MUNICIPAL MORTGAGE & EQUITY LLC
Form 10-Q
November 13, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 30, 2001
Commission file number: 001-11981

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

Delaware	52-1449733
(State of 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

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

The Company had 21,668,952 Common Shares outstanding as of November 9, 2001.

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

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

	(unaudited) September 30, 2001
ASSETS	
Cash and cash equivalents	$ 30,980
Interest receivable	9,856
Investment in mortgage revenue bonds, net (Note 2)	538,571
Investment in other bond related investments (Notes 3 and 4)	15,704
Loans receivable (Note 6)	379,651
Restricted assets	20,081
Other assets	54,427
Mortgage servicing rights, net	8,366
Property and equipment	1,986
Goodwill and other intangible assets	25,468
Total assets	$ 1,085,090
LIABILITIES AND SHAREHOLDERS' EQUITY	
Notes payable (Note 7)	$ 331,364
Accounts payable, accrued expenses and other liabilities	25,104
Investment in derivative financial instruments (Note 5)	20,541
Investment in other bond related investments (Notes 3 and 4)	7,086
Distributions payable	2,606
Short-term debt	58,590
Long-term debt	60,562
Total liabilities	505,853
Commitments and contingencies	-
Preferred shareholders' equity in a subsidiary company (Note 9)	137,655
Shareholders' equity:	
Preferred shares:	
Series I (10,995 and 14,933 shares issued and outstanding, respectively)	6,921
Series II (3,176 and 7,226 shares issued and outstanding, respectively)	2,348
Preferred capital distribution shares:	
Series I (5,742 and 7,798 shares issued and outstanding, respectively)	2,546
Series II (1,391 and 3,164 shares issued and outstanding, respectively)	417
Term growth shares (2,000 shares issued and outstanding)	214
Common shares (21,677,444 shares, including 21,656,805 issued, and 20,639 deferred shares at September 30, 2001 and 17,716,576 shares, including 17,700,745 issued, and 15,831 deferred shares at December 31, 2000)	396,876
Less common shares held in treasury at cost (59,330 shares and 60,839 shares, respectively)	(912)
Less unearned compensation - deferred shares	(4,447)

Accumulated other comprehensive income	37,619
Total shareholders' equity	441,582
Total liabilities and shareholders' equity	$ 1,085,090

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

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

	For the three months ended September 30,	
	2001	2000
INCOME:		
Interest on mortgage revenue bonds and other bond related investments	$ 12,153	$ 10,293
Interest on loans	8,461	8,563
Loan origination and brokerage fees	1,322	958
Syndication fees	3,291	1,875
Loan servicing fees	1,659	1,325
Interest on short-term investments	487	1,158
Other income	1,395	1,519
Net gain on sales	3,521	181
Total income	32,289	25,872
EXPENSES:		
Salaries and benefits	5,527	3,843
Professional fees	1,114	575
Operating expenses	1,881	1,594
Goodwill and other intangibles amortization	694	358
Interest expense	7,873	8,403
Other-than-temporary impairments related to investments in mortgage revenue bonds and other bond related investments	-	-
Total expenses	17,089	14,773
Net holding losses on trading securities	(4,670)	-
Net income before income allocated to preferred shareholders in a subsidiary company, income taxes and cumulative effect of accounting change	10,530	11,099
Income allocable to preferred shareholders in a subsidiary company	2,606	2,606
Net income before income taxes and cumulative effect of accounting change	7,924	8,493

Income tax expense	805	720
Net income before cumulative effect of accounting change	7,119	7,773
Cumulative effect on prior years of change in accounting for derivative financial instruments	-	-
Net income	$ 7,119	$ 7,773
Net income allocated to:		
Preferred shares:		
Series I	$ 255	$ 193
Series II	1	78
Preferred capital distribution shares:		
Series I	$ 132	$ 76
Series II	3	20
Term growth shares	$ 214	$ 172
Common shares	$ 6,514	$ 7,234

1 of 2

MUNICIPAL MORTGAGE & EQUITY, INC.
CONSOLIDATED STATMENTS OF INCOME
(In thousands, except share and per share data)
(unaudited)

	For the three months ended September 30,	
	2001	2000
Basic net income per share:		
Preferred shares:		
Series I	$ 23.19	$ 12.97
Weighted average shares outstanding	10,995	14,933
Series II	0.04	10.68
Weighted average shares outstanding	3,176	7,226
Preferred capital distribution shares:		
Series I	$ 22.91	$ 9.78
Weighted average shares outstanding	5,742	7,798

Series II	2.10	6.12
Weighted average shares outstanding	1,391	3,164
Common shares:		
Income before cumulative effect of accounting change	$ 0.30	$ 0.41
Cumulative effect on prior years of change in accounting for derivative financial instruments	-	-
Basic net income per common share	$ 0.30	$ 0.41
Weighted average common shares outstanding	21,590,584	17,447,886
Diluted net income per share:		
Common shares:		
Income before cumulative effect of accounting change	$ 0.29	$ 0.40
Cumulative effect on prior years of change in accounting for derivative financial instruments	-	-
Diluted net income per common share	$ 0.29	$ 0.40
Weighted average common shares outstanding	22,397,981	18,059,115

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

2 of 2

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

	For the three months ended September 30,	
	2001	2000
Net income	$ 7,119	$ 7,773
Other comprehensive income (loss):		
Unrealized gains (losses) on investments:		
Unrealized holding gains (losses) arising during the period	1,046	(5,379)
Reclassification adjustment for (gains) losses included in net income	(2,245)	(181)
Other comprehensive income (loss)	(1,199)	(5,560)
Comprehensive income	$ 5,920	$ 2,213

