustment	546	-
Deferred origination fees	155	-
Other	110	140
Total deferred tax assets	$ 1,448	$ 649

Deferred tax liabilities:		
Depreciable assets	$ 939	$ 35
Mortgage servicing rights	4,143	3,448
Deferred loan fees	42	85
Other	90	90
Total deferred tax liabilities	$ 5,214	$ 3,658

At December 31, 2002 and 2001, the Company had an unused low-income housing tax credit carryforward for federal income tax purposes of approximately $529,000 and $383,000, respectively, which expires in 2016. This credit is subject to recapture based upon a qualifying disposition. The Company has a qualified disposition bond to avoid the recapture provisions. Additionally, at December 31, 2002 and 2001, a component of other deferred tax assets is a charitable contribution carryforward of approximately $422,000 and $328,000, respectively, which expires in 2006.

NOTE 11 - GUARANTEES, COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company has entered into non-cancelable operating leases for office space and equipment, as well as software hosting agreements for various information systems initiatives. These leases expire on various dates through 2009. Rental expense was approximately $2.1 million, $1.4 million, and $1.0 million for the years ended December 31, 2002, 2001 and 2000, respectively. At December 31, 2002, the minimum aggregate rental commitments are as follows:

(000s)	Operating Leases
2003	$ 2,241
2004	1,458
2005	1,201
2006	267
2007	28
Thereafter	52
Total	$ 5,247

Unfunded Loan Commitments

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. At December 31, 2002 and 2001, the aggregate unfunded commitments totaled approximately $293.4 million and $137.6 million, respectively. The Company has unfunded commitments from investors in a like amount. The commitments are not reflected in the financial statements. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. There are no significant concentrations of credit risk with any individual counterparty to originate loans.

Unfunded Equity Commitments

As the limited partner in real estate operating partnerships, the Company has committed to extend equity to real estate operating partnerships in accordance with the partnership documents. At December 31, 2002 and 2001, the aggregate unfunded commitments totaled approximately $74.5 million and zero, respectively. The Company typically owns these partnership interests for three to nine months before they are transferred to a syndicated low-income housing tax credit fund.

Fannie Mae Participation Strips

As of December 31, 2002 and 2001, the Company owned interest-only securities resulting from participations in a percentage of interest received on mortgage loans sold to Fannie Mae with a fair value of $5.8 million and $5.5 million, respectively. The Company has entered into an agreement to pay the income received from these assets to the Group Trust; therefore, a corresponding liability is reflected on the balance sheet in other liabilities.

Guarantees

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 December 31, 2002.

(in millions)

Guarantee	Note	December 31, 2002 Maximum Exposure	Carrying Amount	Supporting Co
Loss-Sharing Agreements with Fannie Mae and GNMA	(1)	$ 162.1	$ -	$4.9 million Letter of Cre
Bank Line of Credit Guarantees	(2)	182.0	-	Investment in partnership
Tax Credit Related Guarantees	(3)	42.8	0.1	None
Other Financial/Payment Guarantees	(4)	414.3	1.8	None
Put Options	(5)	101.6	-	$30 million of loans and t
Letter of Credit Guarantees	(6)	25.9	-	None
Indemnification Contracts	(7)	12.7	-	None
		$ 941.4	$ 1.9	

Notes:

(1) As a Fannie Mae DUS lender and GNMA loan servicer, MFH may share in losses relating to under performing 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 MFH and sold to Fannie Mae, of principal, interest, taxes or insurance premiums, MFH may be required to make servicing advances to Fannie Mae. Also, MFH may participate in a deficiency after foreclosure on DUS and GNMA loans. As a DUS lender, MFH 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 30 years.

(2) The Company, or its subsidiaries, 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.

(4) The Company, or its subsidiaries, 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 26, 2003 and April 1, 2007.

(6) The Company, or its subsidiaries, provide 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 credits 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, 2003 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 12 - PREFERRED SHAREHOLDERS' EQUITY IN A SUBSIDIARY COMPANY

In 1999, the Company placed a substantial portion of its tax-exempt bonds and residual interests in bond securitizations in an indirect subsidiary of the Company, MuniMae TE Bond Subsidiary, LLC ("TE Bond Sub"). TE Bond Sub sold Series A, Series B and Series A-1 and Series B-1 Cumulative Preferred Shares (collectively, the "TE Bond Sub Preferred Shares") to institutional investors in May 1999, June 2000 and October 2001, respectively. The TE Bond Sub Preferred Shares have a senior claim to the income derived from the investments owned by TE Bond Sub. Any income from TE Bond Sub available after payment of the cumulative distributions of the TE Bond Sub Preferred Shares is allocated to the Company, which holds all of the common equity interests. As a result, the assets

of TE Bond Sub and its subsidiaries, while indirectly controlled by MuniMae and thus included in the consolidated financial statements of the Company, are legally owned by TE Bond Sub and are not available to the creditors of the Company. The Company's common equity interest in TE Bond Sub was $271.4 million and $268.4 million at December 31, 2002 and 2001, respectively. The common equity interest in TE Bond Sub held by MuniMae is subject to the claims of the creditors of MuniMae and in certain circumstances could be foreclosed.

The Series A and A-1 Preferred Shares bear interest at 6.875% and 6.30% per annum, respectively, or, if lower, the aggregate net income of the issuing company, TE Bond Sub. The Series A and A-1 Preferred Shares have a senior claim to the income derived from the investments owned by TE Bond Sub. The Series A-1 Shares are equal in priority of payment to the Series A Preferred Shares. The Series B and B-1 Preferred Shares bear interest at 7.75% and 6.80% per annum, respectively, or, if lower, the aggregate net income of the issuing company, TE Bond Sub, after payment of distributions to the Series A and Series A-1 Preferred Shares. The Series B-1 Shares are equal in priority of payment to the Series B Preferred Shares. Any income from TE Bond Sub available after payment of the cumulative distributions of the TE Bond Sub Preferred Shares is allocated to the Company. Cash distributions on the TE Bond Sub Preferred Shares are paid quarterly on each January 31, April 30, July 31 and October 31. The TE Bond Sub Preferred Shares are subject to remarketing on specified dates as indicated in the table below. On the remarketing date, the remarketing agent will seek to remarket the shares at the lowest distribution rate that would result in a resale of the TE Bond Sub Preferred Shares at a price equal to par plus all accrued but unpaid distributions. The TE Bond Sub Preferred Shares will be subject to mandatory tender on specified dates, as indicated below, and on all subsequent remarketing dates at a price equal to par plus all accrued but unpaid distributions. The following table provides a summary of certain terms of the TE Bond Sub Preferred Shares.

	Series A Preferred Shares	Series A-1 Preferred Shares	Series B Preferred Shares
Issue date	May 27, 1999	October 9, 2001	June 2, 2000
Number of shares	42	8	30
Par amount per share	$2,000,000	$2,000,000	$2,000,000
Dividend rate	6.875%	6.30%	7.75%
First remarketing date	June 30, 2009	June 30, 2009	November 1, 2010
Mandatory tender date	June 30, 2009	June 30, 2009	November 1, 2010
Redemption date	June 30, 2049	June 30, 2049	June 30, 2050

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

(000s)	Series A	Series A-1	Series B	Serie
Balance, January 1, 2000	$ 80,159	$ -	$ -	$
Issuance of preferred shares	-	-	57,604	
Income allocable to preferred shares	5,775	-	2,700	
Distributions	(5,874)	-	(2,700)	
Balance, December 31, 2000	80,060	-	57,604	
Offering costs adjustment	-	-	(9)	
Issuance of preferred shares	-	15,206	-	

Income allocable to preferred shares	5,775	230	4,650	
Distributions	(5,775)	(230)	(4,650)	
Balance, December 31, 2001	80,060	15,206	57,595	
Income allocable to preferred shares	5,775	1,008	4,650	
Distributions	(5,775)	(1,008)	(4,650)	
Balance, December 31, 2002	$ 80,060	$ 15,206	$ 57,595	$

NOTE 13 - SHAREHOLDERS' EQUITY

Prior to March 2002, the Company had four types of shares: preferred shares, preferred capital distribution shares ("preferred cd shares"), term growth shares and common shares. The Company's preferred shares, preferred cd shares, term growth shares and common shares differed principally with respect to allocation of income and cash distributions, as provided by the terms of the Company's Operating Agreement. The Company was required to distribute to the holders of preferred shares and preferred cd shares cash flow attributable to such shares as defined in the Company's Operating Agreement. The Company was required to distribute to the holders of term growth shares 2.0% of the net cash flow after payment of distributions to holders of preferred shares and preferred cd shares. The balance of the Company's cash flow was available for distribution to holders of common shares.

The Company's Operating Agreement provided that the preferred shares and the preferred cd shares were subject to partial redemption when any bond attributable to the shares was sold, or beginning in the year 2000, when any bond attributable to the shares reached par value based on an appraisal. The Company was required to redeem the preferred shares and preferred cd shares within six months of the occurrence of a redemption event.

A portion of the bonds attributable to preferred shares and preferred cd shares reached par value in December 2000. As a result, in June 2001, the Company redeemed a portion of the preferred and preferred cd shares. The remaining bonds attributable to the preferred shares and preferred cd shares were either paid off, sold and/or reached par value from September 2001 through January 2002. As a result, in March 2002, the Company redeemed the remaining preferred shares and preferred cd shares. The Operating Agreement required that the term growth shares be redeemed after the last preferred share is redeemed. As a result, the term growth shares, which had no residual value, were also redeemed in 2002.

Subsequent to March 2002, the common shares are the Company's only outstanding shares. As of December 31, 2002, it is the Company's policy to distribute to the holders of the common shares at least 80% of cash available for distribution. The common shares have no par value. At December 31, 2002, 29,083,599 common shares were authorized.

On February 8, 2002, the Company sold to the public 3.0 million common shares at a price of $24.70 per share and granted the underwriters an option to purchase up to an aggregate of 450,000 common shares to cover over-allotments at the same price. Net proceeds on the 3.0 million shares approximated $70.5 million. On February 15, 2002, the underwriters exercised their option to purchase 300,000 common shares generating net proceeds of approximately $7.1 million. The net proceeds from this offering were used for general corporate purposes, including funding of new investments, paying down debt and working capital.

Earnings per Share

A single presentation of basic earnings per share ("EPS") is presented for preferred shares and preferred cd shares because there were no potentially dilutive shares outstanding during the periods presented. EPS for preferred shares and preferred cd shares is calculated by dividing net income allocable to the shares by the weighted average number of shares outstanding.

A dual presentation of basic and diluted EPS is presented for common shares. Basic EPS is calculated by dividing net income allocable to common shares by the weighted average number of common shares outstanding. The calculation of diluted EPS is similar to that of basic EPS except that the denominator is increased to include the number of additional shares that would have been outstanding if the deferred shares had vested, options granted had been exercised and the preferred shares and preferred cd shares had been converted to common shares. Accordingly, the numerator is adjusted to add back the income allocable to the preferred, preferred cd, and term growth shares, which would have been allocated to common shares as a result of the conversion of these shares. The diluted EPS calculation does not assume conversion if the conversion would have an anti-dilutive effect on EPS. The tables at the end of this note reconcile the numerators and denominators in the basic and diluted EPS calculations for 2002, 2001 and 2000.

At December 31, 2000 options to purchase 12,500 common shares were not included in the computation of diluted EPS because the options' exercise prices were greater than the average price of the common shares for the period.

Municipal Mortgage & Equity, LLC
Reconciliation of Basic and Diluted EPS

	For the year ended December 31, 2002			For the year ended	
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Sha (Denom
(In thousands, except share and per share data)					
Basic EPS					
Income allocable to common shares	$ 28,796	24,904,437	$ 1.16	$ 23,847	21,2
Effect of Dilutive Securities					
Options and deferred shares	-	447,594		-	4
Earnings contingency	-	121,784		-	
Convertible preferred shares to the extent dilutive	-	-		3	
Diluted EPS					
Income allocable to common shares plus assumed conversions	$ 28,796	25,473,815	$ 1.13	$ 23,850	21,8

Municipal Mortgage & Equity, LLC
Reconciliation of Basic and Diluted EPS

	For the year ended December 31, 2000		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
(In thousands, except share and per share data)			
Basic EPS			
Income allocable to common shares	$ 29,076	17,459,829	$ 1.67
Effect of Dilutive Securities			
Options and deferred shares	-	408,560	
Earnings contingency	-	39,216	
Convertible preferred shares to the extent dilutive	309	180,761	
Diluted EPS			
Income allocable to common shares plus assumed conversions	$ 29,385	18,088,366	$ 1.62

NOTE 14 - RELATED PARTY TRANSACTIONS

Pension Fund Advisory Business

The Company has established relationships with pension funds through the Group Trust and MMER. The Group Trust was established by a group of pension funds for the purpose of investing in income-producing real estate investments. The Group Trust provides loans and lines of credit to finance a variety of the Company's loan products. MMER is a Maryland real estate investment trust established by the same pension funds that participate in the Group Trust, plus one other pension fund. MMER provides the Company short-term lines of credit to finance the Company's lending activities, in addition to investing in income-producing real estate partnerships. MFH is the investment manager for the Group Trust and MMER and receives advisory fees for these services. Furthermore, MFH earns origination fees on the placement of permanent loans with the Group Trust. MFH also earns origination fees on the placement of equity interests in real estate partnerships with MMER. The Company's fees earned from the Group Trust for the years ended December 31, 2002, 2001, and 2000 were $2.5 million, $2.0 million and $1.0 million, respectively. The Company's fees earned from MMER for the years ended December 31, 2002, 2001 and 2000 were $1.6 million, $1.4 million and zero, respectively.

As of December 31, 2002, the Company had $89.1 million outstanding on its

credit lines with the Group Trust and MMER. The Group Trust loans outstanding to various subsidiaries of the Company totaled $128.2 million. For the years ended December 31, 2002, 2001 and 2000, the Company recorded interest expense on these borrowing arrangements of $12.0 million, $11.3 million, and $13.0 million, respectively.

The Group Trust and MMER engage in business transactions exclusively with the Company. Four of the five trustees of the Group Trust (Mr. Michael L. Falcone, the Company's President and Chief Operating Officer, Mr. Robert J. Banks, the Company's Vice Chairman, Mr. Keith J. Gloeckl, the Company's Chief Investment Officer, and Mr. Gary A. Mentesana, the Company's Chief Capital Officer) are officers of the Company. In addition, three of the six trustees of MMER (Messrs. Falcone, Banks and Gloeckl) are Company officers. These officers are not paid for Group Trust or MMER service. The Group Trust and MMER are deemed to be affiliates of the Company.

The Shelter Group

Mr. Mark K. Joseph, the Company's Chief Executive Officer and Chairman of its Board of Directors, controls and is an officer of Shelter Development Holdings, Inc. ("Shelter Holdings"), which owns a minority interest in Shelter Development, LLC and Shelter Properties, LLC (collectively, the "Shelter Group"), engages in real estate development and provides property management services to a wide variety of commercial and residential properties. One of the Shelter Group companies provides property management functions for a number of properties that serve as collateral for the Company's bond investments. Mr. Falcone had an ownership interest in and was a board member of this entity until he relinquished these positions in 2000.

The Shelter Group receives fees pursuant to management contracts for properties which it manages. During 2002, 2001 and 2000, the Shelter Group had 10, 10, and 12, respectively, property management contracts for properties that collateralize the Company's investments with fees at or below market rates. During the years ended December 31, 2002, 2001 and 2000, these fees approximated $1.1 million, $1.1 million, and $1.3 million, respectively. In addition, the Shelter Group is the general partner in a real estate operating partnership that the Company held a limited partner interest in at December 31, 2002. As of December 31, 2002, the Company had invested $1.0 million in the property, and the Shelter Group had received $58,063 in developer fees.

Each affiliate property management contract is presented to the independent members of the Company's Board of Directors for approval with information documenting the comparability of the proposed fees to those in the market area of the property. Mr. Joseph has agreed to abstain from any involvement, as a partner in the Shelter Group, in the structuring or review of any contracts or transactions between the Shelter Group and the Company. He has likewise agreed to excuse himself from review or involvement, as an officer or director of the Company, in contracts and transactions involving the Shelter Group. The Company's Board of Directors has approved all contracts and transactions involving the Shelter Group and conducts an annual review of all property management contracts between the Shelter Group and any properties that collateralize the Company's investments.

Management of Defaulted Assets

In certain circumstances involving the Company's tax-exempt bonds, borrowers have defaulted on their debt obligations to the Company. In such circumstances the Company has, after evaluating its options, chosen not to foreclose on the property. Instead, the Company has negotiated the transfer of a property's deed in lieu of foreclosure to, or replaced the general partner of a

property with, an entity affiliated with the Company. The Company has done so in order to preserve the original tax-exempt bond obligations and its participation in cash flow from the property, consistent with its overall goal of providing tax-exempt income to its shareholders.

Following the transfer of the property's deed to an affiliated entity, that entity controls the collateral for certain investments held by the Company. These affiliated entities are controlled by or are managed by certain officers of the Company. The following table outlines these affiliate relationships at December 31, 2002:

Affiliate Entity	Number of Properties Owned (directly or indirectly)	Carrying Value of Comp Investment at December 3
SCA Successor, Inc. (1)	4	$ 53,563,000
SCA Successor II, Inc. (1)	12	51,788,000
MMA Affordable Housing Corporation (2)	2	47,734,000
MuniMae Foundation, Inc. (3) / MMA Successor I, Inc. (1)	3	12,035,000
Total	21	$165,120,000

(1) These corporations are general partners of the operating partnerships whose property collateralizes the Company's investments. Mr. Joseph controls the general partners of these operating partnerships and is a limited partner in eight of these partnerships. Mr. Falcone and Mr. William S. Harrison, the Company's Chief Financial Officer and Senior Vice President, serve as officers and directors of one such general partner. Ms. Angela A. Barone, the Company's Vice President of Finance and Budgeting, serves as a director in one such general partner.

(2) MMA Affordable Housing Corporation ("MMAHC") is a 501(c)(3) non-profit entity organized to provide charitable donations on behalf of the Company. Mr. Joseph is the Chairman and one of five directors of the MMAHC. Mr. Falcone, Mr. Harrison, Mr. Gary A. Mentesana, the Company's Chief Capital Officer, and Mr. Earl W. Cole, III, Senior Vice President of the Company, are also officers and directors of MMAHC.

(3) MuniMae Foundation Inc., is a private non-profit entity organized to provide charitable donations on behalf of the Company. Mr. Joseph is the Chairman and one of four directors of the MuniMae Foundation. Mr. Falcone and Mr. Mentesana are also officers and directors of the MuniMae Foundation.

The officers of the Company who serve as directors or officers of the affiliated entities listed above are neither compensated for their services as officer or director thereof, nor derive any other economic benefit from those entities except for Mr. Joseph, who controls SCA Successor I, Inc., SCA Successor II, Inc. and MMA Successor I, Inc.

Such entities could have interests that do not fully coincide with, or even are adverse to, the interests of the Company. Such entities could choose to act in accordance with their own interests, which could adversely affect the Company. Among the actions such entities could take might be selling a property, thereby causing a redemption event, at a time and under circumstances that would not be advantageous to the Company.

Other Relationships

The Company leases office space from an affiliate. Mr. Joseph and a member of the Company's Board of Directors have ownership interests in the partnership that leases the office space to the Company. For the years ended December 31, 2002, 2001 and 2000, the Company paid $230,000, $208,000 and $178,000, respectively, in rental lease payments under the related lease agreements. These lease agreements with an affiliate were negotiated at market rate.

Mr. Banks and Mr. Gloeckl hold limited partnership interests in various limited partnerships that function as the general partner of certain syndicated low-income housing tax credit funds. The Company is the general partner in these limited partnerships. The limited partnerships are as follows: Midland Equity IV LP, Midland Equity V LP, Midland Equity VI LP, Midland Equity VII LP, Midland Equity VIII LP, Midland Equity IX LP and Midland Equity X LP. Mr. Banks and Mr. Gloeckl are also invested in Midland Tax Credit Investors Partnership, which is a general partnership that invests as a limited partner in certain syndicated low-income tax credit funds.

Mr. Banks and Mr. Gloeckl own shares in three corporations that are invested in real estate operating partnerships as the general partner. In addition, Mr. Banks and Mr. Gloeckl are directly invested in a real estate operating partnership as the general partner with Mr. Gloeckl acting as the managing general partner. All four of the real estate operating partnerships are involved in equity transactions with certain of the Company's low-income housing tax credit funds.

Until 2002, the Company owned a 75% interest in Whitehawk Capital, LLC and Whitehawk Capital IV, LLC (collectively, "Whitehawk"). Mr. Charles M. Pinckney and Mr. Mark S. Begeny, employees of Whitehawk, owned the remaining 25%. During 2002, the Company purchased the remaining 25% interest in Whitehawk from Mr. Pinckney and Mr. Begeny for a total purchase price of $1.2 million ($1.1 million in cash and $0.1 million in common shares of the Company). Subsequent to the purchase of the 25% interest in Whitehawk, Mr. Pinckney and Mr. Begeny became employees of the Company. In addition, each of Mr. Pinckney and Mr. Begeny receives $32,500 per year through 2010 from the Company for deferred consulting fees earned prior to becoming employees of the Company.

In conjunction with the sale of certain taxable notes in 1998 and 1999, the Company provided a guarantee on behalf of 11 operating partnerships for the full and punctual payment of interest and principal due under the taxable notes. These taxable notes have a face amount of $16.2 million at December 31, 2002. Mr. Joseph controls the general partners of these operating partnerships. The Company's obligation under this guarantee is included in the summary of the Company's guarantees in Note 11.

Shelter Development Holdings, Inc. (the "Special Shareholder") is personally liable for the obligations and liabilities of the Company. Mr. Joseph controls and is an officer of the Special Shareholder. In the event that a business combination or change in control occurs, and the Special Shareholder does not approve of such transaction, the Special Shareholder has the right to terminate its status as the Special Shareholder. In the event of such termination, the Company would be obligated to pay the Special Shareholder $1.0 million.

In 2000 and 2001, prior to his employment with the Company, Mr. William S. Harrison, Senior Vice President and Chief Financial Officer of the Company, provided consulting services to the Company through a corporation wholly owned by Mr. Harrison. The Company paid approximately $31,000 and $79,000 in 2001 and 2000, respectively, for these services.

A member of the Company's Board of Directors is the managing general partner of the law firm of Gallagher, Evelius and Jones LLP ("GEJ"), which

provides corporate and real estate legal services to the Company. For the year ended December 31, 2002, $1.2 million in legal fees to GEJ was generated by transactions structured by the Company, of which $0.8 million was directly incurred by the Company. The total amount of $1.2 million represented 8% of GEJ's total revenues for 2002. For the year ended December 31, 2001, $1.6 million in legal fees to GEJ was generated by transactions structured by the Company, of which $1.0 million was directly incurred by the Company. The total amount of $1.6 million represented 12.6% of GEJ's total revenues for 2001.

Until the redemption of the term growth shares in 2002 (see Note 13), an affiliate of Merrill Lynch owned 1,250 term growth shares of the Company. The Company may from time to time enter into various investment banking, financial advisory and other commercial services with Merrill Lynch for which Merrill Lynch receives and will receive customary compensation. The Company also enters into various RITESSM and interest rate swap transactions with Merrill Lynch on terms generally available in the marketplace.

The Company is the general partner in various partnerships that provide low-income tax credits for investors. The Company sells the limited partner interests in these partnerships to third party investors. In addition, the Company may provide certain performance guarantees on the underlying properties owned by the partnerships (see Note 11). The Company receives asset management fees from these partnerships. For the year ended December 31, 2002, 2001, and 2000, the Company earned $3.0 million, $2.4 million and $1.9 million in asset management fees, respectively.

For the year ended December 31, 2001, the Company made a $600,000 charitable contribution to MMA Affordable Housing Corporation.

NOTE 15 - NON-EMPLOYEE DIRECTORS' SHARE PLANS AND EMPLOYEE SHARE INCENTIVE PLANS

Non-Employee Directors' Share Plans

At December 31, 2002, the total number of shares authorized to be granted under the non-employee directors' share plans was 250,000 shares. The non-employee directors' plans provide a means to attract and retain highly qualified persons to serve as non-employee directors of the Company. Under the directors' plans, an option to purchase 7,000 Common Shares is granted to each director when first elected or appointed to the Board of Directors and an option to purchase 5,000 common shares on the date of each annual meeting of shareholders. The exercise price of such options will be equal to 100% of the fair market value of the Common Shares on the date of grant. Options expire at the earlier of ten years after the date of grant or one year after the date a director ceases to serve as such. The options become exercisable in full on the first anniversary of the date of grant. At December 31, 2002, 136,000 options were outstanding under the directors' plans with exercise prices of $14.875 to $24.74. The weighted average remaining contractual life for these outstanding options was 7.3 years at December 31, 2002. The following table summarizes the activity relating to options issued under the directors' plans for the years ended December 31, 2002, 2001 and 2000:

	Number of Shares	Weighted Average Exercise Price
Options outstanding at January 1, 2000	47,500	$ 18.47
Granted	30,000	$ 19.75
Exercised	-	-

Expired	-		-
Options outstanding at December 31, 2000	77,500	$	19.03
Granted	30,000	$	23.51
Exercised	-		-
Expired	-		-
Options outstanding at December 31, 2001	107,500	$	20.28
Granted	30,000	$	24.74
Exercised	(1,500)	$	19.38
Expired	-		-
Options outstanding at December 31, 2002	136,000	$	21.28
Options exercisable at:			
December 31, 2000	47,500	$	18.58
December 31, 2001	77,500	$	19.03
December 31, 2002	106,000	$	20.29

The directors' plans also entitle each director to elect to receive payment of director's fees in the form of Common Shares, based on their fair market value on the date of payment, in lieu of cash payment of such fees. Such shares may also be paid on a deferred basis, whereby the shares payable are credited to the account of the director, and future distributions payable with respect thereto are paid in the form of additional share credits based upon the fair market value of the Common Shares on the record date of the distribution payment. As of December 31, 2002, 6,408 Common Shares and 30,045 deferred shares had been issued to directors in lieu of cash payments for director fees. As of December 31, 2002, there were 71,047 shares available under the directors' plans.

Employee Share Incentive Plans

At December 31, 2002, 2,622,033 shares were authorized to be issued under the share incentive plans. The Company's share incentive plans provide a means to attract, retain and reward executive officers and other key employees of the Company, to link employee compensation to measures of the Company's performance and to promote ownership of a greater proprietary interest in the Company. The plans authorize grants of a broad variety of awards, including non-qualified stock options, share appreciation rights, restricted shares, deferred shares and shares granted as a bonus or in lieu of other awards. Shares issued as restricted shares and as awards, other than options (including restricted shares), may not exceed 20% and 40% of the total reserved under the plans. As of December 31, 2002, there were 967,485 shares available under the plans.

Common Share Options

The exercise price of Common Share options granted under the plans is equal to 100% of the fair market value of the Common Shares on the date of grant. The options vest over three years. In the event of a change in control of the Company (as defined in the plans), the options shall become immediately and fully exercisable. In addition, the Company may, at any time, accelerate the exercisability of all or a specified portion of the options. Generally, the options expire ten years from the date of grant. However, options will expire

immediately upon the termination of employment for cause and three months after termination of employment for reasons other than death, disability or normal or early retirement. In the event of death, disability or retirement, the options will expire one year after the date of such event. At December 31, 2002, 796,439 options were outstanding under the plans with exercise prices of $16.875 to $22.55. The weighted average remaining contractual life for these outstanding options was 5.8 years at December 31, 2002. The following table summarizes the activity relating to options issued under the plans for the years ended December 31, 2002, 2001 and 2000:

	Number of Shares	Weighted Average Exercise Price
Options outstanding at January 1, 2000	709,304	$ 17.24
Granted	420,000	$ 18.75
Exercised	(52,034)	$ 17.20
Expired/Forfeited	(5,000)	$ 19.00
Options outstanding at December 31, 2000	1,072,270	$ 17.82
Granted	75,000	$ 22.35
Exercised	(147,800)	$ 17.28
Expired/Forfeited	(2,500)	$ 17.38
Options outstanding at December 31, 2001	996,970	$ 18.25
Granted	-	-
Exercised	(190,531)	$ 18.44
Expired/Forfeited	(10,000)	$ 18.75
Options outstanding at December 31, 2002	796,439	$ 18.19
Options exercisable at:		
December 31, 2000	615,103	$ 17.16
December 31, 2001	637,970	$ 17.68
December 31, 2002	622,389	$ 17.91

Common Share Appreciation Rights

On November 11, 1997, 3,000 Common Share appreciation rights ("SARs") were awarded to certain employees under the plans. The exercise price of the SARs was equal to 100% of the fair market value of the Common Shares ($19 per share) on the date of grant and are exercisable for cash only. The SARs vest over three years and generally expire ten years from the date of grant. In the event of a change in control of the Company (as defined in the plans), the SARs shall become immediately and fully exercisable. In addition, the Company may, at any time, accelerate the exercisability of all or a specified portion of the SARs. However, the SARs will expire immediately upon the termination of employment for cause and three months after termination of employment for reasons other than death, disability or normal or early retirement. In the event of death, disability or retirement, the SARs will expire one year after such event. As of December 31, 2002, 3,000 SARs had vested.

Deferred Shares

The Company granted 32,870, 63,050 and 93,500 deferred share awards with a total fair value of $0.8 million, $1.4 million and $1.8 million for the years ended December 31, 2002, 2001 and 2000, respectively. The deferred shares vest over two to ten years, as outlined in the individual award agreements. The deferred share awards also provide for acceleration of vesting on a discretionary basis, upon a change in control and death or disability. As of December 31, 2002, 276,922 deferred shares had vested. The Company recorded unearned compensation equal to the fair market value of the awards, which is shown as a separate component of shareholders' equity. Unearned compensation is being amortized into expense over the vesting period. For the years ended December 31, 2002, 2001 and 2000, the Company recognized compensation expense of $1.7 million, $1.4 million and $1.1 million, respectively, relating to the deferred shares.

NOTE 16 - SERVICING PORTFOLIO

Trust and Escrow Funds

The Company maintains certain escrow accounts and trust accounts related to principal and interest payments and to escrow funds received but not yet remitted to investors or others on loans serviced by the Company. These accounts are segregated into special accounts and are excluded from the Company's assets and liabilities.

Loans and Bonds Serviced

The Company serviced loans and bonds totaling $2.5 billion, $2.2 billion and $1.9 billion in outstanding principal at December 31, 2002, 2001 and 2000, respectively. The fees earned by the Company for servicing these loans are based on a percentage of the unpaid principal balance of the loans. These loans include approximately $752.6 million and $584.6 million in loans where the Company has a risk-sharing agreement with certain lenders at December 31, 2002 and 2001, respectively. Under the risk-sharing agreement, the Company is responsible for up to 20% of the loan loss on all the loans covered by the agreement. The Company monitors the loans in the servicing portfolio for potential losses. If the Company determines a loss is probable and can be reasonably estimated, a loss reserve is recorded through a charge to the income statement. At December 31, 2002 and 2001, management determined that no allowance for possible loan losses on the servicing portfolio was necessary. The Company will continue to evaluate the need for allowance for loan losses in the future as circumstances dictate.

NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments are included in the table at the end of this note.

The carrying amounts in the table correspond to amounts included in the accompanying balance sheets. The following methods or assumptions were used by the Company in estimating the fair values of financial statement instruments:

Cash and cash equivalents, investment in tax-exempt bonds and residual interests in bond securitizations - The carrying amounts reported in the balance sheet approximate the assets' fair value.

Loans receivable - The fair value of the Company's fixed rate loans was calculated by discounting the expected cash flows. The discount rates are based on the interest rate charged to current customers for comparable loans. The Company's adjustable rate loans reprice frequently at current market rates. Therefore, the fair value of these loans has been estimated to approximate their

carrying value.

Other investments - The estimated fair value of other investments was calculated by discounting contractual cash flows adjusted for current prepayment estimates using a market discount rate.

Notes payable - The estimated fair value of the Company's fixed rate notes payable was calculated by discounting contractual cash flows. The discount rates were based on the interest rates paid to current lenders for comparable notes payable. The Company's adjustable rate notes payable reprice frequently at current market rates. Therefore, the fair value of these notes payable has been estimated to approximate their carrying value.

Commitments to extend credit - Fair value of commitments to extend credit are based on interest rates currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

Unfunded equity commitments - Fair value of unfunded equity commitments is equal to the total amount committed less the amount funded at the balance sheet date.

Put options written - Fair value is based on quoted market price of financial instruments with similar terms adjusted for differences in risk characteristics.

Interest rate swap agreements - Fair value is based on the estimated amount that the Company would pay or receive to terminate the swap agreement at the balance sheet date.

Total return swaps - Fair value is based on the estimated amount that the Company would pay or receive to terminate the swap agreement at the balance sheet date.

Limitations

The fair value estimates are made at a discrete point in time based on relevant market information and information about the financial instrument. Because no or limited markets exist for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. In addition, the fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

Summary of Fair Values

(000s)	December 31, 2002		December 31, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair
Assets:				

Investment in tax-exempt bonds, net	$ 770,345	$ 770,345	$ 616,460	$ 616
Loans receivable, net - fixed	409,765	408,777	417,281	415
Loans receivable, net - adjustable	51,683	48,207	22,750	22
Residual interests in bond securitizations	11,039	11,039	13,295	13
Investment in derivative financial instruments	18,762	18,762	2,912	2
Put options	-	-	-	
Cash and cash equivalents	43,745	43,745	97,373	97
Restricted assets	40,318	40,318	16,710	16
Other investments	5,757	5,757	5,488	5
Mortgage servicing rights, net	11,009	11,009	9,161	9
Liabilities:				
Notes payable - fixed	315,975	315,573	320,720	321
Notes payable - adjustable	134,949	134,949	99,343	99
Residual interests in bond securitizations	1,447	1,447	7,979	7
Investment in derivative financial instruments	49,359	49,359	18,646	18
Off-Balance Sheet:				
Commitments to extend credit	-	290,132	-	146
Unfunded equity commitments	-	74,516	-	

NOTE 18 - BUSINESS SEGMENT REPORTING

In the fourth quarter of 1999, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information," which establishes standards for reporting information about a company's operating segments. In October 1999, as a result of the MFH acquisition, the Company restructured its operations into two business segments: (1) an operating segment consisting of MFH and other subsidiaries that primarily generate taxable fee income by providing loan servicing, loan origination 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 Note 1.

The revenues associated with the investing segment consist primarily of interest earned on tax-exempt bonds, residual interests in bond securitizations, taxable loans and derivative financial instruments. The revenues associated with the operating segment consist primarily of loan servicing fees, loan origination fees, syndication fees, asset management fees, and advisory fees. Segment results include all direct revenues and expenses of each segment and allocations of indirect expenses based on specific methodologies. The Company's reportable segments are strategic business units that primarily generate different income streams and are managed separately.

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

	2002				
	Investing	Operating	Adjustments	Total Consolidated	Investing
INCOME:					

Interest on bonds and residual interests in bond securitizations	$ 57,322	$ 2,601	$ -	$ 59,923	$ 50,732
Interest on loans	3,326	31,569	-	34,895	2,798
Interest on short-term investments	1,030	225	-	1,255	2,045
Syndication fees	-	7,221	-	7,221	-
Origination fees	750	8,976	(3,095)	6,631	-
Loan servicing fees	-	6,823	-	6,823	-
Asset management and advisory fees	-	3,887	-	3,887	-
Other income	1,364	3,071	-	4,435	-
Net gain on sales	1,537	7,021	-	8,558	2,339
Total income	65,329	71,394	(3,095)	133,628	57,914
EXPENSES:					
Interest expense	9,106	27,490	-	36,596	6,053
Salaries and benefits	2,082	20,596	-	22,678	1,996
General and administrative	1,802	5,218	-	7,020	831
Professional fees	1,367	3,593	-	4,960	1,094
Amortization of goodwill and mortgage servicing rights	-	1,314	-	1,314	-
Total expenses	14,357	58,211	-	72,568	9,974
Net holding losses on derivatives	(14,863)	-	-	(14,863)	(5,572)
Impairments and valuation allowances related to investments (Notes 2 and 3)	(730)	-	-	(730)	-
Losses from equity investments in partnerships	-	(3,057)	-	(3,057)	-
Net income before income taxes, income allocated to preferred shareholders in a subsidiary company, and cumulative effect of accounting change	35,379	10,126	(3,095)	42,410	42,368
Income tax expense	-	1,484	-	1,484	-
Net income before income allocated to preferred shareholders in a subsidiary company and cumulative effect of accounting change	35,379	8,642	(3,095)	40,926	42,368
Income allocable to preferred shareholders in a subsidiary company (Note 12)	11,977	-	-	11,977	10,779
Net income before cumulative effect of accounting change	23,402	8,642	(3,095)	28,949	31,589
Cumulative effect on prior years of change in accounting for derivatives	-	-	-	-	12,277
Net income	$ 23,402	$ 8,642	$ (3,095)	$ 28,949	$ 19,312

Segment Reporting
(in thousands)

	2000			
	Investing	Operating	Adjustments	Total Consolidated
INCOME:				
Interest on bonds and residual interests in bond securitizations	$ 41,316	$ 1,761	$ -	$ 43,077
Interest on loans	1,451	30,306	-	31,757
Interest on short-term investments	3,106	1,285	-	4,391
Syndication fees	-	4,410	-	4,410
Origination fees	-	5,082	(1,545)	3,537
Loan servicing fees	-	5,621	-	5,621
Asset management and advisory fees	-	2,426	-	2,426
Other income	-	3,314	-	3,314
Net gain on sales	191	2,128	-	2,319
Total income	46,064	56,333	(1,545)	100,852
EXPENSES:				
Interest expense	4,095	27,057	-	31,152
Salaries and benefits	1,533	13,767	-	15,300
General and administrative	497	4,146	-	4,643
Professional fees	820	3,486	-	4,306
Amortization of goodwill and mortgage servicing rights	-	1,887	-	1,887
Total expenses	6,945	50,343	-	57,288
Net holding losses on derivatives	-	-	-	-
Impairments and valuation allowances related to investments (Notes 2 and 3)	(1,508)	-	-	(1,508)
Losses from equity investments in partnerships	-	-	-	-
Net income before income taxes, income allocated to preferred shareholders in a subsidiary company, and cumulative effect of accounting change	37,611	5,990	(1,545)	42,056
Income tax expense	-	2,006	-	2,006
Net income before income allocated to preferred shareholders in a subsidiary company and cumulative effect of accounting change	37,611	3,984	(1,545)	40,050
Income allocable to preferred shareholders in a subsidiary company (Note 12)	8,475	-	-	8,475
Net income before cumulative effect of accounting change	29,136	3,984	(1,545)	31,575

Cumulative effect on prior years of change in accounting for derivatives	-	-	-	-
Net income	$ 29,136	$ 3,984	$ (1,545)	$ 31,575

NOTE 19 - SUBSEQUENT EVENTS

February 2003 Common Share Offering

In February 2003, the Company sold to the public 2.8 million common shares at a price of $23.60 per share and granted the underwriters an option to purchase up to an aggregate of 420,000 common shares to cover over-allotments at the same price. Net proceeds on the 2.8 million shares approximated $62.8 million. On February 11, 2003, the underwriters exercised their option to purchase 420,000 common shares, generating net proceeds of approximately $9.4 million. The net proceeds from this offering will be used for general corporate purposes, including funding of new investments, paying down debt and working capital.

NOTE 20 - QUARTERLY RESULTS (unaudited)

(in thousands, except per share data)

	1st Quarter	2nd Quarter
Year ended December 31, 2002:		
INCOME:		
Interest income	$ 24,079	$ 24,237
Fee income	6,627	7,844
Net gain on sales	2,166	703
Total income	32,872	32,784
EXPENSES:		
Interest expense	8,972	8,487
General and administrative	7,190	9,594
Amortization of goodwill and mortgage servicing rights	318	333
Total expenses	16,480	18,414
Net holding gains (losses) on derivatives	3,112	(7,721)
Impairments and valuations allowances related to investments	(110)	-
Net gains (losses) from equity investments in partnerships	(323)	94
Net income before income taxes, income allocated to preferred shareholders in a subsidiary company, and cumulative effect of accounting change	19,071	6,743
Income tax expense (benefit)	1,031	828
Net income before income allocated to preferred shareholders in a subsidiary company and cumulative effect of accounting change	18,040	5,915
Income allocable to preferred shareholders in a subsidiary company	2,994	2,995
Net income before cumulative effect of accounting change	15,046	2,920

Cumulative effect on prior years of change in accounting for derivatives	-	-
Net income	$ 15,046	$ 2,920
Net income allocated to:		
Common shares:		
Basic	$ 0.63	$ 0.12
Diluted	$ 0.62	$ 0.11

	1st Quarter	2nd Quarte
Year ended December 31, 2001:		
INCOME:		
Interest income	$ 20,953	$ 21,67
Fee income	8,509	6,66
Net gain on sales	166	1,96
Total income	29,628	30,30
EXPENSES:		
Interest expense	7,826	7,76
General and adminstrative	6,667	8,09
Amortization of goodwill and mortgage servicing rights	693	62
Total expenses	15,186	16,49
Net holding gains (losses) on derivatives	(4,865)	1,27
Impairments and valuations allowances related to investments	(3,256)	
Net gains (losses) from equity investments in partnerships	-	7
Net income before income taxes, income allocated to preferred shareholders in a subsidiary company, and cumulative effect of accounting change	6,321	15,15
Income tax expense	3	22
Net income before income allocated to preferred shareholders in a subsidiary company and cumulative effect of accounting change	6,318	14,93
Income allocable to preferred shareholders in a subsidiary company	2,606	2,60
Net income before cumulative effect of accounting change	3,712	12,32
Cumulative effect on prior years of change in accounting for derivatives	(12,277)	
Net income (loss)	$ (8,565)	$ 12,32
Net income allocated to:		
Common shares:		
Basic	$ (0.45)	$ 0.5

Diluted	$ (0.44)	$ 0.5

INDEX TO EXHIBITS

Exhibit Number	Document
3.1	Amended and Restated Operating Agreement
3.4	Amended and Restated Bylaws
21	Subsidiaries of the Registrant
23	Consent of PricewaterhouseCoopers LLP
99	Officers' Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

EXHIBIT 3.1

AMENDED AND RESTATED

CERTIFICATE OF FORMATION AND OPERATING AGREEMENT

OF

MUNICIPAL MORTGAGE & EQUITY, LLC

(a Delaware limited liability company)

THIS AMENDED AND RESTATED CERTIFICATE OF FORMATION AND OPERATING AGREEMENT (the "Agreement") of Municipal Mortgage & Equity, LLC, a Delaware limited liability company (the "Company"), dated as of May 9 , 2002, is entered into by and among the Shareholders (as defined herein) of the Company and any Person (as defined herein) who becomes a Shareholder pursuant to the terms of this Agreement.