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

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

	Preferred Shares		Preferred Capital Distribution Shares		Term Growth Shares	Common Shares	Treasury Shares	Co
	Series I	Series II	Series I	Series II				
Balance, January 1, 2001	$ 9,594	$ 4,868	$ 3,489	$ 1,268	$ 197	$ 328,990	$ (944)	$
Net income	599	95	269	16	638	9,263	-	
Unrealized gains on investments, net of reclassifications	-	-	-	-	-	-	-	
Distributions	(474)	(1,065)	(188)	(434)	(621)	(25,866)	-	
Redemption of preferred shares	(2,798)	(1,550)	(1,024)	(433)	-	(1,363)	-	
Reissuance of treasury shares	-	-	-	-	-	(32)	32	
Options exercised	-	-	-	-	-	1,730	-	
Issuance of common shares	-	-	-	-	-	82,645	-	
Deferred shares issued under the Non-Employee Directors' Share Plans .	-	-	-	-	-	111	-	
Deferred share grants ...	-	-	-	-	-	1,398	-	
Amortization of deferred compensation	-	-	-	-	-	-	-	
Balance, September 30, 2001	$ 6,921	$ 2,348	$ 2,546	$ 417	$ 214	$ 396,876	$ (912)	$

SHARE ACTIVITY:	Preferred Shares		Preferred Capital Distribution Shares		Term Growth Shares	Common Shares	Treasury Shares
	Series I	Series II	Series I	Series II			
Balance, January 1, 2001	14,933	7,226	7,798	3,164	2,000	17,655,737	60,839
Redemption of preferred shares	(3,938)	(4,050)	(2,056)	(1,773)	-	-	-
Reissuance of treasury shares	-	-	-	-	-	1,509	(1,509)
Options exercised	-	-	-	-	-	101,000	-
Issuance of common shares.	-	-	-	-	-	3,800,000	-
Issuance of common shares under employee share							

incentive plans	-	-	-	-	-	55,060	-
Deferred shares issued under the Non-Employee Directors' Share Plans..	-	-	-	-	-	4,808	-
Balance, September 30, 2001	10,995	3,176	5,742	1,391	2,000	21,618,114	59,330

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

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

	For
	200
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$
Adjustments to reconcile net income to net cash provided by operating activities:	
Income allocated to preferred shareholders in a subsidiary company	
Cumulative effect of accounting change	
Net holding losses on trading securities	
Other-than-temporary impairments related to investments in mortgage revenue bonds	
Decrease in valuation allowance on parity working capital loans	
Net gain on sales	
Net amortization of premiums, discounts and fees on investments	
Depreciation and amortization	
Loss on the disposal of fixed assets	
Deferred share compensation expense	
Deferred shares issued under the Non-Employee Directors' Share Plans	
Director fees paid and share awards made by reissuance of treasury shares	
Decrease in interest receivable	
Increase in other assets	
Increase in accounts payable, accrued expenses and other liabilities	
Net cash provided by operating activities	
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of mortgage revenue bonds, other bond related investments, loan originations and other investments	(
Principal payments received	
Net proceeds from sales of investments	
Purchases of property and equipment	
Net reduction (investment) in restricted assets	

Net cash used in investing activities	
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings from credit facilities	
Repayment of credit facilities	(
Proceeds from short-term debt	
Repayment of short-term debt	
Proceeds from long-term debt	
Repayment of long-term debt	
Issuance of common shares	
Issuance of preferred shares in a subsidiary company	
Redemption of preferred shares	
Proceeds from stock options exercised	
Purchase of treasury shares	
Distributions	
Distributions to preferred shares in a subsidiary company	
Net cash provided by financing activities	
Net increase (decrease) in cash and cash equivalents	
Cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid	$
Income taxes paid	$
DISCLOSURE OF NON-CASH ACTIVITIES:	
Investment in a partnership under a note payable obligation	$

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

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

NOTE 1 - BASIS OF PRESENTATION

Municipal Mortgage & Equity, LLC ("MuniMae") and its subsidiaries (together with MuniMae, the "Company") are principally engaged in originating, investing in and servicing investments related to multifamily housing financings. A significant portion of the Company's investments are mortgage revenue bonds, or interests in mortgage revenue bonds, issued by state and local governments or their agencies or authorities to finance multifamily housing developments. As a result, interest income from these investments is exempt for federal income tax purposes. Multifamily housing developments, as well as the rents paid by the tenants, secure these investments. The Company also originates, invests in and services investments related to multifamily housing financings that are not mortgage revenue bonds. These investments generate taxable rather than tax-exempt income.

The assets of MuniMae TE Bond Subsidiary, LLC and its subsidiaries (collectively, "TE Bond Sub"), a majority owned subsidiary of MuniMae, are solely those of TE Bond Sub and are not available to creditors of MuniMae. The equity interest in TE Bond Sub held by MuniMae is subject to the claims of creditors of the Company and in certain circumstances could be foreclosed upon.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and in the opinion of management contain all adjustments (consisting of only normal recurring accruals) necessary to present a fair statement of the results for the periods presented. These results have been determined on the basis of accounting principles and policies discussed in Note 1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (the "Company's 2000 Form 10-K"). Certain information and footnote disclosures normally included in financial statements presented in accordance with generally accepted accounting principles have been condensed or omitted. The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2000 Form 10-K. Certain 2000 amounts have been reclassified to conform to the 2001 presentation.

New Accounting Pronouncements

During July 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of Effective Date of FASB Statement No. 133." In addition, during 2000, the Financial Accounting Standards Board issued FASB Statement 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 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 of a balance sheet item pursuant to the provisions of FAS 133. The Company has elected, as permitted by FAS 133, not to prove the hedging effectiveness of its interest rate swap 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 income rather than through other comprehensive income. The Company adopted FAS 133 on January 1, 2001.

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. Under FAS 133, the Company's investment in total return swaps and put option contracts is recorded on the balance sheet with changes in fair value of these instruments, as well as changes in fair value of other instruments which are deemed to be derivative financial instruments, recorded in current earnings. The Company also has investments in interest rate swaps, which are held to offset the floating interest rate exposure in certain investments.

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 financial obligations under the bonds. Upon adoption, the Company's interest rate swaps and total return swaps were reclassified to trading securities; 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 ($4.7) million and ($8.3) million for the three and nine months ended September 30, 2001, respectively, due to the change in fair value of its derivative instruments. This change is reflected in net holding losses on trading securities in the statement of income.

During September 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125" ("FAS 140"). FAS 140 provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. FAS 140 is effective for transfers and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001. The disclosure requirements related to securitization transactions and collateral are required for all fiscal years ending after December 15, 2000. Accordingly, the Company has incorporated the appropriate disclosure requirements in its notes to the consolidated financial statements for the three months ended September 30, 2001. The Company believes the provisions pertaining to the transfer and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001 may over time have a significant impact on the total assets and total liabilities of the Company. In particular, new securitization transactions that would have been accounted for as a sale under Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("FAS 125") may be accounted for as a borrowing under FAS 140. Therefore, the senior interest in future securitizations may be recorded as debt and the bonds associated with the transaction may continue to be included in investments in mortgage revenue bonds rather than being excluded upon completion of the securitization transaction.

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 are effective July 1, 2001 and January 1, 2002, respectively, for the Company. FAS 141 requires that the purchase method of accounting be used for all business combinations consummated after June 30, 2001. Under FAS 142, amortization of goodwill, including goodwill recorded in past business combinations, will discontinue upon adoption of this standard. In addition, goodwill recorded as a result of business combinations completed during the six-month period ending December 31, 2001 will not be amortized. All goodwill and intangible assets will be tested for impairment in accordance with the provisions of the Statement. The Company is currently reviewing the provisions of FAS 141 and FAS 142 and assessing the impact of adoption.

NOTE 2 - INVESTMENTS IN MORTGAGE REVENUE BONDS

The Company holds a portfolio of tax-exempt mortgage revenue bonds and certificates of participation in grantor trusts holding tax-exempt mortgage revenue bonds ("COPs"). The tax-exempt mortgage revenue bonds are issued by state and local government authorities to finance multifamily housing developments secured by nonrecourse mortgage loans on the underlying properties. The COPs represent a pro rata interest in a trust that holds a tax-exempt mortgage revenue bond. The Company's rights and the specific terms of the bonds are defined by the various loan documents, which were negotiated at the time of settlement. See further discussion of the general mortgage loan terms in Note 5 to the Company's 2000 Form 10-K.

The table at the end of this note provides certain information with respect to the bonds held by the Company at September 30, 2001 and December 31, 2000.

In the third quarter, the Company acquired a mortgage revenue bond ($5.4 million par amount) collateralized by an apartment community with 260 units for a total purchase price of $5.3 million. The permanent interest rate on the bond is 9.125% per annum and the bond matures in November 2039. The Company also purchased the $17.4 million (par amount) bond collateralized by the Willow Key apartment community in conjunction with the termination of the Willow Key total return swap. In addition, the Company repurchased all the P-FLOATs(sm) outstanding in the Village Green securitization trust. The Company then collapsed the securitization trust and deposited the Village Green bond into the restructured Term Securitization Facility discussed in Note 8.

The $10.1 million bond collateralized by the Newport on Seven apartment community was paid off during the third quarter. The Company received $10.8 million for the pay off representing the face amount of $10.1 million plus $0.7 million in deferred base interest. The Company recorded a gain of $2.2 million related of this transaction.

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 the senior interests in certain P-FLOATs(sm) trusts. Additionally, the Company pledged investments as collateral for the term debt financing completed in March 1999. At September 30, 2001 the total carrying amount of the mortgage revenue bonds pledged as collateral was $408.5 million.

Investment in Mortgage Revenue Bonds	Year Acquired	Base Interest Rate (12)	Maturity Date	Sep Face Amount (000s)	 Amor Co (00
Participating Bonds (1):					
Alban Place ....(2),(8)	1986	7.875	Oct. 2008	$ -	$
Arlington ....(9),(10)	2000	8.100	Jan. 2031	12,625	12
Cobblestone ....(4),(10)	1999	7.125	Aug. 2039	6,800	6
Cool Springs ....(4),(10)	2000	7.750	Aug. 2030	14,472	14
Creekside Village .....(2),(4),(5),(6)	1987	7.500	Nov. 2009	11,760	7
Crossings ....(4),(19)	1997	8.000	Jul. 2007	6,795	6
Emerald Hills ....(2),(4),(5)	1988	7.750	Apr. 2008	6,725	6
Jefferson Commons .....(15)	2000	8.200	Jan. 2031	19,862	19
Lakeview Garden ....(2), (8)	1987	7.750	Aug. 2007	-	
Newport On Seven ......(2),(16)	1986	8.125	Aug. 2008	-	
North Pointe ....(2), (8)	1986	7.875	Aug. 2006	-	
Northridge Park ....(2), (8)	1987	7.500	Jun. 2012	-	
Stone Mountain ....(8)	1997	7.875	Oct. 2027	-	
Timber Ridge ....(4),(10)	2000	7.950	Jan. 2036	5,215	5
Villas at LaRiveria ...(4),(10)	1999	7.125	Jun. 2034	8,848	8
Subtotal participating bonds				93,102	87
Non-Participating Bonds:					
Alban Place ....(2),(4),(5),(8)	1986	7.150	Oct. 2008	10,065	10
Baytown ....(4),(10)	2000	7.750	Jun. 2030	5,000	4
Bedford Park ....(9)	2000	8.000	Nov. 2032	9,325	9
Buchanan Bay ....(4)	2001	5.830	Dec. 2031	10,725	9