The Company's Certificate of Formation filed with the Delaware Secretary of State on July 6, 1995, is hereby amended to amend and restate all of the provisions thereof so that said Certificate, as amended and restated hereby, reads in its entirety as follows; and the Company's Operating Agreement is hereby amended so that said Operating Agreement reads in its entirety as follows:

FIRST: The name of the limited liability company is Municipal Mortgage & Equity, LLC.

SECOND: The address of the limited liability company's registered office in the State of Delaware is Corporation Service Company, 2711 Centerville Road,

Suite 400, in the City of Wilmington, County of New Castle, 19808. The name of its registered agent at such address is Corporation Service Company.

THIRD: The remainder of the Certificate of Formation and Operating Agreement is as follows:

W I T N E S S E T H :

WHEREAS, the Shareholders of the Company have approved the amendment and restatement of the Certificate (as defined herein) of the Company and the Operating Agreement (as defined herein) of the Company to remove provisions and references that are no longer operative; and

WHEREAS, this Agreement shall constitute the Certificate of the Company and shall also constitute the Operating Agreement of the Company, and shall be binding upon all Persons now or at any time hereafter who are Shareholders of the Company.

NOW, THEREFORE, in consideration of the mutual covenants and obligations set forth in this Agreement, and of other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto, intending legally to be bound, hereby agree as follows:

ARTICLE I

Definitions

Capitalized terms used in this Agreement shall have the meanings set forth below or in the Section of this Agreement referred to below, except as otherwise expressly indicated or limited by the context in which they appear in this Agreement. All terms defined in this Article 1 or in the preamble to this Agreement in the singular have the same meanings when used in the plural and vice versa.

1.1 "Acquiring Person" shall have the meaning set forth in Section 13.1 of this Agreement.

1.2 "Act" means the Delaware Limited Liability Company Act, Del. Code Ann.ss.ss.18-101 et seq., as amended from time to time.

1.3 "Affiliate" means, with respect to any Person, any Relative of such Person, any trust for the benefit of such Person or such Person's Relative, any beneficiary of such a trust and any other Person that directly, or indirectly through one or more intermediaries, controls (including without limitation all officers and directors of such Person), is controlled by, or is under common control with, such Person or a Relative of such Person. The term "control" (or any form thereof), as used in the preceding sentence, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

1.4 "Agreement" means this Agreement, as may be amended, restated, supplemented or otherwise modified from time to time as herein provided.

1.5 "Announcement Date" shall have the meaning set forth in Section 12.3 of this Agreement.

1.6 "Associate" shall have the meaning set forth in Sections 12.1 and 13.1 of this Agreement.

1.7 "Beneficial Owner" shall have the meaning set forth in Section 12.1 of this Agreement.

1.8 "Board of Directors" or "Board of Managers" means the board on which all of the Company's Managers sit, in their capacities as Managers.

1.9 "Bond" means a mortgage revenue bond owned at a particular time by the Company as part of the Property; and the term "Bond" shall include working capital loans associated with such mortgage revenue bond.

1.10 "Book Gain" or "Book Loss" means the gain or loss recognized by the Company for book purposes in any Fiscal Year by reason of any sale or disposition with respect to any of the assets of the Company. Such Book Gain or Book Loss shall be computed by reference to the Book Value of such property or assets as of the date of such sale or disposition (determined in accordance with Section 1.11 of this Agreement), rather than by reference to the tax basis of such property or assets as of such date, and each and every reference herein to "gain" or "loss" shall be deemed to refer to Book Gain or Book Loss, rather than to tax gain or tax loss, unless the context manifestly otherwise requires.

1.11 "Book Value" of an asset means, as of any particular date, the value at which the asset is properly reflected on the books and records of the Company as of such date in accordance with Section 1.704-1(b)(2)(iv) of the Treasury Regulations. The initial Book Value of each asset shall be its cost, unless such asset was contributed to the Company by a Shareholder, in which case the initial Book Value shall be the fair market value for such asset as reasonably determined by the Board of Directors, and, in each case, such Book Value shall thereafter be adjusted for cost recovery deductions to which the Company is entitled for federal income tax purposes with respect thereto, in the amount that bears the same relationship to the Book Value of such asset as the cost recovery deduction computed for tax purposes bears to the adjusted tax basis of such assets. The Book Values of all Company assets shall be adjusted to equal their respective fair market values, as reasonably determined by the Board of Directors under appropriate circumstances, which circumstances may include but are not limited to the following: (a) the acquisition, by any new or existing Shareholder, of any interest issued after August 1, 1996 by the Company; (b) the distribution by the Company to a Shareholder of more than a de minimis amount of Company assets, including money, if, as a result of such distribution, such Shareholder's interest in the Company is reduced; and (c) the termination of the Company for federal income tax purposes pursuant to Section 708(b)(1)(B) of the Code.

1.12 "Business Combination" shall have the meaning set forth in Section 12.1 of this Agreement.

1.13 "By-laws" means the by-laws of the Company, as amended from time to time, governing various aspects of the operation of the Company and the rights and obligations of its Shareholders, Board of Directors, officers and agents. All provisions of the By-laws not inconsistent with law or this Agreement shall be valid and binding.

1.14 "Capital Account" shall have the meaning ascribed thereto in Section 3.3 of this Agreement.

1.15 "Capital Contributions" means the total amount of cash and other property contributed to the Company by the Shareholders.

1.16 "Capital Transactions" means (a) any Repayment, Sale, or other sale, exchange, taking by eminent domain, damage, destruction or other disposition of all or any part of the assets of the Company, other than tangible personal property disposed of in the ordinary course of business; or (b) any financing or refinancing of any Company indebtedness; provided, that the receipt by the Company of Capital Contributions shall not constitute Capital Transactions.

1.17 "Certificate" means this Agreement, in its function as a "certificate of formation" as provided for pursuant to the Act, as originally filed with the office of the Secretary of State of the State of Delaware, as amended, restated, supplemented or otherwise modified from time to time as herein provided.

1.18 "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any subsequent federal law of similar import, and, to the extent applicable, any Treasury Regulations promulgated thereunder.

1.19 "Common Shareholders" means the holders of Common Shares.

1.20 "Common Shares" shall have the meaning set forth in Section 3.1 of this Agreement.

1.21 "Company" means the limited liability company hereby established in accordance with this Agreement by the parties hereto, as such limited liability company may from time to time be constituted.

1.22 "Company Interest" means an equity interest in the Company, and, if the context so allows, the percentage of equity ownership interest in the Company represented by the Capital Account attributable to such equity interest as compared to all of the aggregate Capital Accounts of all Shareholders of the Company (as such percentage may be changed from time to time to reflect adjustments as provided for in this Agreement); it being understood and agreed that this term shall not be deemed to apply to any debt incurred by the Company (directly or indirectly), including but not limited to through custodial, trust or similar or other arrangements.

1.23 "Consent" means either the consent given by vote at a duly called and held meeting or the prior written consent, as the case may be, of a Person to do the act or thing for which the consent is solicited, or the act of granting such consent, as the context may require.

1.24 "Control Company Interest" shall have the meaning set forth in Section 13.1 of this Agreement.

1.25 "Depreciation" means, for each Fiscal Year, an amount equal to the depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such year or other period; provided, that if the Book Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of any such year or other period, Depreciation shall be an amount that bears the same relationship to the Book Value of such asset as the depreciation, amortization, or other cost recovery deduction computed for tax purposes with respect to such asset for the applicable period bears to the adjusted tax basis of such asset at the beginning of such period, or if such asset has a zero adjusted tax basis, Depreciation shall be an amount determined under any reasonable method selected by the Board of Directors.

1.26 "Determination Date" shall have the meaning set forth in Section 12.3 of this Agreement.

1.27 "Director" shall have the same meaning as "Manager."

1.28 "Dissolution Shareholder" means Shelter Development Holdings, Inc., for so long as such Person remains a Dissolution Shareholder under Section 6.4 of this Agreement, and shall also mean any other Person who agrees under Section 6.4 to be a Dissolution Shareholder.

1.29 "Entity" means any general partnership, limited partnership, corporation, joint venture, trust, limited liability company, limited liability partnership, business trust, cooperative, or association. An Entity may or may not be an Affiliate of the Company or of a Company Affiliate.

1.30 "Financing" means the financing transaction which SCATEF consummated on February 14, 1995 in which proceeds were raised through the offering of $67,700,000 in aggregate principal amount of Multifamily Mortgage Revenue Bond Receipts.

1.31 "Fiscal Year" means the fiscal year of the Company and shall be the same as its taxable year, which shall be the calendar year unless otherwise determined by the Board of Directors in accordance with the Code. Each Fiscal Year shall commence on the day immediately following the last day of the immediately preceding Fiscal Year.

1.32 "Five Year Tolling Period" shall have the meaning set forth in Section 12.2 of this Agreement.

1.33 "Future Shares" shall have the meaning set forth in Section 3.1 of this Agreement.

1.34 "General Partners" means the general partners of SCATEF.

1.35 "Initial Capital Contribution" means any Capital Contribution made in accordance with Section 3.2 hereof.

1.36 "Interested Company Interests" shall have the meaning set forth in Section 13.1 of this Agreement.

1.37 "Interested Party" shall have the meaning set forth in Section 12.1 of this Agreement.

1.38 "Managers" means those individuals serving on the Board of Directors of the Company, including successor or additional Managers duly elected in accordance with the terms of this Agreement.

1.39 "Market Value" shall have the meaning set forth in Section 12.1 of this Agreement.

1.40 "Members" means the Shareholders, together with all Persons who become Members as herein provided and who are listed as Members of the Company in the books and records of the Company, in such Persons' capacity as Members of the Company.

1.41 "Mortgage Loans" means the mortgage loans which have been assigned to the Company to secure the repayment of a Bond.

1.42 "Operating Agreement" means this Agreement, in its function as an "operating agreement" as provided for pursuant to the Act, as amended, restated, supplemented or otherwise modified from time to time as herein provided.

1.43 "Original Shareholders" means MME I Corporation, a Delaware corporation, and MME II Corporation, a Delaware corporation.

1.44 "Person" means any individual or Entity, and the heirs, executors, administrators, legal representatives, successors, and assigns of such Person where the context so admits.

1.45 "Profit" and "Loss" means, for each Fiscal Year or other period for which allocations to Shareholders are made, an amount equal to the Company's taxable income or loss for such year or period, determined in accordance with Section 703(a) of the Code (provided, that for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to Section 703(a)(1) of the Code shall be included in taxable income or loss), with the following adjustments:

(a) Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Profit or Loss pursuant to this provision shall be added to such taxable income or loss;

(b) Any expenditures of the Company described in Section 705(a)(2)(B) of the Code or treated as Code Section 705(a)(2)(B) expenditures pursuant to Section 1.704-1(b)(2)(iv)(i) of the Treasury Regulations, and not otherwise taken into account in computing Profit or Loss pursuant to this provision, shall be subtracted from such taxable income or loss;

(c) Book Gain or Book Loss from a Capital Transaction shall be taken into account in lieu of any tax gain or tax loss recognized by the Company by reason of such Capital Transaction; and

(d) In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year, computed as provided in this Agreement.

If the Company's taxable income or loss for such Fiscal Year or other period, as adjusted in the manner provided above, is a positive amount, such amount shall be the Company's Profit for such Fiscal Year or other period; and if a negative amount, such amount shall be the Company's Loss for such Fiscal Year or other period.

1.46 "Property" means the land and the buildings thereon upon which the Company holds a mortgage or other similar encumbrance at a particular time, and the Bonds held by the Company at a particular time.

1.47 "Relative" means, with respect to any Person, any parent, spouse, brother, sister, or natural or adopted lineal descendant or spouse of such descendant of such Person.

1.48 "Repayment" shall have the meaning set forth in Section 1.49 below.

1.49 "Sale" or "Repayment" means the sale or other disposition of a Property (a "Sale") or, in the absence of a Sale, the repayment of the principal and interest, if any, payable upon the redemption or remarketing of a Bond which was included within the Property (a "Repayment"); provided, however, that these terms shall not include the pledge of a Property in connection with the financing, refinancing or other leveraging of such Property or otherwise. The term "Sale" shall include (a) a foreclosure by a third party which is unaffiliated with the current operating partnership (or respective general partner) owning a Property, (b) a deed-in-lieu of foreclosure to a third party which is unaffiliated with the current operating partnership (or respective general partner) owning a Property, or (c) a sale or transfer of a Property to a third party which is unaffiliated with the current operating partnership (or respective general partner) owning a Property; and a "Sale" shall not be deemed to occur if the Company forecloses on a Property or if the Company directs a deed-in-lieu of foreclosure on a Property.

1.50 "SCATEF" means the SCA Tax Exempt Fund Limited Partnership, the entity that was the predecessor to the Company.

1.51 "Shareholders" means all persons who hold Shares, and shall have the same meaning as the word "Members."

1.52 "Shares" means Company Interests.

1.53 "Special Shareholder" means Shelter Development Holdings, Inc., for so long as such Person is subject to certain liabilities as set forth in Section

6.1(b) of this Agreement, and shall also mean any other Person who agrees under Article 6 to be a Special Shareholder.

1.54 "Specially Appointed Director(s)" shall have the meaning ascribed thereto in Section 6.1(d) of this Agreement.

1.55 "Subsidiary" shall have the meaning set forth in Section 12.1 of this Agreement.

1.56 "Tax Matters Partner" shall have the meaning ascribed thereto in Section 3.5 of this Agreement.

1.57 "Transfer" (or "Transferred") means to give, sell, assign, encumber, pledge, hypothecate, devise, bequeath, or otherwise dispose of, encumber, transfer, or permit to be transferred, during life or at death. The word "Transfer," when used as a noun, shall mean any Transfer transaction.

1.58 "Transferee" means any Person to whom Shares are Transferred for any reason or by any means.

1.59 "Treasury Regulations" means the federal income tax regulations, including any temporary or proposed regulations, promulgated under the Code, as such Treasury Regulations may be amended from time to time (it being understood that all references herein to specific sections of the Treasury Regulations shall be deemed also to refer to any corresponding provisions of succeeding Treasury Regulations).

1.60 "Valuation Date" shall have the meaning set forth in Section 12.3 of this Agreement.

1.61 "Working Capital Reserves" means funds held in reserves which are maintained as working capital for the Company and available for any contingencies relating to the ownership of the Property and the operation of the Company. Amounts held in the Working Capital Reserves may at any time, in the discretion of the Board of Directors, be added to the respective Allocable Portfolio Cash Flows or to liquidation proceeds allocable to the respective Shares (depending upon the characterization of such amounts when received by the Company), but may not be otherwise removed from the respective Working Capital Reserve.

ARTICLE 2

Continuation, Purpose and Term

2.1 Continuation. The parties hereto hereby agree to continue the limited liability company known as Municipal Mortgage & Equity, LLC, as a limited liability company under the provisions of the Act.

2.2 Company Name. The name of the Company is "Municipal Mortgage & Equity, LLC". The business of the Company shall be conducted under such name or such other names as the Board of Directors or the Shareholders may from time to time determine on and pursuant to the terms of this Agreement.

2.3 The Certificate. The Shareholders hereby agree to execute, file and record all such certificates and documents, including amendments to the Certificate, and to do such other acts as may be appropriate to comply with all requirements for the formation, continuation, and operation of a limited liability company, the ownership of property, and the conduct of business under the laws of the State of Delaware and any other jurisdiction in which the Company may own property or conduct business.

2.4 Principal Business Office. The principal business office of the Company shall be located at 218 North Charles Street, Suite 500, Baltimore, Maryland 21201, or at such other location as may hereafter be determined by the Board of Directors. The principal business office, as well as the registered office and the registered agent, of the Company may be changed by the Board of Directors from time to time in accordance with the then applicable provisions of the Act and any other applicable laws, as well as the terms and conditions of this Agreement.

2.5 Term of Company. The term of the Company shall continue until it is wound up and dissolved pursuant to the provisions of Article 10 hereof.

2.6 Purposes. The purposes of the Company are (a) to invest in or engage in activities related to investment in Bonds and in real estate, including but not limited to loan servicing and loan origination (whether in connection with loans to the Company or to others), and to generate returns from such investments; this may include investing in entities which invest in bonds and in real estate assets; provided, however, that the investment criteria shall be established by the Board of Directors from time to time in its sole discretion subject to the requirement that such criteria be consistent with the purposes of the Company; (b) to engage in any other activities relating to, and compatible with, the purposes set forth above; (c) to acquire, own and dispose of general and limited partnership interests, membership interests, and stock or other equity interests in Entities, and to exercise all rights and powers granted to the owner of any such interests; (d) to take such other actions, or do such other things, as are necessary or appropriate (in the sole discretion of the Board of Directors) to carry out the provisions of this Agreement; and (e) to invest in any type of investment and to engage in any other lawful act or activity for which limited liability companies may be organized under the Act, and by such statement all lawful acts and activities shall be within the purposes of the Company, except for express limitations, if any.

2.7 Powers. In furtherance of its purposes, but subject to all of the provisions of this Agreement, the Company shall have the power and is hereby authorized to (a) invest (at any time during the term of the Company) in (i) mortgage revenue bonds or portions of or interests in (including junior positions) mortgage revenue bonds financing multifamily properties, senior living facilities, manufactured housing communities, or congregate care facilities, beneficial ownership certificates or any other securities of other funds or investments with similar underlying investment objectives, (ii) multifamily real estate, including senior living facilities, manufactured housing communities, and congregate care facilities, and (iii) entities which engage in any activities described in clauses (i) or (ii) of this sentence; invest (at any time during the term of the Company) in other assets which are designed to accomplish any of the foregoing investment purposes or in any manner consistent with the Company's then-existing investment criteria and objectives; and to reinvest the proceeds of any sales by the Company of Company assets, in any permitted investments; (b) act as a general or limited partner, member, joint venturer, manager or shareholder of any Entity (including but not limited to an operating partnership), and to exercise all of the powers, duties, rights and responsibilities associated therewith; (c) take any and all actions necessary, convenient or appropriate as the holder of any such interests or positions; (d) operate, purchase, maintain, finance, improve, own, sell, convey, assign, mortgage, lease, demolish or otherwise dispose of any real or personal property that may be necessary, convenient or incidental to the accomplishment of the purposes of the Company; (e) borrow money and issue evidences of indebtedness in furtherance of any or all of the purposes of the Company, and secure the same by mortgage, pledge or other lien on any assets of the Company; (f) invest any funds of the Company pending distribution or payment of the same pursuant to the provisions of this Agreement; (g) prepay in whole or in part, refinance, recast, increase, modify or extend any indebtedness of the Company and, in connection therewith, execute any extensions, renewals or modifications

of any mortgage or security agreement securing such indebtedness; (h) enter into, perform and carry out contracts of any kind, including, without limitation, contracts with any Person affiliated with any of the Shareholders, necessary to, in connection with or incidental to the accomplishment of the purposes of the Company; (i) establish reserves for capital expenditures, working capital, debt service, taxes, assessments, insurance premiums, repairs, improvements, depreciation, depletion, obsolescence and general maintenance of buildings and other property out of the rents, profits or other income received; (j) employ or otherwise engage employees, managers, contractors, advisors and consultants, and pay reasonable compensation for such services, and enter into employee benefit plans of any type; (k) enter into partnerships or other ventures with other Persons in furtherance of the purposes of the Company; (l) purchase or repurchase Shares from any Person for such consideration as the Board of Directors may determine in its reasonable discretion (whether more or less than the original issuance price of such Share or the then trading price of such Share); (m) enter into rights plans or other plans relating to Shares, options or bonuses, and to issue Shares, options or warrants thereunder (or other derivatives relating thereto) for any consideration (even if such consideration is less than the market value of such Shares); and (n) do such other things and engage in such other activities as may be necessary, convenient or advisable with respect to the conduct of the business of the Company, and have and exercise all of the powers and rights conferred upon limited liability companies formed pursuant to the Act.

2.8 Effectiveness of this Agreement. This Agreement shall govern the operations of the Company and the rights and restrictions applicable to the Shareholders, to the extent permitted by law. Pursuant to Section 18-101(7)(a)(2) of the Act, all Persons who become holders of Shares in the Company shall be bound by the provisions of this Agreement and shall be deemed to be parties hereto, whether or not such Persons execute a counterpart of this Agreement. The payment for any Shares acquired by any Person, or the action of becoming an assignee or Transferee of such Shares, shall be deemed to constitute a request that the records of the Company reflect such admission, assignment or Transfer, and shall be deemed to be sufficient acts to comply with the requirements of Section 18-101(7)(a)(2) of the Act and to so cause that Person to become a Shareholder and to bind that Person to the terms and conditions of this Agreement (and to entitle that Person to the rights of a Shareholder hereunder), without the requirement for execution of this Agreement by such Person.

ARTICLE 3

Classes of Shares; Admission of Shareholders; Capitalization

3.1 Classes of Shares.

(a) The Company shall have the authority to issue the following classes and series of Shares:

(i) shares which are designated "Common Shares"; and

(ii) one or more other classes or series of Shares, as to which the Board of Directors shall have the exclusive authority, by resolution or resolutions providing for the issuance of Shares or of a particular class or series thereof, to fix and determine the voting powers, full or limited or no voting power, and such designations, preferences, and relative, participating, optional or other special rights, and qualifications, limitations, or restrictions thereof, as may be desired by the Board of Directors from time to time, to the fullest extent now or hereafter permitted by the laws of the State of Delaware (collectively, all such other classes and series to be referred to as the "Future

Shares"). Nothing in this Section 3.1(a)(ii) shall be deemed to restrict the ability of the Company to incur secured or unsecured debt (directly or indirectly), including but not limited to through custodial, trust or similar or other arrangements.

(b) Each Common Share shall (i) have no stated par value per Share, and (ii) have the rights and be governed by the provisions set forth in this Agreement; and none of such shares shall have any preemptive rights, or give the holders thereof any rights to convert into any other securities of the Company, or give the holders thereof any cumulative voting rights, except as specifically set forth herein.

(c) The Board of Directors may cause the Company to issue such numbers of Common Shares and Future Shares from time to time as the Board of Directors may determine in its sole discretion, and the number of such shares is not limited.

(d) If the Board of Directors determines that it is necessary or desirable to amend this Agreement or to make any filings under the Act or otherwise in order to reference the existence or creation of a class or series of Future Shares, the Board of Directors may cause such amendments and filings to be made, which filings might take the form of amendments to the Company's Certificate; provided, however, that, unless specifically required by the Act or this Agreement, no approval or Consent of any Shareholders shall be required in connection with the making of any such filing, instrument or amendment.

(e) No Future Share shall have any preemptive rights or give the holder thereof any rights to convert into any other securities of the Company, or give any holders thereof any cumulative voting rights, unless such rights are specifically provided for in the Board of Directors' resolution creating the class of which such Future Share is a part.

(f) The Board of Directors, without any Consent of any Shareholders being required, may effect a split or reverse split of Shares of any series or class, by adopting a resolution therefor. If the Board of Directors determines that it is necessary or desirable to make any filings under the Act or otherwise in order to reference the existence of such a split or reverse split, the Board of Directors may cause such filings to be made, which filings might take the form of amendments to the Company's Certificate; provided, however, that, unless specifically required by the Act or this Agreement, no approval or Consent of any Shareholders shall be required in connection with the making of any such filing or amendment.

(g) Notwithstanding any other provisions of this Agreement, the Board of Directors may, without the Consent of Shareholders, amend this Agreement to the extent required to allow the Board of Directors to exercise the powers granted to it by this Section 3.1.

3.2 Additional Provisions Relating to Additional Shareholders. In the event that the Board of Directors determines that additional funds are required by the Company for any Company purpose, or that the Company should for any reason seek to raise additional capital, the Board may cause the Company to sell Future Shares for a price equal to what the Board of Directors determines to be the fair value of such Shares, in exchange for cash, other property, services or any other lawful consideration to be received by the Company in consideration of such Shares (to be valued by the Board of Directors in its discretion), or may cause the Company to obtain funds as a loan from any third party upon such terms and conditions

as the Board of Directors deems appropriate, or any combination thereof from time to time. The Initial Capital Contribution of any such additional Shareholders shall be specified by the Board of Directors at the time of admission of such additional Shareholder.

3.3 Capital Accounts. A separate capital account (a "Capital Account") shall be established and maintained for each Shareholder, including any Transferee or additional Shareholder who shall hereafter acquire a Company Interest, in accordance with the following provisions:

(a) To each Shareholder's Capital Account there shall be credited the amount of cash and fair market value of the property actually contributed to the Company by such Shareholder pursuant to Section 3.2 hereof, such Shareholder's allocable share of Profit, and the amount of any Company liabilities that are assumed by such Shareholder or that are secured by any Company property distributed to such Shareholder.

(b) To each Shareholder's Capital Account there shall be debited the amount of cash and the fair market value of any Company property distributed to such Shareholder pursuant to any provision of this Agreement, such Shareholder's allocable share of Loss, and the amount of any liabilities of such Shareholder that are assumed by the Company or that are secured by any property contributed by such Shareholder to the Company.

(c) If any asset of the Company is distributed in kind, the Company shall be deemed to have realized Profit or Loss thereon in the same manner as if the Company had sold such asset for an amount equal to the greater of (i) the fair market value of such asset, or (ii) the fair market value of any debts to which such asset is then subject, in each case as determined by the Board of Directors. If at any time after the date of this Agreement, the Book Value of any Company asset is adjusted pursuant to the last sentence of the definition of Book Value set forth in Section 1 hereof, the Capital Accounts of all Shareholders shall be adjusted simultaneously to reflect the aggregate net adjustments, as if the Company recognized Profit or Loss equal to the respective amounts of such aggregate net adjustments.

(d) The provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Section 1.704-1(b)(2)(iv) of the Treasury Regulations, and shall be interpreted and applied in a manner consistent with such Treasury Regulations.

(e) A Shareholder shall not be entitled to withdraw any part of its Capital Account or to receive any distributions from the Company, except as provided in Article 5 hereof, nor shall a Shareholder be entitled to make any loan or Capital Contribution to the Company other than as expressly provided herein. No loan made to the Company by any Shareholder shall constitute a capital contribution to the Company for any purpose.

(f) Except as required by the Act, no Shareholder shall have any liability for the return of the Capital Contribution of any other Shareholder. A Shareholder who has more than one interest in the Company may have a separate Capital Account for each different class of interest owned.

3.4 Transfer of Capital Accounts. The original Capital Account established for each Transferee shall be in the same amount as the Capital Account of the Shareholder which such Transferee succeeds, at the time such

Transferee is admitted to the Company. The Capital Account of any Shareholder whose Company Interest shall be increased by means of the Transfer to it of all or part of the Company Interest of another Shareholder shall be appropriately adjusted to reflect such Transfer. Any reference in this Agreement to a Capital Contribution of, or distribution to, a then-Shareholder shall include a Capital Contribution or distribution previously made by or to any prior Shareholder on account of the Company Interest of such then-Shareholder.

3.5 Tax Matters Partner.

(a) Shelter Development Holdings, Inc. or its assignee shall be the Company's "tax matters partner" (as such term is defined in Section 6231(a)(7) of the Code) (the "Tax Matters Partner"), for purposes of Section 6231 of the Code, with all of the powers that accompany such status (except as otherwise provided in this Agreement). Promptly following the written request of the Tax Matters Partner, the Company shall, to the fullest extent permitted by law, reimburse and indemnify the Tax Matters Partner for all reasonable expenses, including reasonable legal and accounting fees, claims, liabilities, losses and damages incurred by the Tax Matters Partner in connection with any administrative or judicial proceeding with respect to the tax liability of the Shareholders. The provisions of this Section 3.7 shall survive the termination of the Company and shall remain binding on the Shareholders for as long as a period of time as is necessary to resolve with the Internal Revenue Service any and all matters regarding the federal income taxation of the Company or the Shareholders.

(b) Notwithstanding Section 3.5(a) hereof, the Tax Matters Partner shall have no fiduciary duty whatsoever to any other Shareholder, and shall be treated in exactly the same manner as any other Shareholder other than as specifically provided in Section 3.5(a) hereof.

ARTICLE 4

Allocations

4.1 General Rules Concerning Allocations. Within 45 days after the end of each calendar month, the Company shall conduct an interim closing of the books as of the end of the last day of that calendar month. On the basis of the closing of the books for each calendar month, the Company shall determine the amount of Profit and Loss attributable to that calendar month. Profits and Losses shall be determined in accordance with the accounting methods followed by the Company for federal income tax purposes.

4.2 Allocations of Profits and Losses. All allocations to the Shareholders of items included within the Company's Profits and Losses attributable to each calendar month shall be allocated solely among the Shareholders recognized as Shareholders as of the last day of that calendar month, as follows:

(a) The Company's Profit or Loss for the applicable period shall be allocated among the Common Shareholders in proportion to their relative ownership of Common Shares.

(b) The Tax Matters Partner is authorized to make reasonable determinations regarding the allocation of Profit and Loss under this Section 4.2, including determinations relating to the calculation of Profit or Loss, and such other items of the Company's income, gain,

loss, deduction and credit as may be appropriate to carry out the intent of this Section 4.2.

4.3 Special Allocations. Notwithstanding any other provision of this Agreement, to the extent an allocation of Profit or Loss or any item thereof to any Shareholder pursuant to Sections 4.1 or 4.2 of this Agreement would be in violation of the requirements of the Treasury Regulations under Section 704(b) of the Code, the Tax Matters Partner shall comply with the requirements of such Treasury Regulations and adjust such allocations to comply with such requirements in a manner that will, in the reasonable judgment of the Tax Matters Partner, have the least effect on the amounts to be allocated and distributed under this Agreement. In the event a Shareholder unexpectedly receives any adjustment, allocation or distribution described in Treasury Regulation Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6) that causes or increases a negative balance in a Shareholder's Capital Account, items of Profit shall be specially allocated to such Shareholder so as to eliminate such negative balance as quickly as possible. The Shareholders agree that if this Section 4.3 becomes applicable, the Tax Matters Partner is authorized to review and adjust the allocations made pursuant to Sections 4.1 or 4.2 of this Agreement.

4.4 Additional Allocations.

(a) If there is a net decrease in "partnership minimum gain" (within the meaning of Treasury Regulation Section 1.704-2(d)) during a taxable year, a Shareholder shall be allocated, before any other allocation of the Company's items for such taxable year (and if necessary, subsequent years), items of the Company's income and gain in the amount equal to the Shareholder's share of such net decrease in partnership minimum gain (within the meaning of Treasury Regulations Section 1.704-2(g)).

(b) The Tax Matters Partner, in order to preserve uniformity of Shares within a class, may, in its sole discretion, make a special allocation of items of income, gain, loss or deduction but only if such allocations would not have a material adverse effect on the Shareholders and if they are consistent with the principles of Section 704 of the Code.

(c) If, and to the extent that any Shareholder is deemed to recognize income as a result of any transaction between such Shareholder and the Company pursuant to Sections 1272-1274, Section 7872, Section 483 or Section 482 of the Code, or any similar provision now or hereafter in effect, any corresponding loss or deduction of the Company shall be allocated to the Shareholder who was charged with such income.

(d) Adjustments to the Capital Accounts of Shareholders with respect to an adjustment to the tax basis of any asset of the Company pursuant to Section 734(b) or Section 743(b) of the Code shall be made in accordance with the provisions of Treasury Regulation Section 1.704-1(b)(2)(m).

4.5 Tax Allocations.

(a) For federal income tax purposes, except as otherwise provided in this Section 4.5, each item of income, gain, loss and deduction of the Company shall be allocated among the Shareholders in the same proportion as the corresponding items are allocated pursuant to Sections 4.3 and Section 4.4 hereof.

(b) In the event that the Book Value of any asset contributed to and held by the Company differs from its basis for federal income tax purposes ("Tax Basis"), allocations of income, gain, loss or deduction with respect to such asset shall, solely for tax purposes, be allocated among the Shareholders so as to take account of any variation between Book Value and Tax Basis in accordance with the provisions of Section 704(c) of the Code and Treasury Regulations thereunder. The Tax Matters Partner may elect any reasonable method or methods for making such allocations.

(c) If the Book Value of any asset of the Company is adjusted pursuant to Section 1.11 hereof, subsequent allocations of income, gain, loss and deductions with respect to such asset shall take into account any variation between Book Value and Tax Basis in accordance with the provisions of Section 704(c) of the Code and Treasury Regulations thereunder.

(d) The Tax Matters Partner shall have the sole discretion to make special allocations of items of income, gain, loss and deductions that are consistent with the principles of Section 704(c) of the Code and to amend the provisions of this Agreement (without Shareholder action, notwithstanding Section 14.4 of this Agreement), as appropriate, to reflect the proposal or promulgation of Treasury Regulations under Subchapter K of the Code. The Tax Matters Partner may adopt and employ such methods and procedures for (A) the maintenance of capital accounts for book and tax purposes, (B) the determination and allocation of adjustments under Sections 704(c), 734 and 743 of the Code, (C) the determination and allocation of taxable income, tax loss and items thereof under this Agreement and pursuant to the Code, (D) the determination of the identities and tax classification of Shareholders, (E) the provision of tax information and reports to the Shareholders, (F) the adoption of reasonable conventions and methods for the valuation of assets and the determination of tax basis, (G) the allocation of asset values and tax basis, (H) conventions for the determination of depreciation, cost recovery and amortization deductions and the adoption and maintenance of accounting methods, (I) the recognition of the transfer of Shares, and (J) compliance and other tax-related requirements, including without limitation, the use of computer software, to use filing and reporting procedures similar to those employed by publicly-traded partnerships and limited liability companies, as it determines in its sole discretion are necessary and appropriate to execute the provisions of this Agreement and to comply with federal and state tax law, and to achieve uniformity of Shares. The Tax Matters Partner shall be indemnified and held harmless by the Company for any expenses, penalties or other liabilities arising as a result of decisions made in good faith on any of the matters referred to in the preceding sentence. If the Tax Matters Partner determines, based on advice of counsel, that no reasonable allowable convention or other method is available to preserve the uniformity of Shares within a class, or the Tax Matters Partner in its discretion so elects, Shares may be separately identified as distinct classes to reflect differences in tax consequences.

ARTICLE 5

Distributions, Liquidations and Priority

5.1 Distributions. The Board of Directors may from time to time authorize the Company to pay distributions to holders of Common Shares from cash of the Company which the Board of Directors determines is available

for distribution to the holders of Common Shares after taking into account amounts determined by the Board of Directors to be necessary or advisable to meet actual or anticipated expenses or liabilities of the Company or to create reasonable reserves thereof.

5.2 Liquidation, Dissolution or Winding-Up.

(a) Liquidation. Upon the dissolution, liquidation or winding-up of the Company, after payment of all of the Company's creditors, each Shareholder shall receive an amount in cash or in kind equal to the positive Capital Account balance of such Shareholder, as determined after taking into account all Capital Account adjustments for the taxable year of the dissolution, liquidation or winding-up of the Company other than the distribution under this Section 5.2(a).

(b) A consolidation or merger of the Company with or into any other Entity, or a sale, lease or exchange of any or all of the assets of the Company in consideration for the issuance of equity securities of another Entity, shall not be deemed to be a liquidation, dissolution or winding up of the Company.

5.3 Priority. Notwithstanding any other provision of this Agreement, it is specifically acknowledged and agreed by each Shareholder that the Company's failure to pay any amounts to such Shareholder, whether as a dividend, redemption payment or other distribution, even if such payment is specifically required hereunder, shall not give such Shareholder creditor status with regard to such unpaid amount; but rather, such Shareholder shall be treated only as a shareholder of whatever class such person is a Shareholder, and not as a creditor, of the Company. This Section 5.3 is, as permitted by Section 18-606 of the Act, intended to override the provisions of Section 18-606 of the Act relating to a member's status and remedies as a creditor, to the extent that such provisions would be applicable in the absence of this Section 5.3.

5.4 Payments to Shareholders for Services. Any payments by the Company to a Shareholder for services rendered to or on behalf of the Company shall be treated as guaranteed payments for services under Section 707(c) of the Code.

ARTICLE 6

Shareholders

6.1 Limited Liability.

(a) Except as otherwise provided by the Act or in Section 6.1(b) hereof, the debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the Company, and the Shareholders shall not be obligated personally for any such debt, obligation or liability of the Company solely by reason of being a Shareholder of the Company. The Shareholders shall not be required to lend any funds to the Company. Each of the Shareholders shall only be liable to make payment of his, her or its respective contributions as and when due hereunder and other payments as expressly provided in this Agreement. If and to the extent a Shareholder's contribution shall be fully paid, such Shareholder shall not, except as required by the express provisions of the Act regarding repayment of sums wrongfully distributed to Shareholders, be required to make any further contributions.

(b) Notwithstanding Section 6.1(a) hereof, the Special Shareholder, for so long as such Person holds Shares (unless such Person duly resigns as a Special Shareholder in accordance with this Section 6.1 or Section 6.3 of this Agreement), shall have personal liability to creditors of the Company (and any such creditor may seek personal satisfaction from the Special Shareholder), to the extent that the assets of the Company (including without limitation the proceeds of any and all available insurance) are insufficient to satisfy such creditor's claim (and, if there be more than one Special Shareholder at any time, then such Special Shareholders shall be jointly liable for all liabilities set forth in this Section 6.1(b)); provided, however, that, notwithstanding Section 6.3 of this Agreement, any Special Shareholder may resign its status as a Special Shareholder after (i) the consummation of a transaction in which a Person acquires more than 10% of the then-outstanding Shares of any class or series where such acquisition is not consented to by the Special Shareholder, or (ii) any Shareholder or group of Shareholders controls a majority of the seats on the Board of Directors in any case where such control is not consented to by the Special Shareholder. In the event of such a resignation, (x) the Special Shareholder's personal liability under the first sentence of this Section 6.1(b) shall, to the fullest extent permissible under law, terminate immediately, automatically, and in full, although such Person may continue to hold Shares, and (y) the Company shall pay to the Special Shareholder, promptly after such resignation, the sum of $1,000,000 in direct consideration for the Special Shareholder's prior service to the Company.

(c) Notwithstanding Section 6.1(b) hereof, the Special Shareholder shall have no fiduciary duty whatsoever to any other Shareholder, and shall be treated in exactly the same manner as any other Shareholder other than as specifically provided in Section 6.1(b) hereof. Without limiting the foregoing, it is agreed that (i) the Special Shareholder has no responsibility to treat other Shareholders as creditors of the Company toward which the Special Shareholder would bear any responsibility or have any liability whatsoever (including without limitation in the event of any Company failure to pay any amounts to such Shareholders, whether as a dividend, redemption payment or other distribution, even if such amounts are specifically required hereunder to be paid), and (ii) the Special Shareholder is entitled to act solely in its own self interests without regard to the interests of other Shareholders.

(d) Notwithstanding any other provision of this Agreement, the Dissolution Shareholder shall have the right to serve as one (or, if there are at any time more than ten Directors on the Board of Directors, two) of the Company's Directors, through such representatives as are appointed by the Dissolution Shareholder (such designated persons to be referred to as the "Specially Appointed Director(s)") at all times and from time to time, and shall have the sole right to remove such representative(s) as Directors; all as provided in Section 7.2(b) of this Agreement.

6.2 Voting Rights of Shareholders; Authority of Board of Directors.

(a) The Board of Directors shall make all decisions made for and on behalf of the Company, such decisions shall be binding upon the Company, and the Shareholders shall have no voting rights; except, however, as expressly set forth herein. The Board of Directors, in its sole discretion, has full, complete and exclusive right, power and

authority in the management and control of the Company business to do any and all things necessary to effectuate the purpose of the Company; except, however, as expressly set forth herein. The members of the Board of Directors shall devote such time as is necessary to the affairs of the Company, and shall receive such compensation from the Company and such reimbursement for expenses as is permitted by the Company's By-laws as then in effect. No Person dealing with the Board of Directors shall be required to determine its authority to make any undertaking on behalf of the Company or to determine any facts or circumstances bearing upon the existence of such authority.

(b) Notwithstanding Section 6.2(a) above, but subject to Sections 10.1(a)(i) and 10.1(a)(ii), Article 12 and Article 13 hereof, in the event of a proposed sale or other disposition of all or substantially all of the assets of the Company at any one time, merger or consolidation of the Company (where the Company is not the surviving Entity), dissolution of the Company, or issuance of any restricted Share or deferred Share awards under a Company incentive share plan, any such proposed occurrence, in order to be approved must, (i) with respect to the merger or consolidation of the Company (where the Company is not the surviving Entity), first receive the approval of the Board of Directors, (ii) with respect to a sale or other disposition of all or substantially all of the assets of the Company at any one time, or dissolution of the Company, any such proposed action must first receive the approval of the Board of Directors, and (iii) receive the vote, at a duly held meeting, of more than 50% in interest of the total then issued and outstanding Shares (or, in the case of a written Consent without a meeting, more than 50% in interest of the total then issued and outstanding Shares), voting as one class (and not as separate classes, notwithstanding the fact that there may be members of more than one class voting) or such greater percentage as is then required under the Act.