Charter House	1996	7.450	Jul. 2026	25	
Cielo Vista ....(4),(10)	1999	7.125	Sep. 2034	9,470	9
Country Club ....(10)	1999	7.250	Aug. 2029	2,475	2
Delta Village ....(10)	1999	7.125	Jun. 2035	2,011	1
Elmbrook-Golden ....(10)	2000	7.800	May. 2035	2,797	2
Gannon-Cedar Run ......(4),(10)	1998	7.125	Dec. 2025	13,200	13
Gannon-Dade ....(17)	1998	7.125	Dec. 2029	54,883	55
Gannon-Whispering Palms(4)	1998	7.125	Dec. 2029	12,510	12
Gannon Bond ....(4),(10)	1998	7.125	Dec. 2029	3,500	3
Hidden Valley ....(4),(10)	1996	8.250	Jan. 2026	1,620	1
Hunter's Glen ....(4)	2001	6.350	Dec. 2029	10,740	9
Honey Creek ....(9)	2000	7.625	Jul. 2035	20,485	20
Lakeview Garden ....(2),(4),(5),(6),(8)	1987	7.750	Aug. 2007	9,003	4
Lake Piedmont ....(4),(6),(10)	1998	7.725	Apr. 2034	19,118	18
Mountain View (Willowgreen) ....(2),(4),(6)	2000	8.000	Dec. 2010	9,275	6
North Pointe ....(2),(4),(6),(8)	1986	7.875	Aug. 2006	25,185	12
Northridge Park ....(2),(4),(5),(8)	1987	7.500	Jun. 2012	8,815	8
Oakbrook ....(4),(10)	1996	8.200	Jul. 2026	3,065	3
Oakmont/Towne Oaks ....(4),(10)	1998	7.200	Jan. 2034	11,219	11
Orangevale ....(4),(10)	1998	7.000	Oct. 2013	2,242	2
Paola ....(10)	1999	7.250	Aug. 2029	1,044	1
Parkwood ....(4),(10)	1999	7.125	Jun. 2035	3,910	3
Riverset Phase II	1996	9.500	Oct. 2019	110	
Sahuarita ....(4),(10)	1999	7.125	Jun. 2029	2,114	2
Santa Fe Springs ......(4)	2000	(14)	Jun. 2025	11,700	11
Shadowbrook ....(4),(10)	1999	6.850	Jun. 2029	5,780	5
Southwinds ....(4),(10)	2000	8.000	Sep. 2030	4,347	4
Stone Mountain ....(4),(8),(10)	1997	7.875	Oct. 2027	33,900	34
Torries Chase ....(4),(10)	1996	8.150	Jan. 2026	1,985	1
University Courtyard ..(9)	2000	7.250	Mar. 2040	9,850	9
Village Green ....(9)	2001	7.625	Feb. 2035	6,444	6
Villa Hialeah ....(2),(4),(5)	1999	6.000	Aug. 2019	10,250	8
Western Hills ....(4),(10)	1998	7.000	Dec. 2029	3,024	3
Wheeler Creek ....(4),(10)	1998	(13)	Jan. 2003	10,489	10
Willow Key ....(4)	2001	6.717	(18)	17,440	17
Woodmark ....(4),(10)	1999	7.125	Jun. 2039	10,200	10
Subtotal non-participating bonds				389,340	362

Investment in Mortgage Revenue Bonds	Year Acquired	Base Interest Rate (12)	Maturity Date	Face Amount (000s)	Amort Cos (000
Participating Bonds (1):					
Alban Place ....(2),(8)	1986	7.875	Oct. 2008	$ 10,065	$ 10
Arlington ....(9),(10)	2000	8.100	Jan. 2031	12,625	12
Cobblestone ....(4),(10)	1999	7.125	Aug. 2039	6,800	6

Cool Springs ....(4),(10)	2000	7.750	Aug. 2030	14,472	14
Creekside Village .....(2),(4),(5),(6)	1987	7.500	Nov. 2009	11,760	7
Crossings ....(4),(19)	1997	8.000	Jul. 2007	6,838	6
Emerald Hills ....(2),(4),(5)	1988	7.750	Apr. 2008	6,725	6
Jefferson Commons .....(15)	2000	8.200	Jan. 2031	19,900	19
Lakeview Garden ....(2), (8)	1987	7.750	Aug. 2007	9,003	4
Newport On Seven ......(2),(16)	1986	8.125	Aug. 2008	10,125	7
North Pointe ....(2), (8)	1986	7.875	Aug. 2006	25,185	12
Northridge Park ....(2), (8)	1987	7.500	Jun. 2012	8,815	8
Stone Mountain ....(8)	1997	7.875	Oct. 2027	33,900	34
Timber Ridge ....(4),(10)	2000	7.950	Jan. 2036	5,215	5
Villas at LaRiveria ...(4),(10)	1999	7.125	Jun. 2034	8,850	8
Subtotal participating bonds				190,278	166
Non-Participating Bonds:					
Alban Place ....(2),(4),(5),(8)	1986	7.150	Oct. 2008	-	
Baytown ....(4),(10)	2000	7.750	Jun. 2030	5,000	4
Bedford Park ....(9)	2000	8.000	Nov. 2032	9,325	9
Buchanan Bay ....(4)	2001	5.830	Dec. 2031	-	
Charter House	1996	7.450	Jul. 2026	25	
Cielo Vista ....(4),(10)	1999	7.125	Sep. 2034	9,500	9
Country Club ....(10)	1999	7.250	Aug. 2029	2,485	2
Delta Village ....(10)	1999	7.125	Jun. 2035	2,011	1
Elmbrook-Golden ....(10)	2000	7.800	May. 2035	2,800	2
Gannon-Cedar Run ......(4),(10)	1998	7.125	Dec. 2025	13,200	13
Gannon-Dade ....(17)	1998	7.125	Dec. 2029	54,999	55
Gannon-Whispering Palms(4)	1998	7.125	Dec. 2029	12,676	12
Gannon Bond ....(4),(10)	1998	7.125	Dec. 2029	3,500	3
Hidden Valley ....(4),(10)	1996	8.250	Jan. 2026	1,640	1
Hunter's Glen ....(4)	2001	6.350	Dec. 2029	-	
Honey Creek ....(9)	2000	7.625	Jul. 2035	20,485	20
Lakeview Garden ....(2),(4),(5),(6),(8)	1987	7.750	Aug. 2007	-	
Lake Piedmont ....(4),(6),(10)	1998	7.725	Apr. 2034	19,118	18
Mountain View (Willowgreen) ....(2),(4),(6)	2000	8.000	Dec. 2010	9,275	6
North Pointe ....(2),(4),(6),(8)	1986	7.875	Aug. 2006	-	
Northridge Park ....(2),(4),(5),(8)	1987	7.500	Jun. 2012	-	
Oakbrook ....(4),(10)	1996	8.200	Jul. 2026	3,105	3
Oakmont/Towne Oaks ....(4),(10)	1998	7.200	Jan. 2034	11,249	11
Orangevale ....(4),(10)	1998	7.000	Oct. 2013	2,328	2
Paola ....(10)	1999	7.250	Aug. 2029	1,048	1
Parkwood ....(4),(10)	1999	7.125	Jun. 2035	3,910	3
Riverset Phase II	1996	9.500	Oct. 2019	110	
Sahuarita ....(4),(10)	1999	7.125	Jun. 2029	2,120	2
Santa Fe Springs ......(4)	2000	(14)	Jun. 2025	15,100	11
Shadowbrook ....(4),(10)	1999	6.850	Jun. 2029	5,780	5
Southwinds ....(4),(10)	2000	8.000	Sep. 2030	4,350	4
Stone Mountain ....(4), (8), (10)	1997	7.875	Oct. 2027	-	
Torries Chase ....(4),(10)	1996	8.150	Jan. 2026	2,010	2
University Courtyard ..(9)	2000	7.250	Mar. 2040	9,850	9
Village Green ....(9)	2001	7.625	Feb. 2035	-	
Villa Hialeah ....(2),(4),(5)	1999	6.000	Aug. 2019	10,250	8
Western Hills ....(4),(10)	1998	7.000	Dec. 2029	3,033	3
Wheeler Creek ....(4),(10)	1998	(13)	Jan. 2003	8,633	8
Willow Key ....(4)	2001	6.717	(18)	-	
Woodmark ....(4),(10)	1999	7.125	Jun. 2039	10,200	10
Subtotal non-participating bonds				259,115	248

Investment in Mortgage Revenue Bonds	Year Acquired	Base Interest Rate (12)	Maturity Date	Face Amount (000s)	Amor Co (00
Participating Subordinate Bonds (1):					
Barkley Place ....(3),(4),(6),(10)	1995	16.000	Jan. 2030	3,480	2
Gilman Meadows ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	2,875	2
Hamilton Chase ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	6,250	4
Mallard Cove I ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	1,670	
Mallard Cove II ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	3,750	2
Meadows ....(3),(4),(6),(10)	1995	16.000	Jan. 2030	3,635	3
Montclair ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	6,840	1
Newport Village ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	4,175	2
Nicollet Ridge ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	12,415	6
Riverset Phase II ..... (6)	1996	10.000	Oct. 2019	1,489	
Steeplechase ....(3),(4),(6),(10)	1995	16.000	Jan. 2030	5,300	4
Whispering Lake ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	8,500	4
Subtotal participating subordinate bonds				60,379	35
Non-Participating Subordinate Bonds:					
CapReit B	2000	11.000	Sep. 2005	-	
Cinnamon Ridge ....(6)	1999	5.000	Jan. 2015	1,832	1
Farmington Meadows ....(10)	1999	8.000	Aug. 2039	1,985	1
Independence Ridge ....(10)	1996	12.500	Dec. 2015	1,045	1
Locarno ....(10)	1996	12.500	Dec. 2015	675	
Olde English Manor ....(11)	1998	10.570	Nov. 2033	1,273	1
Peaks at Conyers	2001	9.125	Nov. 2039	5,420	5
Rillito B Series ......(6),(7)	2000	13.000	Dec. 2033	1,054	1
Winter Oaks B bond ....(6),(10)	1999	7.500	Jul. 2022	2,184	2
Winter Oaks C bond ....(6),(10)	1999	10.000	Jul. 2022	2,141	1
Subtotal non-participating subordinate bonds				17,609	16
Total investment in mortgage revenue bonds				$ 560,430	$ 503