(c) Notwithstanding Section 6.2(a) above, but subject to Sections 6.1(d), 7.2(a) and 7.2(b) and Articles 12 and 13 hereof, the vote, at a duly held meeting, of more than 50% in interest of the total then issued and outstanding Shares (or, in the case of a written Consent without a meeting, more than 50% in interest of the total then issued and outstanding Shares), voting as one class (and not as separate classes, notwithstanding the fact that there may be members of more than one class voting), shall be able to remove any Director (other than a Specially Appointed Director) and elect a replacement therefor. If the Shareholders vote to remove a Director pursuant to this Section 6.2(c), they shall provide the removed Director with notice thereof, which notice shall set forth the date upon which such removal is to become effective.

(d) Except as otherwise provided in this Agreement or in any share plan or share incentive plan adopted by the Company, the holders of Common Shares have sole Shareholder authority;

(i) to vote on such matters as may be brought before the Shareholders from time to time (on issues other than those as to which this Agreement specifically provides for voting rights of Shareholders in addition to or instead of holders of Common Shares);

(ii) to elect Directors, and shall do so on an annual basis;

and in all such votes on which the holders of Common Shares have sole Shareholder voting authority, in order for the holders of Common Shares to act to approve a matter on which they are voting, such

matter must receive the vote of more than 50% in interest of the Common Shares which are voted at a meeting at which a quorum of Common Shares is present (or, in the case of a written Consent without a meeting, must receive the written Consent of more than 50% in interest of the aggregate Common Shares), voting as one class (and not as separate classes, notwithstanding the fact that there may be members of more than one class voting) (or such greater percentage as is then required under the Act or under the express terms of this Agreement). For purposes of the foregoing sentence, the term "quorum" means more than 50% of the then issued and outstanding Common Shares, except as provided in any share plan or share incentive plan adopted by the Company.

The annual meeting of the holders of Common Shares of the Company for the election of Directors and for the transaction of such other business as properly may come before such meeting shall be held in accordance with the By-laws. Subject to the provisions of Article 13 relating to meetings of Shareholders and related subjects, the By-laws shall govern matters relating to, among other things, annual and special meetings, notice, waiver of notice, adjournment, proxies, written consents, procedures, and telephonic meetings, to the extent not inconsistent with this Agreement.

(e) Notwithstanding any other provision of this Agreement, Shareholders have voting rights with respect to a particular matter (to the extent provided herein with regard to categories of Shareholders permitted to vote on particular matters, and otherwise) only after such matter has first been approved by the Board of Directors, except with regard to (i) the removal of a Director (and the election of a replacement therefor in connection therewith) as provided in this Agreement, (ii) the amendment of this Agreement, (iii) the sale or other disposition of all or substantially all of the assets of the Company at any one time, (iv) the dissolution of the Company, and (v) any matter as to which any share plan or share incentive plan adopted by the Company provides otherwise.

(f) For purposes of this Agreement, in order for a meeting of Shareholders to be considered duly held with regard to a particular question, a quorum of more than 50% in interest of the Shares which are entitled to vote at such meeting on the particular question must be present (in person or by proxy).

6.3 Transfers of Special Shareholder Interests. The restrictions, limitations and other provisions of this Section 6.3 shall in no manner limit or restrict the right of a Special Shareholder to resign its status as a Special Shareholder to the extent permitted under Section 6.1(b) of this Agreement; and, once such Special Shareholder properly resigns pursuant thereto, the transfer restrictions set forth in this Section 6.3 as they relate to such Special Shareholder shall automatically and immediately terminate. Subject to the foregoing sentence, it is agreed that:

(a) No Special Shareholder (a "Special Transferor") may make any Transfer of any of its Shares to a Transferee (a "Special Transferee") unless each of the following requirements is met:

(i) At all times during the existence of the Company, including upon consummation of such Transfer, one or more Special Shareholders must have, in the aggregate, at least a number of Shares which will result in the allocation to the Special Shareholder(s), in the aggregate, of the minimum percentage interest in the Company which will permit the Company to retain

its tax status as an association taxable as a partnership rather than as a corporation, in the opinion of counsel to the Company; and

(ii) Before any such Transfer can be made, the Company must be furnished with an opinion of counsel (which may or may not be the same counsel as is referenced in subparagraph (i) above) to the effect that the Transfer in question will not adversely affect the Company's tax status as an association taxable as a partnership rather than as a corporation.

(b) No Transfer to a Special Transferee shall be recognized by the Company unless the Board of Directors of the Company receives documentation satisfactory to it that the requirements of this Section 6.3 have been met.

(c) If the Special Transferor transfers all of its Shares in such Transfer, in accordance with the restrictions and requirements of Sections 6.3(a) and 6.3(b) of this Agreement, then such Special Transferor shall thereafter no longer be a Special Shareholder. If the Special Transferor transfers fewer than all of its Shares in such Transfer, then:

(i) if such Special Transferor makes no provision for the termination of its status as a Special Shareholder in accordance with clause (ii) immediately below, such Special Transferor shall continue to be a Special Shareholder; and

(ii) if the Special Transferee agrees in writing to be a Special Shareholder and to be subject to the liabilities of a Special Shareholder as provided in this Agreement, then, if all of the requirements and limitations set forth in Section 6.3(a) of this Agreement are complied with, the Special Transferor may terminate its status as a Special Shareholder upon notice thereof to the Company; provided, however, that no such resignation shall be recognized by the Company unless the Board of Directors of the Company receives documentation satisfactory to it that the requirements of this Section 6.3(c) have been met.

6.4 Transfers of Dissolution Shareholder Interests.

(a) No Dissolution Shareholder (a "Dissolution Transferor") may make any Transfer of any of its Shares to a Transferee (a "Dissolution Transferee") unless each of the following requirements is met:

(i) At all times during the existence of the Company, including upon consummation of such Transfer, one or more Dissolution Shareholders must have, in the aggregate, at least a number of Shares which will result in the allocation to the Dissolution Shareholder, in the aggregate, of the minimum percentage interest in the Company which will permit the Company to retain its tax status as an association taxable as a partnership rather than as a corporation, in the opinion of counsel to the Company; and

(ii) Before any such Transfer can be made, the Company must be furnished with an opinion of counsel (which may or may not be the same counsel as is referenced in subparagraph (i) above) to the effect that the Transfer in question will not adversely affect the Company's tax status as an association taxable as a partnership rather than as a corporation.

(b) No Transfer to a Dissolution Transferee shall be recognized by the Company unless the Board of Directors of the Company receives documentation satisfactory to it that Section 6.4(a)'s requirements have been met.

(c) If the Dissolution Transferor transfers all of its Shares in such Transfer, in accordance with the restrictions and requirements of Sections 6.4(a) and 6.4(b) of this Agreement, then such Dissolution Transferor shall thereafter no longer be a Dissolution Shareholder. If the Dissolution Transferor transfers fewer than all of its Shares in such Transfer, then:

(i) if such Dissolution Transferor makes no provision for the termination of its status as a Dissolution Shareholder in accordance with clause (ii) immediately below, such Dissolution Transferor shall continue to be a Dissolution Shareholder; and

(ii) if the Dissolution Transferee agrees in writing to be a Dissolution Shareholder, then, if all of the requirements and limitations set forth in Section 6.4(a) of this Agreement are complied with, the Dissolution Transferor may terminate its status as a Dissolution Shareholder upon notice thereof to the Company; provided, however, that no such resignation shall be recognized by the Company unless the Board of Directors of the Company receives documentation satisfactory to it that this Section 6.4(c)'s requirements have been met.

ARTICLE 7

Directors and Officers

7.1 General Powers of Directors.

(a) Except as may otherwise be provided by the Act or by this Agreement, the property, affairs and business of the Company shall be managed by or under the direction of the Board of Directors, the Board of Directors may exercise all the powers of the Company (including but not limited to deciding whether to make various tax elections), and the Shareholders shall have no right to act on behalf of or bind the Company. The Directors shall act only as a Board, and the individual Directors shall have no power as such. Subject to the provisions of this Agreement and the By-laws with regard to Board of Directors actions that can be taken without a quorum, the approval of a matter by a majority of the Directors present at a meeting at which a quorum is present shall constitute approval by the Board of Directors (or, in the case of a written consent without a meeting, the approval of a matter by all of the Directors shall constitute approval by the Board of Directors).

(b) Unless expressly provided otherwise under this Agreement, the Board of Directors shall have the exclusive authority to make all determinations under this Agreement and under the By-laws.

(c) No contract or transaction among the Company and one or more of its Affiliates, Directors or officers, or among the Company and any other Entity in which one or more of the Company's Affiliates, Directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the Director or officer is present at or participates in the

meeting of the Board of Directors or of a committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if:

(i) The material facts as to such Affiliate's, Director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested Directors, even though the disinterested Directors be less than a quorum;

(ii) The material facts as to such Affiliate's, Director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the Shareholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by more than 50% in interest of the Common Shares which are present and entitled to vote at a meeting at which a quorum is present (or, in the case of a written Consent without a meeting, more than 50% in interest of the aggregate Common Shares), voting as one class (and not as separate classes, notwithstanding the fact that there may be members of more than one class voting), who are not Affiliates of any of the interested Persons involved in such transaction; or

(iii) The contract or transaction is fair as to the Company.

Common or interested Directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

Notwithstanding the foregoing provisions of this Section 7.1(c), the Company shall enter into or renew no agreement pursuant to which any Affiliate of any Director would provide management services for any Property, unless such agreement is approved by a majority of the Directors who (a) are not officers of the Company, (b) are neither related to any Company officer nor represent concentrated or family holdings of the Company's Shares, and (c) are, in the view of the Board of Directors, free of any relationship that would interfere with the exercise of independent judgment; and, if such approval is obtained in the case of a particular contract, such approval shall be deemed to satisfy the requirements of this Section 7.1(c).

(d) Notwithstanding the above provisions of this Section 7.1, in any transaction in which the Company wishes to issue Shares to SCATEF or any Affiliate of SCATEF in exchange for such Person giving up fees otherwise payable to it, such transaction, including but not limited to the exchange ratio of Shares for such fees, shall not be approved or undertaken by the Company unless and until approved, in lieu of the requirements set forth in Section 7.1(c), by a majority of the directors of the Company who are not Affiliates of SCATEF or of any SCATEF Affiliate (even though the disinterested Directors may be less than a quorum of the full Board of Directors), after the material facts as to such transaction are disclosed or are known to such unaffiliated Directors.

7.2 Number and Term of Office of Directors.

(a) The number of seats constituting the entire Board of Directors shall be at least five and no more than 15, with the exact number of seats on the Board of Directors to be determined from time to time by resolution of the Board of Directors. At least a majority

of the Directors in office at any point in time must be individuals who are not employed by the Company or by any Affiliate of the Company. Each Director (whenever elected) shall hold office until his or her successor has been duly elected and qualified, or until his or her earlier death, resignation, or removal. A Director shall not be required to be a Shareholder or a resident of the State of Delaware.

(b) The Specially Appointed Director(s) shall have all of the powers, rights, privileges, obligations and duties as all other Directors, and shall for all purposes be Directors of the Company, except that (i) the Specially Appointed Director(s) shall not be counted when determining the total size of the Board of Directors for the sole purpose of making the determination in Section 7.2(c) below as to how many Directors are in each class, (ii) no Shareholders other than the Dissolution Shareholder shall have any right to elect, remove or replace the Specially Appointed Director(s), and, without limiting the foregoing, the Specially Appointed Director(s) shall not stand for election or reelection at any meeting of the holders of Common Shares. Without limiting the foregoing, all other Shareholders, by becoming Shareholders of the Company, agree that (I) the Dissolution Shareholder has such rights to serve, through its appointed representatives, as the Specially Appointed Director(s) and that the necessary one seat or two seats on the Board of Directors shall be reserved for such appointment(s) (and the size of the Company's Board of Directors shall automatically be expanded at any time if such expansion is necessary in order to permit the Dissolution Shareholder to effect such appointment(s)) and (II) the Company's officers and Directors may take any and all steps deemed appropriate by them, in connection with Shareholder meetings or otherwise, to implement this Section 7.2(b).

(c) Subject to Section 7.2(b) above, at all times the Board of Directors shall be divided into three classes, as nearly equal in numbers as the then total number of directors constituting the entire Board of Directors permits, with the term of office of one class expiring each year (with the first such class expiration to occur at the first annual meeting of Shareholders); and the Board of Directors shall have sole power to make such determinations. At the first annual meeting of the holders of Common Shares, only the Directors of the first class shall be elected by the holders of Common Shares (in accordance with Section 6.2 hereof), and such persons shall hold office thereafter for a term expiring at the third succeeding annual meeting. At the second annual meeting of Shareholders, only the Directors of the second class shall be elected by the holders of Common Shares (in accordance with Section 6.2 hereof), and such persons shall hold office thereafter for a term expiring at the third succeeding annual meeting. At the third annual meeting of Shareholders, only the Directors of the third class shall be elected by the holders of Common Shares (in accordance with Section 6.2 hereof), and such persons shall hold office thereafter for a term expiring at the third succeeding annual meeting. At each subsequent annual meeting of Shareholders thereafter, the successors to any class of directors whose term shall then expire shall be elected by the holders of Common Shares (in accordance with Section 6.2 hereof) to hold office for a term expiring at the third succeeding annual meeting.

7.3 By-law Provisions. The By-laws shall govern matters relating to, among other things, (a) with respect to directors, annual and special meetings, notice, waiver of notice, quorum, voting, adjournment, written consents, committees, procedures, telephonic meetings, resignations, removals, vacancies, books and records, reports, and compensation and

reimbursement of expenses, to the extent not inconsistent with this Agreement, (b) with respect to officers, all matters not governed by this Agreement, and (c) employee benefit matters, which matters shall be subject to and managed as provided by the discretion of the Board of Directors.

ARTICLE 8

Exculpation and Indemnification

8.1 Limitations on Liability, and Indemnification of, Directors and Officers.

(a) No director or officer of the Company shall be liable, responsible or accountable in damages or otherwise to the Company or any of the Shareholders for any act or omission performed or omitted by him or her, or for any decision, except in the case of fraudulent or illegal conduct of such person. For purposes of this Section 8.1, the fact that an action, omission to act or decision is taken on the advice of counsel for the Company shall be evidence of good faith and lack of fraudulent conduct.

(b) All Directors and officers of the Company shall be entitled to indemnification from the Company for any loss, damage or claim (including any reasonable attorney's fees incurred by such person in connection therewith) due to any act or omission made by him or her, except in the case of fraudulent or illegal conduct of such person; provided, that any indemnity shall be paid out of, and to the extent of, the assets of the Company only (or any insurance proceeds available therefor), and no Shareholder shall have any personal liability on account thereof.

(c) The termination of any action, suit or proceeding by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Person acted fraudulently or illegally.

(d) The indemnification provided by this Section 8.1 shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any agreement, vote of Shareholders or Directors, or otherwise, and shall inure to the benefit of the heirs, executors and administrators of such a person.

(e) Any repeal or modification of this Section 8.1 shall not adversely affect any right or protection of a Director or officer of the Company existing at the time of such repeal or modification.

(f) The Company may, if the Board of Directors of the Company deems it appropriate in its sole discretion, obtain insurance for the benefit of the Company's Directors and officers, relating to the liability of such persons.

ARTICLE 9

Transfers of Interests; Admission of New Shareholders

9.1 Transfers. Subject to Section 6.3 of this Agreement (relating to Special Shareholders) and Section 6.4 of this Agreement (relating to Dissolution Shareholders), the Shares shall be freely transferable; and any Person who is a Transferee of Shares shall, by having such status, (a) automatically become a Shareholder of the Company with no further action

being required on such Person's part, and (b) automatically be bound to the terms and conditions of this Agreement (and be entitled to the rights of a Shareholder hereunder), without the requirement for execution of this Agreement by such Person. Certain mechanical aspects of the transfer of Shares shall be set forth in the By-laws.

ARTICLE 10

Dissolution and Termination

10.1 Events of Dissolution.

(a) In accordance with Section 18-801 of the Act, and the provisions therein permitting this Agreement to specify the events of the Company's dissolution, the Company shall be dissolved and the affairs of the Company wound up upon the occurrence of any of the following events:

(i) a unanimous written decision of all of the Original Shareholders who are then still Shareholders to dissolve the Company;

(ii) the death, retirement, resignation, expulsion, bankruptcy (as defined in Section 18-304 of the Act) or dissolution of a Person who is then a Dissolution Shareholder, or the occurrence of any other event that terminates the continued membership in the Company of a Person who is then a Dissolution Shareholder, unless more than 50% in interest of the then-outstanding Shares votes, at a duly held meeting (or, in the case of a written Consent without a meeting, more than 50% in interest of the aggregate Shares acts), within 180 days of such event to continue the Company; or

(iii) the vote of the Shareholders pursuant to Section 6.2(b) hereof.

The death, retirement, resignation, expulsion, bankruptcy (as defined in Section 18-304 of the Act) or dissolution of a Shareholder or the occurrence of any other event that terminates the continued membership of a Shareholder in the Company, shall not cause the dissolution of the Company except to the extent specified above in this Section 10.1(a).

(b) Dissolution of the Company shall be effective on the day on which the event occurs giving rise to the dissolution, but the Company shall not terminate until the assets of the Company shall have been distributed as provided herein and a certificate of cancellation of the Certificate has been filed with the Secretary of State of the State of Delaware.

10.2 Application of Assets. In the event of dissolution, the Company shall conduct only such activities as are necessary to wind up its affairs (including the sale of the assets of the Company in an orderly manner), and the assets of the Company shall be applied, first, as required by Section 18-804(a)(1) of the Act, and then in the manner, and in the order of priority, set forth in Article 5.

10.3 Gain or Losses in Process of Liquidation. Any gain or loss or disposition of Company property in the process of liquidation shall be credited or charged to the Capital Accounts of Shareholders in accordance

with the provisions of Article 3. Any property distributed in kind in the liquidation shall be valued and treated as though the property were sold at its fair market value and the cash proceeds were distributed. The difference between the fair market value of property distributed in kind and its Book Value shall be treated as a gain or loss on the sale of such property and shall be credited or charged to the Capital Account of Shareholders in accordance with Article 3; provided, that no Shareholder shall have the right to request or require the distribution of the assets of the Company in kind.

10.4 Procedural and Other Matters.

(a) Upon dissolution of the Company and until the filing of a certificate of cancellation as provided in Section 10.4(b), the Persons winding up the affairs of the Company may, in the name of, and for and on behalf of, the Company, prosecute and defend suits, whether civil, criminal or administrative, gradually settle and close the business of the Company, dispose of and convey the property of the Company, discharge or make reasonable provision for the liabilities of the Company, and distribute to the members any remaining assets of the Company, in accordance with this Article 10 and all without affecting the liability of Shareholders and Directors and without imposing liability on a liquidating trustee.

(b) The Certificate may be canceled upon the dissolution and the completion of winding up of the Company, by any Person authorized to cause such cancellation in connection with such dissolution and winding up.

ARTICLE 11

Appointment of Attorney-in-Fact

11.1 Appointment and Powers.

(a) Each Shareholder hereby irrevocably constitutes and appoints the Company's chief executive officer, with full power of substitution, as his, her or its true and lawful attorney-in-fact, with full power and authority in his, her or its name, place and stead to execute, acknowledge, deliver, swear to, file and record at the appropriate public offices such documents, instruments and conveyances as may be necessary or appropriate to carry out the provisions or purposes of this Agreement, including, without limitation, the following: (i) the Certificate; (ii) all other certificates and instruments and amendments thereto that the Board of Directors deems appropriate to qualify or continue the Company as a limited liability company in the jurisdiction in which the Company may conduct business; (iii) all instruments that the Board of Directors deems appropriate to reflect a change or modification of the Company in accordance with the terms of this Agreement; (iv) all conveyances and other instruments that the Board of Directors deems appropriate to reflect the dissolution and termination of the Company; (v) all fictitious or assumed name certificates required or permitted to be filed on behalf of the Company; (vi) any and all documents necessary to admit Shareholders to the Company, or to reflect any change or transfer of a Shareholder's Company Interest, or relating to the admission or increased Capital Contribution of a Shareholder; (vii) any amendment or other document to be filed as referenced in Section 3.1(d) or 3.1(f) of this Agreement; and (viii) all other instruments that may be

required or permitted by law to be filed on behalf of or relating to the Company and that are not inconsistent with this Agreement.

(b) The authority granted by this Section 11.1 (i) is a special power of attorney coupled with an interest, is irrevocable, and shall not be affected by the subsequent incapacity or disability of the Shareholder; (ii) may be exercised by a signature for each Shareholder or by listing the names of all of the Shareholders executing this Agreement with a single signature of any such Person acting as attorney-in-fact for all of them; and (iii) shall survive the Transfer by a Shareholder of the whole or any portion of his, her or its Company Interest.

11.2 Presumption of Authority. Any Person dealing with the Company may conclusively presume and rely upon the fact that any instrument referred to above, executed by such Person acting as attorney-in-fact, is authorized, regular and binding, without further inquiry.

ARTICLE 12

Certain Provisions Relating to Changes in Control and Business Combinations

12.1 Definitions. For purposes of this Article 12, the following definitions shall apply:

"Associate" when used to indicate a relationship with any Person, means:

(a) Any Entity (other than the Company or a Subsidiary of the Company) of which such Person is an officer, director or partner or is, directly or indirectly, the beneficial owner of 10 percent or more of any class of equity securities of such Entity;

(b) Any trust or other estate in which such Person has a substantial beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity; and

(c) Any Relative of such Person, or any Relative of a spouse of such Person, who has the same home as such Person or who is a Director or officer of the Company or a manager, director or officer of any of its Affiliates.

"Beneficial Owner" when used with respect to Company Interests, means a Person:

(a) That, individually or with any of its Affiliates or Associates, beneficially owns Company Interests, directly or indirectly; or

(b) That, individually or with any of its Affiliates or Associates, has (i) the right to acquire Company Interests (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement, or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise; or (ii) the right to vote Company Interests pursuant to any agreement, arrangement or understanding; or

(c) That has any agreement, arrangement, or understanding for the purpose of acquiring, holding, voting, or disposing of Company

Interests with any other Person that beneficially owns, or whose Affiliates or Associates beneficially own, directly or indirectly, such Company Interests.

"Business Combination" means:

(a) Unless the merger, consolidation or exchange of Company Interests does not alter the contract rights of the Company Interests as expressly set forth in this Agreement or change or convert in whole or in part the outstanding Company Interests, any merger, consolidation or exchange of Company Interests or any Subsidiary with (i) any Interested Party or (ii) any other Entity (whether or not itself an Interested Party) which is, or after the merger, consolidation or exchange of interests would be, an Affiliate of an Interested Party that was an Interested Party prior to the transaction;

(b) Any sale, lease, transfer or other disposition, other than in the ordinary course of business or pursuant to a distribution or any other method affording substantially proportionate treatment to the Shareholders, in one transaction or a series of transactions in any 12-month period, to any Interested Party or any Affiliate of any Interested Party (other than the Company or any of its Subsidiaries) of any assets of the Company or any Subsidiary having, measured at the time the transaction or transactions are approved by the Board of Directors of the Company, an aggregate book value as of the end of the Company's most recently ended fiscal quarter of 10 percent or more of the total market value of the outstanding Company Interests or of its net worth as of the end of its most recently ended fiscal quarter;

(c) The issuance or transfer by the Company or any Subsidiary, in one transaction or a series of transactions, of any Company Interests or any equity securities of a Subsidiary which have an aggregate market value of five percent or more of the total market value of the outstanding Company Interests to any Interested Party or any Affiliate of any Interested Party (other than the Company or any of its Subsidiaries) except pursuant to the exercise of warrants or rights to purchase securities pro-rata to all Shareholders or any other method affording substantially proportionate treatment to those Shareholders;

(d) The adoption of any plan or proposal for the liquidation or dissolution of the Company in which anything other than cash will be received by an Interested Party or any Affiliate of any Interested Party;

(e) Any reclassification of securities or recapitalization of the Company, or any merger, consolidation or exchange of Company Interests with any of its Subsidiaries which has the effect, directly or indirectly, in one transaction or series of transactions, of increasing by five percent or more the total number of outstanding Company Interests, the proportionate amount of the outstanding Company Interests or the outstanding number of any class of equity securities of any Subsidiary which is directly or indirectly owned by any Interested Party or any Affiliate of any Interested Party; or

(f) The receipt by any Interested Party or any Affiliate of any Interested Party (other than the Company or any of its Subsidiaries) of the benefit, directly or indirectly (except proportionately as a holder of Company Interests), of any loan, advance, guarantee, pledge or other financial assistance or any tax credit or other tax advantage provided by the Company or any of its Subsidiaries.

"Interested Party" means any Person (other than (i) the Company, (ii) any subsidiary of the Company, (iii) the General Partners, the Special Shareholder, the Original Shareholders, and the Dissolution Shareholder, and (iv) any Affiliate or Associate of any Person described in clause (iii) above) that:

(a) Is the beneficial owner, directly or indirectly, of 10 percent or more of the outstanding Company Interests;

(b) Is an Affiliate or Associate of the Company and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 10 percent or more of the then outstanding Company Interests; or

(c) Is an Affiliate or Associate of (a) or (b).

For purposes of determining whether a Person is an Interested Party, the number of Company Interests deemed to be outstanding shall include Company Interests deemed beneficially owned by the Person through the definition of Beneficial Ownership set forth above but shall not include any other Company Interests which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

"Market Value" means:

(a) In the case of Company Interests, the highest closing sale price during the 30-day period immediately preceding the date in question of a Company Interest of the same class or series on the composite tape of the New York Stock Exchange-listed stocks, or, if such Company Interest of the same class or series is not quoted on the composite tape, on the New York Stock Exchange, or if such Company Interest of the same class or series is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which the Company Interest of the same class or series is listed, or, if the Company Interest of the same class or series is not listed on any such exchange, the highest closing bid quotation with respect to such a Company Interest of the same class or series during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. automated quotations system or any system then in use, or, if no such quotations are available, the fair market value on the date in question of such a Company Interest of the same class or series as determined by the Board of Directors in good faith; and

(b) In the case of property other than cash or stock, the fair market value of such property on the date in question as determined by the Board of Directors in good faith.

"Subsidiary" means any Person (other than an individual) in which the Company, directly or indirectly, holds a majority of the voting securities.

12.2 Business Combinations.

(a) Unless an exemption under Section 12.3(c) applies, the Company may not engage in any Business Combination with any Interested Party or any Affiliate of an Interested Party for a period of five years following the most recent date on which such Interested Party became an Interested Party (the "Five Year Tolling Period"), unless:

(i) in addition to any vote otherwise required by law or

this Agreement, the Board of Directors of the Company, prior to the most recent date upon which the Interested Party became an Interested Party, approved either the Business Combination or the transaction which resulted in the Interested Party becoming an Interested Party; or

(ii) on or subsequent to the date upon which the Interested Party became an Interested Party, the Business Combination is (A) approved by at least two-thirds of the persons who are then members of the Board of Directors and (B) authorized at an annual or special meeting of the Shareholders (and not by written consent) by the affirmative vote of at least two-thirds in interest of the Shareholders, excluding the Company Interests held by an Interested Party who will (or whose Affiliate will be) a party to the Business Combination or by an Affiliate or Associate of that Interested Party, voting together as a single class.

(b) Unless an exemption under Section 12.3 applies, in addition to any vote otherwise required by law or this Agreement, a Business Combination proposed by an Interested Party or an Affiliate of the Interested Party after the Five Year Tolling Period shall be permitted only if recommended by the Board of Directors who are present at a duly-called meeting at which a quorum is present and approved by the affirmative vote of at least:

(i) 80% in interest of all Shareholders, voting together as a single voting group; and

(ii) Two-thirds in interest of the Shareholders, excluding Company Interests held by an Interested Party who will (or whose Affiliate will) be a party to the Business Combination or by an Affiliate or Associate of the Interested Party, voting together as a single voting group.

12.3 Exemptions.

(a) For purposes of this Section 12.3:

"Announcement Date" means the first general public announcement of the proposal or intention to make a proposal of the Business Combination or its first communication generally to the Shareholders, whichever is earlier;

"Determination Date" means the most recent date on which the Interested Party became an Interested Party; and

"Valuation Date" means:

(i) For a Business Combination voted upon by the Shareholders, the latter of the day prior to the date of the vote or the day 20 days prior to the consummation of the Business Combination; and

(ii) For a Business Combination not voted upon by the Shareholders, the date of the consummation of the Business Combination.

(b) The vote required by Section 12.2(b) does not apply to a Business Combination if (1) the Business Combination or the transaction which resulted in the Interested Party becoming an Interested Party shall have been approved by the Board of Directors

prior to the Determination Date or (2) each of the conditions in items (i) through (iii) below is met:

(i) The aggregate amount of the cash and the market value as of the Valuation Date of consideration other than cash to be received for each Company Interest in such Business Combination (whether or not the Interested Party has previously acquired the particular class or series of Company Interest in question) is at least equal to the highest of the following:

(A) The highest per Company Interest price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Party for any Company Interests of the same class or series acquired by it within the five-year period immediately prior to the Announcement Date of the proposal of the Business Combination, plus an amount equal to interest compounded annually from the earliest date on which the highest per Company Interest acquisition price was paid (for the same class or series) through the Valuation Date at the rate for one-year United States Treasury obligations from time to time in effect, less the aggregate amount of any cash distributions paid and the market value of any distributions paid in other than cash, per Company Interest (for the same class or series) from the earliest date through the Valuation Date, up to the amount of the interest; or

(B) The highest per Company Interest price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Party for any Company Interest of the same class or series acquired by it on, or within the five-year period immediately before, the Determination Date, plus an amount equal to interest compounded annually from the earliest date on which the highest per Company Interest acquisition price was paid for the same class or series through the valuation Date at the rate for one-year United States Treasury obligations from time to time in effect, less the aggregate amount of any cash distributions paid and the market value of any distributions paid in other than cash, per Company Interest of the same class or series from the earliest date through the Valuation Date, up to the amount of the interest; or

(C) The highest preferential amount per Company Interest to which the holders of Company Interests of such class or series are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company; or

(D) The Market Value per Company Interest of the same class or series on the Announcement Date, plus an amount equal to interest compounded annually from that date through the Valuation Date at the rate for one-year United States Treasury obligations from time to time in effect, less the aggregate amount of any cash distributions paid and the market value of any distributions paid in other than cash, per Company Interest of the same class or series from that date through the Valuation Date, up to the amount of interest; or

(E) The Market Value per Company Interest of the same class or series on the Determination Date, plus an amount

equal to interest compounded annually from that date through the Valuation Date at the rate for one-year United States Treasury obligations from time to time in effect, less the aggregate amount of any cash distributions paid and the Market Value of any distributions paid in other than cash, per Company Interest of the same class or series from that date through the Valuation Date, up to the amount of the interest; or

(F) The price per Company Interest equal to the Market Value per Company Interest of the same class or series on the Announcement Date or on the Determination Date, whichever is higher, multiplied by the fraction of:

(1) The highest per Company Interest price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Party for any Company Interests of the same class or series acquired by it within the five-year period immediately prior to the Announcement Date, over

(2) The Market Value per Company Interest of the same class or series on the first day in such five-year period on which the Interested Party acquired the Company Interests.

(ii) The consideration to be received by the holders of any Company Interests is to be in cash or in the same form as the Interested Party has previously paid for Company Interests, except to the extent that the Shareholders otherwise elect in connection with their approval of the proposed transaction under Section 6.2 of this Agreement. If the Interested Party has paid for Company Interests with varying forms of consideration, the form of consideration for such Company Interests of the same class or series shall be either cash or the form used to acquire the largest number of Company Interests of the same class or series previously acquired by it, except to the extent that the Shareholders otherwise elect.

(iii) After the Determination Date and prior to the consummation of such Business Combination:

(A) There shall have been no failure to declare and pay at the regular date therefor (if applicable) any full periodic distributions (whether or not cumulative) on any outstanding Company Interests or other securities of the Company;

(B) There shall have been:

(1) No reduction in the annual rate of distributions made with respect to any class or series of Company Interests (except as necessary to reflect any subdivision of Company Interests); and

(2) An increase in such annual rate of distributions as necessary to reflect any reclassification, recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding Company Interests; and

(C) The Interested Party did not become the Beneficial

Owner of any additional Company Interests except as part of the transaction which resulted in such Interested Party becoming an Interested Party or by virtue of proportionate Company Interest splits or distributions.

The provisions of items (A) and (B) of this subsection (b)(iii) do not apply if no Interested Party or an Affiliate or Associate of the Interested Party voted as a member of the Board of Directors of the Company in a manner inconsistent with such items (A) and (B) and the Interested Party, within 10 days after any act or failure to act inconsistent with such items, notifies the Board of Directors of the Company in writing that the Interested Party disapproves thereof and requests in good faith that the Board of Directors rectify such act or failure to act.

(c) The provisions of Section 12.2 do not apply to any Business Combination of the Company with an Interested Party that became an Interested Party inadvertently, if the Interested Party:

(i) As soon as practicable (but not more than 10 days after the Interested Party knew or should have known it had become an Interested Party) divests itself of a sufficient amount of Company Interests so that it no longer is the beneficial owner, directly or indirectly, of 10 percent or more of the outstanding Company Interests; and

(ii) Would not at any time with the five-year period preceding the Announcement Date with respect to the Business Combination have been an Interested Party except by inadvertence.

12.4 Amendment. Notwithstanding any other provisions of this Agreement, this Article 12 may be amended or repealed only by a vote of 80% in interest of all Shareholders, voting together as a single class, excluding Company Interests held by any Interested Party or any Affiliate of an Interested Party.

12.5 Certain Determinations with Respect to this Article 12. The Board of Directors shall have the power to determine for the purposes of this Article 12, on the basis of information known to the Directors: (i) the number of Company Interests of which any Person is the Beneficial Owner, (ii) whether a Person is an Affiliate or Associate of another, (iii) whether a Person has an agreement, arrangement or understanding with another as to the matters referred to in the definition of "Beneficial Owner" as hereinabove defined, (iv) whether two or more transactions constitute a "series of transactions," and (v) such other matters with respect to which a determination is required under this Article 12.

ARTICLE 13

Voting Rights of Certain Control Company Interests

13.1 Definitions. For purposes of this Article 13, the following definitions shall apply:

"Acquiring Person" means a person who makes or proposes to make a Control Company Interests Acquisition, or such Person's Affiliate or Associate.

"Associate" when used to indicate a relationship with any Person means:

(a) An "Associate" as defined in Section 12.1; or

(b) A Person that:

(i) Directly or indirectly controls, or is controlled by, or is under common control with, the Person specified; or

(ii) Is acting or intends to act jointly or in concert with the Person specified.

"Control Company Interests" means those Company Interests that, except for this Article 13, would, if aggregated with all other Company Interests (including Company Interests the acquisition of which is excluded from the definition "Control Company Interests Acquisition" below) owned by a Person or in respect of which that Person is entitled to exercise or direct the exercise of voting power, except solely by virtue of a revocable proxy, entitle that Person, directly or indirectly, to exercise or direct the exercise of the voting power of any class or series of Company Interests within any of the following ranges of voting power:

(a) One-fifth or more, but less than one-third of all voting power;

(b) One-third or more, but less than a majority of all voting power; or

(c) A majority or more of all voting power.

"Control Company Interests" includes Company Interests only to the extent that the Acquiring Person, following the acquisition of the Company Interests, is entitled, directly or indirectly, to exercise or direct the exercise of voting power within any level of voting power set forth in this section for which approval has not been obtained previously under Section 13.2.

"Control Company Interests Acquisition" means the acquisition, directly or indirectly, by any Person (other than (i) the Company, (ii) any subsidiary of the Company, (iii) the General Partners, the Special Shareholder, the Original Shareholders, and the Dissolution Shareholder, and (iv) any Affiliate or Associate of any Person described in clause (iii) above), of ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding Control Company Interests. Control Company Interests Acquisition does not include the acquisition of Control Company Interests:

(a) Under the laws of descent and distribution;

(b) Under the satisfaction of a pledge or other security interest created in good faith and not for the purpose of circumventing this Article 13; or

(c) Under a merger, consolidation or exchange of interests if the Company is a party to the merger, consolidation or exchange of interests.

Unless the acquisition entitles any Person, directly or indirectly, to exercise or direct the exercise of voting power of Company Interests in excess of the range of voting power previously authorized or attained under an acquisition that is exempt under items (a), (b) or (c) of this definition, "Control Company Interests Acquisition" does not include the acquisition of Company Interests in good faith and not for the purpose of

circumventing this Article 13, by or from any Person whose voting rights have previously been authorized by the Shareholders in compliance with this Article 13 or any Person whose previous acquisition of Company Interests would have constituted a Control Company Interests Acquisition but for the exclusions in items (a) through (c) of this definition.

"Interested Company Interests" means Company Interests in respect of which an Acquiring Person is entitled to exercise or direct the exercise of the voting power of Company Interests in the election of Directors or otherwise.

13.2 Voting Rights.

(a) Control Company Interests acquired in a Control Company Interests Acquisition have no voting rights except to the extent approved by the Shareholders at a meeting held under Section 13.4 by the affirmative vote of two-thirds in interest of all Shareholders, excluding any votes cast with respect to Interested Company Interests.

(b) For purposes of this Section 13.2:

(i) Company Interests acquired within 180 days or Company Interests acquired under a plan to make a Control Company Interests Acquisition are considered to have been acquired in the same acquisition; and

(ii) A Person may not be deemed to be entitled to exercise or direct the exercise of voting power with respect to Company Interests held for the benefit of others if the Person:

(A) Is acting in the ordinary course of business, in good faith and not for the purpose of circumventing the provisions of this Section of the Agreement; and

(B) Is not entitled to exercise or to direct the exercise of the voting power of the Company Interests unless the Person first seeks to obtain the instruction of another person.

13.3 Acquiring Person Statement. Any Person who proposes to make or who has made a Control Company Interests Acquisition may deliver an Acquiring Person statement to the Company at the Company's principal office. The Acquiring Person statement shall set forth all of the following:

(a) The identity of the Acquiring Person and each other member of any group of which the Person is a part for purposes of determining Control Company Interests;

(b) A statement that the Acquiring Person statement is given under this Article 13;

(c) The number of Company Interests owned (directly or indirectly) by the Acquiring Person and each other member of any group;

(d) The applicable range of voting power as set forth in the definition of "Control Company Interests"; and

(e) If the Control Company Interests Acquisition has not occurred:

(i) A description in reasonable detail of the terms of the proposed Control Company Interests Acquisition; and

(ii) Representations of the Acquiring Person, together with a statement in reasonable detail of the facts on which they are based, that:

(A) The proposed Control Company Interests Acquisition, if consummated, will not be contrary to law; and

(B) The Acquiring Person has the financial capacity, through financing to be provided by the Acquiring Person, and any additional specified sources of financing required under Section 13.5, to make the proposed Control Company Interests Acquisition.

13.4 Special Meeting.

(a) Except as provided in Section 13.5, if the Acquiring Person requests, at the time of delivery of an Acquiring Person statement, and gives a written undertaking to pay the Company's expenses of a special meeting, except the expenses of opposing approval of the voting rights, within ten days after the day on which the Company receives both the request and undertaking, the Board of Directors of the Company shall call a special meeting of the Shareholders, to be held within 50 days after receipt of the Acquiring Person statement and undertaking, for the purpose of considering the voting rights to be accorded the Company Interests acquired or to be acquired in the Control Company Interests Acquisition.

(b) The Board of Directors may require the Acquiring Person to give bond, with sufficient surety, to reasonably assure the Company that this undertaking will be satisfied.

(c) Unless the Acquiring Person agrees in writing to another date, the special meeting of Shareholders shall be held within 50 days after the day on which the Company has received both the request and the undertaking.

(d) If the Acquiring Person makes a request in writing at the time of delivery of the Acquiring Person statement, the special meeting may not be held sooner than 30 days after the day on which the Company receives the Acquiring Person statement.

(e) If no request is made under subsection (a) of this Section 13.4, the issue of the voting rights to be accorded the Company Interests acquired in the Control Company Interests Acquisition may, at the option of the Company, be presented for consideration at any meeting of the Shareholders. If no request is made under subsection (a) of this Section 13.4 and the Company proposes to present the issue of the voting rights to be accorded the Company Interests acquired in a Control Company Interests Acquisition for consideration at any meeting of the Shareholders, the Company shall provide the Acquiring Person with written notice of the proposal not less than 20 days before the date on which notice of the meeting is given.

13.5 Calls.

(a) A call of a special meeting of Shareholders is not required

to be made under Section 13.4 unless, at the time of delivery of an Acquiring Person statement under Section 13.3, the Acquiring Person has:

(i) Entered into a definitive financing agreement or agreements with one or more responsible financial institutions or other entities that have the necessary financial capacity, providing for any amount of financing of the Control Company Interests Acquisition not to be provided by the Acquiring Person; and

(ii) Delivered a copy of the agreements to the Company.

13.6 Notice of Meeting.

(a) If a special meeting of the Shareholders is requested, notice of the special meeting shall be given as promptly as reasonably practicable by the Company to all Shareholders of record as of the record date set for the meeting, whether or not the Shareholder is entitled to vote at the meeting.

(b) Notice of the special or annual meeting at which the voting rights are to be considered shall include or be accompanied by the following:

(i) A copy of the Acquiring Person statement delivered to the Company under Section 13.3; and

(ii) A statement by the Board of Directors setting forth its position or recommendation, or stating that it is taking no position or making no recommendation, with respect to the issue of voting rights to be accorded the Control Company Interests.