Investment in Mortgage Revenue Bonds	Year Acquired	Base Interest Rate (12)	Maturity Date	Face Amount (000s)	Amor C (00
				Dece	
Participating Subordinate Bonds (1):					
Barkley Place ....(3),(4),(6),(10)	1995	16.000	Jan. 2030	3,480	2
Gilman Meadows ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	2,875	2
Hamilton Chase ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	6,250	4
Mallard Cove I ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	1,670	
Mallard Cove II ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	3,750	2
Meadows ....(3),(4),(6),(10)	1995	16.000	Jan. 2030	3,635	3
Montclair ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	6,840	1
Newport Village ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	4,175	2
Nicollet Ridge ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	12,415	6
Riverset Phase II ..... (6)	1996	10.000	Oct. 2019	1,489	
Steeplechase ....(3),(4),(6),(10)	1995	16.000	Jan. 2030	5,300	4
Whispering Lake ....(3),(4),(6),(10)	1995	3.000	Jan. 2030	8,500	4
Subtotal participating subordinate bonds				60,379	35
Non-Participating Subordinate Bonds:					
CapReit B	2000	11.000	Sep. 2005	5,000	4
Cinnamon Ridge ....(6)	1999	5.000	Jan. 2015	1,832	1
Farmington Meadows ...(10)	1999	8.000	Aug. 2039	1,991	1
Independence Ridge ...(10)	1996	12.500	Dec. 2015	1,045	1
Locarno ....(10)	1996	12.500	Dec. 2015	675	
Olde English Manor ...(11)	1998	10.570	Nov. 2033	1,273	1
Peaks at Conyers	2001	9.125	Nov. 2039	-	
Rillito B Series .....(6),(7)	2000	13.000	Dec. 2033	1,044	1
Winter Oaks B bond ...(6),(10)	1999	7.500	Jul. 2022	2,184	2
Winter Oaks C bond ...(6),(10)	1999	10.000	Jul. 2022	2,141	1
Subtotal non-participating subordinate bonds				17,185	16
Total investment in mortgage revenue bonds				$ 526,957	$ 4

(1) These bonds also contain additional interest features contingent on available cash flow.
(2) One of the original 22 bonds.
(3) Series B Bonds derived from original 22 bonds.
(4) These assets were pledged as collateral as of September 30, 2001.
(5) TE Bond Sub or its subsidiaries own an 87% interest in these investments.
(6) At September 30, 2001 these bonds were on non-accrual status.
(7) The underlying bonds are held in a trust; TE Bond Sub owns an 18% subordinate interest in the
(8) These bonds were reissued or refunded during 2001. Prior to the reissuance or refunding the b
participating. Following the transaction, the new bonds are non-participating.
(9) The underlying bonds are held in a trust; TE Bond Sub owns a certificate in the trust which
the residual cash flows generated on the underlying bonds.
(10) Investments held by TE Bond Sub or its subsidiaries.
(11) The underlying bonds are held in a trust; TE Bond Sub owns an 81% senior interest in the tru
(12) The base interest rate represents the permanent base interest rate on the investment as of S

(13) The permanent interest rate resets monthly based on 90% of the 30 day treasury bill.
(14) The interest rate on the Santa Fe bond will reset in May 2002. At that time the bond will b or a rate not exceeding a rate that will allow the property to perform at a 1.05 debt servic
(15) The underlying bonds are held in a trust; TE Bond Sub owns a certificate in the trust which cash flows generated on 81% of underlying bond. TE Bond Sub also owns the 19% certificate wh at September 30, 2001.
(16) This bond was paid off during the third quarter of 2001.
(17) The underlying bonds are held in a trust; TE Bond Sub owns a certificate in the trust which flows generated on 53% of underlying bond. TE Bond Sub also owns the 47% certificate which i September 30, 2001.
(18) This investment is comprised of two bonds. The 1998 Series I-1 bond has a face amount of $1, June 11, 2009. The 1998 Series I-2 bond has a face amount of $15,875 and a maturity date of
(19) The underlying bond is held in a trust; TE Bond Sub owns the principal and base interest tru

NOTE 3 - SECURITIZATION TRANSACTIONS

The Company primarily securitizes mortgage bonds in its portfolio through the Merrill Lynch P-FLOATs(sm) program. Through this program, the Company sells bonds to Merrill Lynch or structures a transaction whereby Merrill Lynch buys bonds from third parties. Merrill Lynch, in turn, deposits the bonds into a trust, which is created to hold these assets. Subsequently, these bonds are credit enhanced by Merrill Lynch. Two types of securities, P-FLOATs(sm) and RITES(sm), are created for each asset deposited into the trust. The P-FLOATs(sm) are short-term floating rate interests in the trust that have priority on the cash flows of the mortgage bonds and bear interest at rates that are reset weekly by the remarketing agent, Merrill Lynch. The P-FLOATs(sm) are sold to qualified third party investors. When the Company sells a bond to Merrill Lynch, the Company receives the proceeds from the sale of the P-FLOATs(sm), less certain transaction costs, and retains the residual interests in the trust, the RITES(sm). When Merrill Lynch buys the bond directly, the Company purchases the RITES(sm). The RITES(sm) are the subordinate security and receive the residual interest on the bond after the payment of all fees and the P-FLOATs(sm) interest.

In order to facilitate the securitization of certain assets at higher leverage ratios than otherwise available, the Company has pledged additional bonds to a pool that collateralizes the senior interests in the P-FLOATs(sm) trusts.