13.7 Redemption Rights.

(a) If an Acquiring Person statement has been delivered on or before the 10th day after the Control Company Interests Acquisition, the Company may, at its option, redeem any or all Control Company Interests, except Control Company Interests for which voting rights have been previously approved under Section 13.2, at any time during a 60-day period commencing on the day of a meeting at which voting rights are considered under Section 13.4 and are not approved.

(b) In addition to the redemption rights authorized under subsection (a) of this Section 13.7, if an Acquiring Person statement has not been delivered on or before the 10th day after the Control Company Interests Acquisition, the Company may, at its option, redeem any or all Control Company Interests, except Control Company Interests for which voting rights have been previously approved under Section 13.2, at any time during a period commencing on the 11th day after the Control Company Interests Acquisition and ending 60 days after the acquiring person statement has been delivered.

(c) Any redemption of Control Company Interests under this Section shall be at the fair value of the Company Interests. For purposes of this section, "fair value" shall be determined:

(i) As of the date of the last acquisition of Control Company Interests by the Acquiring Person in a Control Company Interests Acquisition or, if a meeting is held under Section

13.4, as of the date of the meeting; and

(ii) Without regard to the absence of voting rights for the Control Company Interests.

13.8 Amendment. Notwithstanding any other provisions of this Agreement, this Article 13 may only be amended or repealed by a vote of 80% in interest of all Shareholders, voting together as a single class, excluding any votes cast with respect to Interested Company Interests.

ARTICLE 14

Miscellaneous Provisions

14.1 Notices.

(a) Except as otherwise provided in this Agreement or in the By-laws, any and all notices, consents, offers, elections and other communications required or permitted under this Agreement shall be deemed adequately given only if in writing and the same shall be delivered either in hand, by telecopy, or by mail or Federal Express or similar expedited commercial carrier, addressed to the recipient of the notice, postage prepaid and registered or certified with return receipt requested (if by mail), or with all freight charges prepaid (if by Federal Express or similar carrier).

(b) All notices, demands, and requests to be sent hereunder shall be deemed to have been given for all purposes of this Agreement upon the date of receipt or refusal.

(c) All such notices, demands and requests shall be addressed as follows: (i) if to the Company, to its principal place of business, as set forth in Article 2 hereof and (ii) if to a Shareholder, to the address of such Shareholder listed on the Company's Shareholder register.

(d) By giving to the other parties written notice thereof, the parties hereto and their respective successors and assigns shall have the right from time to time and at any time during the term of this Agreement to change their respective addresses effective upon receipt by the other parties of such notice and each shall have the right to specify as its address any other address.

14.2 Word Meanings. The words such as "herein", "hereinafter", "hereof" and "hereunder" refer to this Agreement as a whole and not merely to a subdivision in which such words appear unless the context otherwise requires. The singular shall include the plural and the masculine gender shall include the feminine and neuter, and vice versa, unless the context otherwise requires.

14.3 Binding Provisions. The covenants and agreements contained herein shall be binding upon, and inure to the benefit of, the heirs, legal representatives, successors and assignees of the respective parties hereto.

14.4 Amendment and Modification. Unless otherwise specifically provided in this Agreement, this Agreement may be amended, modified or supplemented only by the vote, at a duly held meeting, of more than 50% in interest of the then-outstanding Common Shares (or, in the case of a written Consent without a meeting, more than 50% in interest of the aggregate then-outstanding Common Shares), voting or acting as one class (and not as separate classes, notwithstanding the fact that there may be

members of more than one class voting); provided, however, that Section 8.1 shall not be amended, modified or supplemented, unless such amendment, modification or supplement receives the Consent of at least 80% in interest of the holders of then-outstanding Common Shares.

14.5 Waiver. The waiver by any party hereto of a breach of any provisions contained herein shall be in writing, signed by the waiving party, and shall in no way be construed as a waiver of any succeeding breach of such provision or the waiver of the provision itself.

14.6 Applicable Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware, without regard to such state's laws concerning conflicts of laws. In the event of a conflict between any provision of this Agreement and any nonmandatory provision of the Act, the provision of this Agreement shall control and take precedence.

14.7 Separability of Provisions. Each provision of this Agreement shall be deemed severable, and if any part of any provision is held to be illegal, void, voidable, invalid, nonbinding or unenforceable in its entirety or partially or as to any party, for any reason, such provision may be changed, consistent with the intent of the parties hereto, to the extent reasonably necessary to make the provision, as so changed, legal, valid, binding and enforceable. If any provision of this Agreement is held to be illegal, void, voidable, invalid, nonbinding or unenforceable in its entirety or partially or as to any party, for any reason, and if such provision cannot be changed consistent with the intent of the parties hereto to make it fully legal, valid, binding and enforceable, then such provision shall be stricken from this Agreement, and the remaining provisions of this Agreement shall not in any way be affected or impaired, but shall remain in full force and effect.

14.8 Headings. The headings contained in this Agreement (including but not limited to the titles of the Schedules and Exhibits hereto) have been inserted for the convenience of reference only, and neither such headings nor the placement of any term hereof under any particular heading shall in any way restrict or modify any of the terms or provisions hereof.

14.9 Further Assurances. The Shareholders shall execute and deliver such further instruments and do such further acts and things as may be required to carry out the intent and purposes of this Agreement.

14.10 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and all of which taken together shall constitute one and the same instrument.

14.11 Entire Agreement. This Agreement, and all Schedules and Exhibits hereto, constitutes the entire agreement between the parties hereto with respect to the transactions contemplated herein, and supersedes all prior understandings or agreements, oral or written, between the parties.

IN WITNESS WHEREOF, the undersigned, being the Chairman and Chief Executive Officer and the President of the Company, respectively, have executed and delivered this Amended and Restated Certificate of Formation and Operating Agreement on behalf of the Shareholders who have duly approved this Agreement as required by Section 14.4 as of the day and year first-above written.

By: /s/ Mark K. Joseph

Name: Mark K. Joseph

Title: Chairman and Chief Executive Officer

By: /s/ Michael L. Falcone

Name: Michael L. Falcone
Title: President

EXHIBIT 3.4

AMENDED AND RESTATED

BY-LAWS

OF

MUNICIPAL MORTGAGE AND EQUITY, L.L.C.

(a Delaware limited liability company)

All capitalized words and terms used in these By-Laws and not defined herein shall have the respective meanings ascribed to them in the Amended and Restated Certificate of Formation and Operating Agreement of Municipal Mortgage and Equity, L.L.C. (the "Company"), as amended from time to time (the "Operating Agreement").

ARTICLE I.

Offices and Fiscal Year

1.1. Registered Office. The registered office of the Company shall be in the City of Wilmington, County of New Castle, State of Delaware until a change in such office is established by resolution of the Board of Directors and a statement of such change is filed in the manner provided by applicable law.

1.2. Other Offices. The Company may also have offices and keep its books, documents and records at such other places within or without the State of Delaware as the Board of Directors may from time to time determine or the business of the Company may require.

1.3. Fiscal Year. The fiscal year of the Company shall end on the last day of December in each year or on such other date as the Board of Directors may designate by resolution.

ARTICLE II.

Meetings of Shareholders

2.1. Annual Meetings. The annual meeting of Shareholders of the Company for the election of the appropriate class and number of Directors, pursuant to the terms of the Operating Agreement, and for the translation of such other business as properly may come before such meeting, shall be held at such place, either within or without the State of Delaware, and at such time and on such date as shall be fixed from time to time by resolution of the Board of Directors and set forth in the notice or waiver of notice of the meeting.

2.2. Special Meetings. Subject to the provisions of Article 13 of the Operating Agreement, special meetings of Shareholders may be called at any time by the Board of Directors. In addition, a special meeting shall be called by the

Board of Directors or the President, promptly upon receipt of a written request therefor from Shareholders holding in the aggregate at least ten percent in interest of the Shares which would be entitled to vote on any matter to be considered and acted upon at the special meeting being so called. If such officers or the Board of Directors shall fail to call such meeting within 20 days after receipt of such request, any Shareholder executing such request may call such meeting. Such special meetings of Shareholders shall be held at such places, within or without the State of Delaware, as shall be specified in the respective notices or waivers of notice thereof.

2.3. Notice of Meetings; Waiver. (a) Subject to the provisions of Article 13 of the Operating Agreement, the Secretary or any Assistant Secretary shall cause written, telephonic or telecopied notice of the place, date, and hour of each meeting of Shareholders, and, in the case of a special meeting, the purpose or purposes for which such meeting is called, to be given personally or by telephone, facsimile, other electronic transmission, or mail, not less than ten nor more than 60 days prior to the meeting, to each Shareholder entitled to vote at such meeting. If such notice is mailed, it shall be deemed to have been given to a Shareholder when deposited in the United States mail, postage prepaid, directed to the Shareholder at his, her, or its address as it appears on the record of Shareholders of the Company, or, if he, she, or it shall have duly filed with the Secretary of the Company a written request that notices to him, her, or it be mailed to some other address, then directed to such other address. Such further notice shall be given as may be required by law.

(b) No notice of any meeting of Shareholders need be given to any Shareholder who submits a signed waiver of notice, whether before or after the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of Shareholders need be specified in a written waiver of notice. The of any Shareholder at a meeting of Shareholders shall constitute a waiver of notice of such meeting, except when the Shareholder attends a meeting for the sole and express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting is not lawfully called or convened.

2.4. Quorum. The required number of Shareholders to be present at any meeting of Shareholders so to constitute a quorum thereat shall be as set forth in the Operating Agreement.

2.5. Voting. Shareholders shall be entitled to vote on such actions as are specified in the Operating Agreement, and the required vote of Shareholders to approve any such actions shall be as is set forth in the Operating Agreement.

2.6. Adjournment. If a quorum is not present at any meeting of Shareholders, the Shareholders present in person or by proxy shall have the power to adjourn any such meeting from time to time until a quorum is present. The Shareholders present in person or by proxy shall have the power to adjourn any meeting of the Shareholders. Notice of any adjourned meeting of Shareholders of the Company need not be given if the place, date, and hour thereof are announced at the meeting at which the adjournment is taken; provided, that if the adjournment is for more than 30 days, a notice of the adjourned meeting, conforming to the requirements of Section 2.3 hereof, shall be given to each Shareholder entitled to vote at such meeting. At any adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted on the original date of the meeting.

2.7. Proxies. (a) Any Shareholder entitled to vote at any meeting of Shareholders or to express consent to or dissent from action without a meeting may, by a written instrument signed by such Shareholder or his, her or its attorney-in-fact, authorize another Person to vote at any such meeting and express such consent or dissent for him, her or it by proxy. Execution may be accomplished by the Shareholder or his, her or its authorized officer, director,

employee or agent signing such writing or causing his, her or its signature to be affixed to such writing by any reasonable means including, but not limited to, facsimile signature. A Shareholder may authorize another Person to act for him, her or it as proxy by transmitting or authorizing the transmission of a telegram, facsimile or other means of electronic transmission to the Person who will be the holder of the proxy; provided, that any such telegram, facsimile or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, facsimile or other electronic transmission was authorized by the Shareholder.

(b) No such proxy shall be voted or acted upon after the expiration of the three years from the date of such proxy, unless such proxy provides for a longer period. Every proxy shall be revocable at the pleasure of the Shareholder executing it, except in those cases where applicable law provides that a proxy shall be irrevocable. A Shareholder may revoke any proxy that is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or by filing another duly executed proxy bearing a later date with the Secretary. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power.

2.8. Organization; Procedure. At every meeting of Shareholders, the presiding officer shall be the Chairman of the Board or, in the event of his or her absence or disability, the President or, in the event of his or her absence or disability, a presiding officer chosen by the Board of Directors prior to or at such meeting. The Secretary, any Assistant Secretary, or any appointee of the presiding officer shall act as secretary of the meeting. The order of business and all other matters of procedure at every meeting of Shareholders may be determined by such presiding officer.

2.9. Inspectors. The presiding officer of the meeting of Shareholders shall appoint one or more inspectors to act at any meeting of Shareholders. Such inspectors shall perform such duties as shall be specified by the presiding officer of the meeting. Inspectors need not be Shareholders. No Director or nominee for the office of Director shall be appointed to be such inspector.

2.10. Consent of Shareholders in Lieu of Meeting. (a) To the fullest extent permitted by the Delaware Limited Liability Company Act, Del. Code Ann. tit. 6, ch. 18, as amended from time to time (the "Act"), but subject to the terms of the Operating Agreement (which limit, define or modify such rights in certain circumstances), whenever the vote of Shareholders at a meeting is required or permitted to be taken for or in connection with any action, such action may be taken without a meeting, without prior notice, and without a vote of Shareholders, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of such percentage of the Shares entitled to vote as would be necessary under the terms of the Operating Agreement to authorize or take such action and shall be delivered to the Company by delivery to its registered office in the State of Delaware, its principal place of business, or a Director, officer, or agent of the Company having custody of the book in which proceedings of meetings of Shareholders are recorded.

(b) Prompt written or telephonic notice of the taking of any action without a meeting by less than unanimous written consent of the Shareholders entitled to vote shall be given to those Shareholders (entitled to vote thereon) who have not consented in writing.

2.11. Action by Telephonic Communications. Shareholders may participate in a meeting of Shareholders by means of conference telephone or similar communications equipment by means of which all Persons participating in the meeting can hear each other, and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting.

2.12. Shareholder Proposals. For any Shareholder proposal to be presented in connection with an annual meeting of Shareholders of the Company, as permitted by this Agreement or required by applicable law, including any proposal relating to the nomination of a person to be elected to the Board of Directors of the Company, the Shareholders must have given timely notice thereof in writing to the Secretary of the Company. To be timely, a Shareholder's notice shall be delivered to the Secretary at the principal business offices of the Company not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the Shareholder to be timely must be so delivered not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Such Shareholder's notice shall set forth (a) as to each person whom the Shareholder proposes to nominate for election or reelection as a Director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); (b) as to any other business that the Shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such Shareholder and of the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the Shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made, (i) the name and address of such Shareholder, as they may appear on the Company's books, and of such beneficial owner and (ii) the class and number of Shares of the Company which are owned beneficially and of record by such Shareholder and such beneficial owner.

ARTICLE III.

Board of Directors

3.1. General Powers. Except as may otherwise be provided by the Act or by the terms of the Operating Agreement, the property, affairs and business of the Company shall be managed by or under the direction of the Board of Directors, and the Board of Directors may exercise all the powers of the Company as set forth in the Operating Agreement. The Directors shall act only as a Board or by designated committees, and the individual Directors shall have no power as such.

3.2. Number and Term of Office. The number and classes of Directors constituting the entire Board of Directors shall be as provided by the terms of the Operating Agreement. Each Director (whenever elected) shall, subject to the terms of the Operating Agreement, hold office until his or her successor has been duly elected and qualified, or until his or her earlier death, resignation, or removal. A Director shall not be required to be a Shareholder or a resident of the State of Delaware.

3.3. Election of Directors. Except as provided in Section 3.12 hereof, or as otherwise provided in the Operating Agreement (with respect to Specially Appointed Directors(s), the Payments Director, or otherwise), the appropriate class and number of Directors shall be elected at each annual meeting of Shareholders. At each meeting of Shareholders for the election of Directors, provided a quorum of Shareholders is present, the appropriate class and number of Directors to be elected thereat shall be elected by the vote of Shareholders (entitled to vote thereon) set forth in the Operating Agreement. The Operating Agreement shall govern the election of specific classes of directors in addition to the Specially Appointed Director(s) and Payments Director.

3.4. Annual and Regular Meetings. The annual meeting of the Board of Directors for the purpose of electing officers and for the transaction of such other business as may come before the meeting shall be held as soon as possible following adjournment of the annual meeting of Shareholders at the place of such annual meeting of Shareholders or at such other place as the Board of Directors may determine. Notice of such annual meeting of the Board of Directors need not be given. The Board of Directors from time to time may by resolution provide for the holding of regular meetings and fix the place (which may be within or without the State of Delaware) and the date and hour of such meetings. Notice of regular meetings need not be given; provided, that if the Board of Directors shall fix or change the time or place of any regular meeting, notice of such action shall be mailed, given by telephone, hand delivered or sent by facsimile promptly, to each Director who shall not have been present at the meeting at which such action was taken. Notice of such action need not be given to any Director who attends the first regular meeting after such action is taken without protesting the lack of notice to him or her, prior to or at the commencement of such meeting, or to any Director who submits a signed waiver of notice, whether before or after such meeting.

3.5. Special Meetings; Notice. Special meetings of the Board of Directors shall be held whenever called by the Chairman of the Board, by the President or by a majority of the members of the Board of Directors, at such place (within or without the State of Delaware), date and hour as may be specified in the respective notices or waivers of notice of such meetings. Special meetings of the Board of Directors may be called on 24 hours' notice, if notice is given to each Director personally or by telephone or facsimile, or on three days' notice, if notice is mailed to each Director. Unless otherwise indicated in the notice thereof, and subject to the terms of Operating Agreement, any and all business may be transaction at any special meeting of the Board of Directors. Notice of any special meeting need not be given to any Director who attends such meeting without protesting the lack of notice to him or her, prior to or at the commencement of such meeting, or to any Director who submits a signed waiver of notice, whether before or after such meeting.

3.6. Quorum: Voting. Subject to the terms of the Operating Agreement and these By-Laws with respect to matters on which action may be taken without the presence of a quorum, at all meetings of the Board of Directors, the presence of a majority of the members of the Board (including in such membership count the Specially Appointed Director(s) and the Payments Director) then in office as Directors shall constitute a quorum for the transaction of business. Except as otherwise required by law, and subject to the terms of the Operating Agreement and these By-Laws (with respect to the required vote of disinterested Directors on certain specified matters or otherwise), the vote of a majority of the Directors present at any meeting at which a quorum is present shall be the act of the Board of Directors.

3.7. Adjournment. A majority of the Directors present, whether or not a quorum is present, may adjourn any meeting of the Board of Directors to another time or place. No notice need be given of any adjourned meeting unless the time and place of the adjourned meeting are not announced at the time of adjournment, in which case notice conforming to the requirements of Section 3.5 hereof shall be given to each Director.

3.8. Action Without a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if all members of the Board of Directors consent thereto in writing, and such writing or writings are filed with the minutes of proceedings of the Board of Directors.

3.9. Regulations: Manner of Acting. To the extent consistent with applicable law and the terms of the Operating Agreement, the Board of Directors may adopt such rules and regulations for the conduct of meetings of the Board of

Directors and for the management of the property, affairs and business of the Company as the Board of Directors may deem appropriate.

3.10. Action by Telephonic Communications. Members of the Board of Directors may participate in a meeting of the Board of Directors by means of conference telephone or similar communications equipment by means of which all Persons participating in the meeting can hear each other, and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting.

3.11. Resignations; Removal. Subject to the terms of the Operating Agreement, a Director may resign at any time upon 60 days' prior written notice to the Company. A Director may be removed, with or without cause at any time pursuant to the terms of the Operating Agreement.

3.12. Vacancies and Newly Created Directorships. Subject to the terms of the Operating Agreement (with respect to the Specially Appointed Director(s), Payments Director, or other Directors to be elected by a specific class of Shares), if any vacancies shall exist or occur in the Board of Directors, by reason of death, resignation, removal or otherwise, or if the authorized number of Directors shall be increased by the Board of Directors or by the Operating Agreement, the Directors then in office shall continue to act, and such vacancies and newly created directorships may be filled by a majority of the Directors then in office, although less than a quorum. A Director elected to fill a vacancy or a newly created position on the Board shall hold office until his or her successor has been elected and qualified or until his or her earlier death, resignation or removal. Any such vacancy or newly created position on the Board of Directors also may be filled at any time by vote of Shareholders pursuant to the terms of the Operating Agreement and Section 3.3 hereof. In the event that a vacancy on the Board of Directors is filled pursuant to the terms of this Section 3.12, any such replacement shall assume the term of his/her predecessor.

3.13. Books and Records. (a) The Board of Directors shall cause to be kept complete and accurate books and records of account of the Company. The books of the Company (other than books required to maintain Capital Accounts) shall be kept on a basis that permits the preparation of financial statements in accordance with generally accepted accounting principles, and shall be made available to the Board of Directors for review from time to time, at the principal business office of the Company.

(b) In addition to the foregoing, and for purposes of fully complying with the Act so to allow Shareholders access to certain information relating to the Company (for any purpose reasonably related to the requesting Shareholder's interest as a Shareholder of the Company), the Company shall maintain at its principal business office the following information: (i) a current list of the full name and last known business or mailing address of each Shareholder and Director, set forth in alphabetical order, (ii) a copy of the Certificate, the Operating Agreement and By-Laws including all amendments thereto, and executed copies of all powers of attorney pursuant to which the Certificate, the Operating Agreement or any amendment thereto has been executed, (iii) copies of the Company's federal, state and local income tax returns and reports, for each fiscal year of the Company, (iv) copies of any financial statements of the Company for the three most recent years (or for such number of years as shall be necessary to afford a Shareholder full information regarding the financial condition of the Company), (v) true and full information regarding the status of the business of the Company, (vi) true and full information regarding the amount of cash and a description and statement of the agreed value of any other property or services contributed by each Shareholder and which each Shareholder has agreed to contribute in the future, and the date on which each became a Shareholder, and (vii) all other records and information required to be maintained pursuant to the Act. A Shareholder desiring to review any of the

foregoing information must, prior to being given access to such information, make a written request on the Board of Directors or President of the Company for permission to review such information. Whether or not to allow access to Shareholders to any of the foregoing information shall be at the sole discretion of the Board of Directors or President of the Company, and shall be subject to such reasonable standards (including standards governing what information and documents are to be furnished at what time and location and at whose expense) as shall be established by the Board of Directors or President of the Company from time to time.

(c) Notwithstanding anything contained in the foregoing to the contrary, but subject to the provisions of the Act, the Board of Directors and the President each has the right to keep confidential from the Shareholders, for such period of time as the Board of Directors or President deems reasonable, any information which the Board of Directors or President reasonably believes to be in the nature of trade secrets or other information the disclosure of which the Board of Directors or President in good faith believes is not in the best interest of the Company or could damage the Company or its business or which the Company is required by law or by agreement with a third party to keep confidential.

3.14. Reports. Forthwith upon request, the Board of Directors shall, at the cost and expense of the Company, cause the officers of the Company to furnish to each Director such information bearing on the financial condition and operations of the Company as any such Director may from time to time reasonably request, provided however, that such Director shall hold and maintain all such information in confidence unless otherwise approved in advance by the Board of Directors.

3.15. Compensation to Directors. Compensation for any Director shall be determined by the affirmative vote of a majority of the disinterested Directors, even though the disinterested Directors be less than a quorum. Upon submission of appropriate documentation, the Company shall reimburse Directors for all reasonable costs and expenses incurred by each Director in the performance of his/her duties as a Director of the Company.

3.16. Reserves. The Board of Directors may from time to time in its discretion establish reasonable cash reserves.

3.17. Committees of the Board of Directors. The Board of Directors may, from time to time, establish committees of the Board of Directors to exercise such powers and authorities of the Board of Directors and to perform such other functions, as the Board of Directors may from time to time determine by resolution. Such committees shall be composed of two or more Directors. The Board of Directors shall appoint all members, including the chairman, of each such committee.

ARTICLE IV.

Officers

4.1. Number. The officers of the Company shall consist of a Chairman of the Board, a President, one or more Vice-Presidents, a Secretary, a Chief Financial Officer, and, if deemed necessary, expedient, or desirable by the Board of Directors, one or more Assistant Secretaries, one or more Assistant Financial Officers, and such other officers with such titles as the resolution of the Board of Directors choosing them shall designate.

4.2. Election. Unless otherwise determined by the Board of Directors, the officers of the Company shall be elected by the Board of Directors at the annual meeting of the Board of Directors, and shall be elected to hold office until the next succeeding annual meeting of the Board of Directors. In the event of the

failure to elect officers at such annual meeting, officers may be elected at any regular or special meeting of the Board of Directors. Each officer shall hold office until his or her successor has been elected and qualified, or until his or her earlier death, resignation or removal.

4.3. Salaries. The salaries of the Chief Executive Officer and the Executive and Senior Vice Presidents of the Company shall be fixed by the Compensation Commitee; the salaries of the other officers, employees and agents of the Company shall be fixed by the Board of Directors.

4.4. Resignation, Vacancies and Removal. Subject to any employment contractual arrangements that may be in place with the Company, any officer may resign at any time by giving written notice of resignation, signed by such officer, to the Board of Directors, at the Company's principal office. Unless otherwise specified therein, such resignation shall take effect upon delivery. Any vacancy occurring in any office of the Company by death, resignation, removal or otherwise, shall, subject to the terms of the Operating Agreement, be filled by the Board of Directors. Subject to any employment contractual arrangements that may be in place with the Company, all officers, agents and employees of the Company shall be subject to removal with or without cause at any time by the affirmative vote of a majority of all members of the Board of Directors then in office.

4.5. Authority and Duties of Officers. The officers of the Company shall have such authority and shall exercise such powers and perform such duties as may be specified in the Operating Agreement, in these By-Laws or from time to time by the Board of Directors, except that in any event each officer shall exercise such powers and perform such duties as may be required by law. The express powers and duties set forth below for each officer shall not restrict nor be in limitation of any powers or duties that may be delegated to any such officer by the Board of Directors or the President.

4.6. The Chairman of the Board. The Chairman of the Board shall preside at all meeting of the Shareholders and of the Board of Directors at which he or she is present. The Chairman of the Board (a) shall perform all of the duties usually incident to such office, subject to the direction of the Board of Directors and (b) shall perform such other duties as may from time to time be assigned by the Board of Directors to the Chairman of the Board.

4.7. The President. The President shall be the chief executive officer and the chief operating officer of the Company, shall have general control and supervision of the policies and operations of the Company, and shall see that all orders and resolutions of the Board of Directors are carried into effect. He or she shall manage and administer the Company's business and affairs. In the event of the absence or disability of the Chairman of the Board, the President shall preside at all meetings of the Shareholders and the Directors at which he or she is present. He or she shall have the authority to sign, in the name and on behalf of the Company, checks, orders, contracts, leases, notes, drafts and other documents and instruments in connection with the business of the Company, and together with the Secretary or an Assistant Secretary, conveyances of real estate and other documents and instruments to which the seal of the Company, if any, is affixed, subject to any requirements for prior approval of the Board of Directors and/or the Shareholders contained in the Act or in the Operating Agreement. He or she shall have the authority to cause the employment or appointment of such employees and agents of the Company as the conduct of the business of the Company may require, and to remove or suspend any employee or agent elected or appointed by him or her. The President shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

4.8. The Vice President. If one or more Vice Presidents is elected, he/they shall perform the duties of the President in his absence (in their order of

rank) and such other duties as may from time to time be assigned to them by the Board of Directors or the President.

4.9. The Secretary. The Secretary shall have the following powers and duties: (a) keep or cause to be kept a record of all the proceedings of the meetings of Shareholders and of the Board of Directors in books provided for that purpose; (b) cause all notices to be duly given in accordance with the provisions of these By-Laws and as required by law; (c) be the custodian of the records of the Company; (d) properly maintain and file all books, reports, statements, certificates and all other documents and records required by law, the terms of the Operating Agreement or these By-Laws; (e) have charge of the books and ledgers of the Company and cause the books to be kept in such manner as to show at any time the Shares of all Shareholders, the names (alphabetically arranged) and the addresses of the Shareholders, the Shares held by such Shareholders, and the date as of which each became a Shareholder; (f) sign (unless the Chief Financial Officer, an Assistant Financial Officer or Assistant Secretary shall have signed) certificates (if any) representing Shares, the issuance of which shall have been authorized by the Board of Directors; and (g) perform, in general, all duties incident to the officer of Secretary and such other duties as may be assigned to him or her from time to time by the Board of Directors or the President.

4.10. The Chief Financial Officer. The Chief Financial Officer shall have the following powers and duties: (a) have charge and supervision over and be responsible for the moneys, securities, receipts and disbursements of the Company, and shall keep or cause to be kept full and accurate records of all receipts of the Company; (b) cause the moneys and other valuable effects of the Company to be deposited in the name and to the credit of the Company in such banks or trust companies or with such bankers or other depositaries as shall be selected in accordance with the terms of the Operating Agreement and these By-Laws; (c) cause the moneys of the Company to be disbursed by checks or drafts (signed as provided in Section 7.2 hereof) upon the authorized depositaries of the Company and cause to be taken and preserved proper vouchers for all moneys disbursed; (d) render to the Board of Directors, individual directors or the President, whenever requested, a statement of the financial condition of the Company and of all his or her transactions as Chief Financial Officer, and render a full financial report at the annual meeting of the Shareholders, if called upon to do so by the Board of Directors or the President; (e) be empowered from time to time to require from any officers or agents of the Company reports or statements giving such information as he or she may desire with respect to any and all financial transactions of the Company; (f) sign (unless an Assistant Financial Officer or the Secretary or an Assistant Secretary shall have signed) certificates (if any) representing Shares, the issuance of which shall have been authorized by the Board of Directors; and (g) perform, in general, all duties incident to the office of Chief Financial Officer and such other duties as may be assigned to him or her from time to time by the Board of Directors or the President.

4.11. Additional Officers. The Board of Directors may appoint such other officers and agents as it may deem appropriate, and such other officers and agents shall hold their offices for such terms and shall exercise such powers and perform such duties as may be determined from time to time by the Board of Directors. The Board of Directors from time to time may delegate to any officer or agent the power to appoint subordinate officers or agents and to prescribe their respective rights, terms of office, authorities and duties. Any such officer or agent may remove any such subordinate officer or agent appointed by him or her, for or without cause.

4.12. Failure to Elect. A failure to elect officers shall not dissolve or otherwise affect the Company.

ARTICLE V.

Notice; Waivers of Notice

5.1. Notice, What Constitutes. Except as otherwise provided by the terms of these By-Laws, any provision of applicable law, the Operating Agreement or these By-Laws which requires notice to be given to any Director or Shareholder of the Company shall not be deemed or construed to require personal notice (unless otherwise expressly provided therein), such notice may be given in writing and delivered by telecopy, first or second class mail or Federal Express or similar expedited commercial carrier, addressed to such Director or Shareholder at his address as it appears on the records of the Company, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same is received or deposited in the U.S. mail or with Federal Express or similar expedited commercial carrier or at the time it is telecopied.

Whenever any notice is required to be given by applicable law, the terms of the Operating Agreement or these By-Laws to any Shareholder, to whom (a) notice of two consecutive annual meetings, and all notices of meetings or of the taking of action by written consent without a meeting to such Shareholder during the period between such two consecutive annual meetings, or (b) all, and at least two, distributions (if sent by first class mail, Federal Express or similar expedited commercial carrier) during a twelve-month period, have been mailed addressed to such Shareholder at his address as shown on the records of the Company and have been returned undeliverable, the giving of such notice to such Shareholder shall not thereafter be required. Any action or meeting which shall be taken or held without notice to such Shareholder shall have the same force and effect as if such notice had been duly given.

If any such Shareholder shall deliver to the Company a written notice setting forth his then current address, the requirement that notice be given to such Shareholder shall be reinstated.

5.2. Waivers of Notice. Except as otherwise provided by the terms of these By-Laws, whenever any notice is required to be given under applicable law, the terms of the Operating Agreement or these By-Laws, a written waiver thereof, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Except as otherwise provided by applicable law, the terms of the Operating Agreement or these By-Laws, neither the business to be transacted at, nor the purpose of, any regular or special meeting of Shareholders, Directors or members of a committee of Directors need be specified in any written waiver of notice of such meeting.

ARTICLE VI.

Certificates of Shares, Transfer, Etc.

6.1. Issuance. Each Shareholder shall be entitled to a certificate or certificates for Shares of the Company owned by him, her or it upon his, her or its request therefor. The Share certificates of the Company shall be registered in the Share ledger and transfer books of the Company as they are issued. They shall be signed by (i) the Chairman of the Board, the President or a Vice-President, and (ii) the Secretary or an Assistant Secretary, if any, or by the Chief Financial Officer or an Assistant Financial Officer, if any; and shall bear the Company's seal, if any, which may be a facsimile, engraved or printed. Any or all of the signatures upon such certificate may be a facsimile, engraved or printed. In case any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon, any share certificate shall have ceased to be such officer, transfer agent or registrar before the certificate is issued, it may be issued with the same effect as if he or she were such officer, transfer agent or registrar at the date of its issue.

6.2. Transfer, Legends, etc. Upon surrender to the Company or the transfer

agent of the Company of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, the Company shall issue a new certificate to the person entitled thereto, cancel the old certificate, and record the reaction upon its books. Subject to applicable law, the Board of Directors may, by resolution, (a) impose restrictions on transfer or registration of transfer of Shares of the Company, and (b) require as a condition to the issuance or transfer of such Shares that the person or persons to whom such Shares are to be issued or transferred agree in writing to such restrictions. In the event that any such restrictions on transfer or registration of transfer are so imposed, the Company shall require that such restrictions be conspicuously noted on all certificates representing such Shares.

6.3. Share Certificate. Share certificates of the Company shall be in such form as is required or authorized by statute and approved by the Board of Directors. The Share record books and the blank Share certificate books shall be kept by the Secretary or an Assistant Secretary, if any, or by any agent designated by the Board of Directors for that purpose.

6.4. Lost, Stolen, Defaced, Worn Out, or Destroyed. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Company alleged to have been lost, stolen, defaced, worn out or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of Share to be lost, stolen, defaced, worn out or destroyed. When authorizing such issuance of a new certificate or certificates, the Company may, as a condition precedent thereto, (a) require the owner of any defaced or worn out certificate to deliver such certificate to the Company and order the cancellation of the same, and (b) require the owner of any lost, stolen, or destroyed certificate or certificates, or his, her or its legal representative, to advertise the same in such manner as the Company shall require and to give the Company a bond in such sum as it may direct as indemnity against any claim that may be made against the Company with respect to the certificate alleged to have been lost, stolen, or destroyed. Thereupon, the Company may cause to be issued to such person a new certificate in replacement for the certificate alleged to have been lost, stolen, defaced, worn out or destroyed. Upon the stub of every new certificate so issued shall be noted the fact of such issue and the number, date and name of the registered owner of the lost, stolen, defaced, worn out or destroyed certificate in lieu of which the new certificate is issued. Every certificate issued hereunder shall be issued without payment to the Company for such certificate; provided, that there shall be paid to the Company a sum equal to any exceptional expenses incurred by the Company in providing for or obtaining any such indemnity and security as is referred to herein.

6.5. Record Holder of Shares. Except as otherwise provided by applicable law, the terms of the Operating Agreement, or these By-Laws, the Company (a) shall be entitled to recognize the exclusive right of a person registered on its books as the owner of Shares to receive distributions and to vote as such owner and (b) shall not be bound to recognize any equitable or other claim to or interest in such Share or Shares on the part of any other person, whether or not it shall have express or other
notice thereon.

The Company may treat a fiduciary as having capacity and authority to exercise all rights of ownership in respect of Shares of record in the name of a decedent holder, a person, firm or corporation in conservation, receivership or bankruptcy, a minor, an incompetent person, or a person under disability, as the case may be, for whom such fiduciary is acting, and the Company, its transfer agent and its registrar, if any, upon presentation of evidence of appointment of such fiduciary shall be under no duty to inquire as to the powers of such fiduciary and shall not be liable for any loss caused by any act done or omitted to be done by the Company or its transfer agent or registrar, if any, in

reliance thereon.

6.6. Determination of Shareholders of Record. In order that the Company may determine the Shareholders entitled to notice of or to vote at any meeting of Shareholders or any adjournment thereof, or to express consent to the Company's actions in writing without a meeting, or entitled to exercise any rights in respect of any change, conversion or exchange of Shares, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) calendar days before the date of such meeting, nor more than sixty (60) calendar days prior to any other action.

If no record date is fixed:

(a) The record date for determining Shareholders entitled to notice of or to vote at a meeting of Shareholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(b) The record date for determining Shareholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed.

(c) The record date for determining Shareholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

A determination of Shareholders of record entitled to notice of or to vote at a meeting of Shareholders shall apply to any adjournment of the meeting; provided, that the Board of Directors may fix a new record date for the adjourned meeting.

6.7. Appointment of Transfer Agents, Registrars, etc. The Board of Directors may from time to time by resolution appoint (a) one or more transfer agents and registrars for the Shares of the Company, (b) a plan agent to administer any employee benefit, dividend reinvestment, or similar plan of the Company, and (c) a dividend disbursing agent to disburse any and all dividends authorized by the Board and payable with respect to the Shares of the Company. The Board of Directors shall also have authority to make such other rules and regulations, not inconsistent with applicable law, the terms of the Operating Agreement or these By-Laws, as it deems necessary or advisable with respect to the issuance, transfer and registration of certificates for Shares and the Shares represented thereby.

ARTICLE VII.

General Provisions

7.1. Contracts , etc. Except as otherwise provided by applicable law, the terms of the Operating Agreement or these By-Laws, the Board of Directors may authorize any officer or officers, any employee or employees, or any agent or agents, to enter into any contract or to execute, acknowledge or deliver any agreement, deed, mortgage, bond or other instrument in the name of and on behalf of the Company, and to affix the Company's seal, if any, thereon. Such authority may be general or confined to specific instances.

7.2. Checks. All checks, notes, obligations, bills of exchange, acceptances or other orders in writing shall be signed by such person or persons as the Board of Directors may from time to time designate by resolution, or by those officers of the Corporation given such express authority by the terms of these By-Laws.

7.3. Company's Seal. The Company's seal, if any such seal is approved by the Board of Directors, shall have inscribed thereon the name of the Company and the year of its formation. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

7.4. Deposits. All funds of the Company shall be deposited from time to time to the credit of the credit of the Company in such banks, trust companies or other depositories as the Board of Directors may approve or designate, and all such funds shall be withdrawn only upon checks or other orders signed by such one or more officers, employees or agents as designated in the Operating Agreement, in these By-Laws or from time to time by the Board of Directors.

7.5. Amendment of By-Law. Except as otherwise provided by the terms of the Operating Agreement, these By-Laws may be amended, modified or repealed, or new By-Laws may be adopted, by the affirmative vote of a majority of all members of the Board of Directors then in office at any regular meeting of the Board of Directors, or at any special meeting thereof, if notice of such amendment, modification, repeal, or adoption of new By-Laws is contained in the notice of such special meeting.

7.6. Operating Agreement. In the event of a conflict between the provisions of these By-Laws and the Provisions of the Operating Agreement or of applicable law, the terms of the Operating Agreement or of such law, respectively, shall control.

EXHIBIT 21
SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary	Jurisdiction of Organization
Affordable Property Holdings, LLC	Michigan
CAPREIT Tera Venture, LLC	Maryland
FM Sponsor I, LLC	Maryland
MEC Bond Warehousing, LLC	Maryland
MEC Warehousing, LLC	Maryalnd
Midland Advisory Services, Inc.	Michigan
Midland Capital Corporation	Michigan
Midland Equity Corporation	Florida
Midland Financial Holdings, Inc.	Florida
Midland Middle Tier I, LP	Delaware
Midland Mortgage Investment Corporation	Florida
Midland Realty Investment Corporation	Florida
Midland Securities Corporation	Florida
Midland Special Limited Partner, Inc.	Florida
Midland Special Partners Corporation	Washington
MMA Credit Enhancement I, LLC	Maryland
MMA Servicing, LLC	Maryland
MMA Taxable Holdings, LLC	Maryland
MMACap, LLC	Delaware
Municipal Mortgage & Equity, LLC Employee Compensation Trust	Delaware
Municipal Mortgage Investments II, LLC	Maryland
Municipal Mortgage Investments III, LLC	Maryland
Municipal Mortgage Investments IV, LLC	Maryland
Municipal Mortgage Investments, LLC	Maryland
Munimae Enhancement, LLC	Maryland

MuniMae Investment Services Corporation	Maryland
MuniMae Midland Construction Finance, LLC (formerly MMA Taxable Structured Finance, LLC)	Maryland
MuniMae Midland Equity I, LLC	Maryland
MuniMae Midland Equity II, LLC	Maryland
MuniMae Midland Equity III, LLC	Maryland
MuniMae Midland Equity IV, LLC	Maryland
MuniMae Midland Equity Ventures, LLC	Maryland
MuniMae Midland, LLC (formerly MuniMae Operating, LLC)	Maryland
MuniMae Portfolio Services, LLC (formerly Municipal Mortgage Servicing, LLC)	Maryland
MuniMae Structured Finance, LLC	Maryland
MuniMae Swap Partner, LLC	Maryland
MuniMae TE Bond Subsidiary, LLC	Maryland
MuniMae TEI Holdings, LLC	Maryland
SCA Tax Exempt Trust	Maryland
TE Bond Holder Associates Limited Partnership	Maryland
Whitehawk Capital Fund IV, LLC	Maryland
Whitehawk Municipal Finance, LLC	Delaware

EXHIBIT 23
CONSENT OF PRICEWATERHOUSECOOPERS LLP

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-17427), Form S-8 (No. 333-65461), Form S-8 (No. 333-74056), and Form S-3/A (No.333-20945), S-3/A (No. 333-56049) of Municipal Mortgage & Equity, LLC of our report dated February 27, 2003 relating to the financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

/s/PricewaterhouseCoopers LLP

Baltimore, Maryland
March 25, 2003

EXHIBIT 99

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

Each of the undersigned officers of Municipal Mortgage & Equity, LLC, a Delaware limited liability company (the "Company"), hereby certifies that (i) the Company's Quarterly Report on Form 10-K for the year ended December 31, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 fairly presents, in all material respects, the financial condition and results of operations of the Company, at and for the periods indicated.

Date: March 26, 2003

/s/ Mark K. Joseph

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

/s/ William S. Harrison

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