For financial reporting purposes, transactions where the Company securitizes a bond through the P-FLOATs(sm) program and subsequently purchases a RITES(sm) interest are accounted for in accordance with FAS 140. Under FAS 140, the accounting for these transactions is partially dependent on certain call provisions granted to the RITES(sm) holder. If the RITES(sm) 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 RITES(sm) 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 to Merrill Lynch. 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 corresponding P-FLOATs(sm) and RITES(sm) based upon their relative fair values, in accordance with FAS 140. The Company may also structure transactions whereby Merrill Lynch buys bonds from third parties and the Company subsequently purchases RITES(sm) investments related to the bonds. In this case, the Company may retain the call provision associated with its investment in the RITES(sm) position without requiring borrowing treatment.

In conjunction with the refinancing of the Term Securitization Facility (discussed in Note 8), after the Gannon-Dade bond was removed from the Term Securitization Facility, the Company securitized a $29.0 million (face amount) interest in the bond through the Merrill Lynch P-FLOATs(sm) program. The Company purchased a $5,000 RITES(sm) interest for in the Gannon-Dade securitization trust for $33,000.

NOTE 4 - OTHER BOND RELATED INVESTMENTS

At September 30, 2001, the Company's other bond related investments are primarily investments in RITES(sm). At December 31, 2000, the Company's other bond related investments also included investments in interest rate swaps and total return swaps. In conjunction with the adoption of FAS 133 on January 1, 2001, the Company's investments in interest rate swaps and total return swaps were reclassified to investments in derivative financial instruments (see further discussion in Note 5). The table at the end of this note provides certain information with respect to the other bond related investments held by the Company at September 30, 2001 and December 31, 2000.

During the third quarter of 2001, the Company did not purchase any new RITES(sm) investments other than the Gannon-Dade RITES(sm) discussed in Note 3.

RITES(sm) Valuation Analysis

The fair value of a RITES(sm) investment is derived from the quote on the underlying bond reduced by the outstanding corresponding P-FLOATs(sm) face amount. The Company bases the fair value of the underlying bond, which has a limited market, on quotes from external sources, such as brokers, for these or similar bonds. The fair value of the underlying bond includes a prepayment risk factor. The prepayment risk factor is reflected in the fair value of the bond by assuming the bond will prepay at the most adverse time to the Company given current market rates and estimates of future market rates. Based on this, an adverse change in prepayment risk would not have an effect on the fair value of the Company's RITES investments. In addition, the RITES(sm) investments are not subject to prepayment risk as the term of the securitization trusts is only for a period during which the underlying bond cannot be prepaid. Based on historical information, credit losses were estimated to be zero.

At September 30, 2001, a 10% and 20% adverse change in the discount rate used to estimate the fair value of the Company's RITES(sm) would have the following impact:

(000s)	RITES(sm)
Fair value of retained interests	$8,618
Residual cash flows discount rate (annual rate)	4.5% - 8.9%
Impact on fair value of 10% adverse change	$19,467
Impact on fair value of 20% adverse change	$37,250

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.

Other Bond Related Investments:	Year Acquired	September 30, Face Amount (000s)	Amortized Cost (000s)	Unrealized Gain (Loss) (000s)
Investment in RITES:				
Barrington ....(1)	2000	$ 5	$ 5	$ 273
Briarwood ....(1)	1999	135	104	493
Charter House ....(1)	1996	80	210	813
Cinnamon Ridge ....(1)	2000	5	328	1,646
Fort Branch ....(1)	2000	8	8	431
Indian Lakes ....(1)	1997	3,170	3,259	751
LaPaloma ....(1)	1999	8	8	(394)
LeMirador (Coleman Senior) ....(1)	1999	165	4	274
Meridian at Bridgewater ....(1)	1999	5	38	(33)
Museum Towers	2001	5	5	158
Oklahoma City ....(1)	1998	195	234	(3,549)
Olde English Manor ....(1)	1999	76	94	(382)
Palisades Park ....(1)	1999	90	78	189
Park at Landmark	2000	5	14	328
Pavillion ....(1)	1999	5	5	(230)
Queen Anne IV ....(1)	1998	65	65	-
Rancho Mirage/Castle Hills ....(1)	2000	5	5	(128)
Rillito Village ....(1)	1999	65	63	(312)
Riverset Phase I ....(1)	2000	5	1,071	1,879
Riverset Phase II ....(1)	1996	75	75	150
Riverview ....(1)	2000	5	5	213
Sienna (Italian Gardens) ....(1)	1999	160	-	155
Silver Springs ....(1)	2000	5	32	435
Sonterra ....(1)	1998	5	32	(924)
Southgate Crossings ....(1)	1997	75	450	1,482
Southwood ....(1)	1997	425	320	(1,928)
Village at Sun Valley ....(1)	2000	5	5	280
Village Green ....(1)	2000	-	-	-
Woodglen ....(1)	1999	5	32	(1)
Subtotal investment in RITES		4,857	6,549	2,077
Interest rate agreements (2), (5)	Various		-	-
Investment in total return swaps (3), (5):				
Club West (3/30/99 - 7/19/02)	1999	-	-	-
Willow Key (3/30/99 - 7/19/02)	1999	-	-	-
Total investment in total return swaps		-	-	-
Total other bond related investments			$ 6,549	$ 2,069

				December 31
			Unrealized	
Other Bond Related Investments:	Year Acquired	Amount (000s)	Cost (000s)	Gain (Los (000s)
Investment in RITES:				
Barrington ....(1)	2000	$ 5	$ 4	$ 1
Briarwood ....(1)	1999	135	104	618
Charter House ....(1)	1996	80	242	684
Cinnamon Ridge ....(1)	2000	5	330	1,573
Fort Branch ....(1)	2000	8	8	123
Indian Lakes ....(1)	1997	3,250	3,356	864
LaPaloma ....(1)	1999	8	8	(263)
LeMirador (Coleman Senior) ....(1)	1999	165	4	71
Meridian at Bridgewater ....(1)	1999	5	44	(181)
Museum Towers	2001	-	-	-
Oklahoma City ....(1)	1998	195	239	(2,384)
Olde English Manor ....(1)	1999	76	95	(201)
Palisades Park ....(1)	1999	100	92	(276)
Park at Landmark	2000	5	20	69
Pavillion ....(1)	1999	5	5	(357)
Queen Anne IV ....(1)	1998	65	65	(145)
Rancho Mirage/Castle Hills ....(1)	2000	5	5	192
Rillito Village ....(1)	1999	65	64	(407)
Riverset Phase I ....(1)	2000	5	1,076	1,717
Riverset Phase II ....(1)	1996	75	189	73
Riverview ....(1)	2000	5	4	1
Sienna (Italian Gardens) ....(1)	1999	160	-	30
Silver Springs ....(1)	2000	5	34	(29)
Sonterra ....(1)	1998	5	32	(672)
Southgate Crossings ....(1)	1997	83	501	1,503
Southwood ....(1)	1997	430	309	(1,561)
Village at Sun Valley ....(1)	2000	5	5	70
Village Green ....(1)	2000	5	26	(16)
Woodglen ....(1)	1999	5	35	(243)
Subtotal investment in RITES		4,960	6,896	854
Interest rate agreements (2), (5)	Various		-	(10,438)
Investment in total return swaps (3), (5):				
Club West (3/30/99 - 7/19/02)	1999	7,960	-	(680)
Willow Key (3/30/99 - 7/19/02)	1999	17,440	-	(1,159)
Total investment in total return swaps		25,400	-	(1,839)

Total other bond related investments	$ 6,896	$ (11,423)

(1) Investment held by TE Bond Sub or its subsidiaries.
(2) The Company enters into interest rate swap contracts to hedge against interest rate exposure on the Company's investment in RITES. The amounts disclosed represent the net fair values of the Company's swaps at the reporting date.
(3) Face amount represents notional amount of swap agreements and the dates represent the effecti date and the termination date of the swap.
(4) 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 not indicative of the future earnings on these investments.
(5) Upon the adoption of FAS 133 on January 1, 2001, the Company's investment in interest rate sw and total return swaps was reclassified to investment in derivative financial instruments (se

NOTE 5 - INVESTMENT IN DERIVATIVE FINANCIAL INSTRUMENTS

Upon adoption of FAS 133 on January 1, 2001, the Company's investment in interest rate swaps, total return swaps and put option contracts was reclassified from investment in other bond related investments to investment in derivative financial instruments (see further discussion in Note 1). The table at the end of this note provides certain information with respect to the derivative financial instruments held by the Company at September 30, 2001.

Interest rate swaps

Since the bonds securitized generally bear fixed rates of interest, the floating rate residual interests in the trust created by the securitization may subject the Company to interest rate risks. 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; however, from time to time, a portion of the Company's floating rate exposure may not have been 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.

Under the interest rate swap agreements, the Company is obligated to pay Merrill Lynch Capital Services, Inc. or other counterparties (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. Net swap payments received, if any, will be taxable income, even though the investments being offset pay tax-exempt interest. The Company recognizes taxable capital gains or losses upon the termination of an interest rate swap contract. See further discussion in Note 8 to the Company's 2000 Form 10-K.

Total Return Swaps

To generate short-term financing proceeds, the Company occasionally enters into total return swaps with Merrill Lynch that replicate the total return on a bond or loan financed at a then current market interest rate ("financing rate"). During the term of the swaps, the Company receives net taxable income equal to the excess of the interest rate on the underlying investment over the financing rate. To the extent that the financing rate exceeds the interest rate on the underlying investment, the Company is obligated to pay Merrill Lynch the excess of the financing rate over the interest rate on the underlying investment. In addition to the net taxable income received, total return swaps include a cash settlement at termination, whereby the Company will pay to (receive from) Merrill Lynch an amount equal to the decline (increase) in the market value of the underlying bond or loan. The Company held one total return swap at September 30, 2001 with a notional amount of $8.0 million.

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 receives 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). At September 30, 2001, the Company had four put options with a fair value of zero. The Company's aggregate obligation under these put options is $107.3 million at September 30, 2001.

		September	
Investment in derivative financial instruments (4):	Year Acquired	Face Amount (000s)	Asset (000s
Interest rate agreements (1)	Various		$
Investment in total return swaps (2):			
Club West (3/30/99 - 7/19/02)	1999	7,960	
Total investment in total return swaps		7,960	
Total investment in derivative financial instruments			$

(1) The Company enters into interest rate swap contracts to offset against interest rate exposure on the Company's investment in RITES. The amounts disclosed represent the net fair values of all the Company's swaps at the reporting date.
(2) Face amount represents notional amount of swap agreements and the dates represent the effective date and the termination date of the swap.
(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.
(4) Upon the adoption of FAS 133 on January 1, 2001, the Company's investment in interest rate swaps and total return swaps was

reclassified to investment in derivative financial instruments (see Note 5).

NOTE 6 - LOANS RECEIVABLE

The Company's loans receivable primarily consist of construction loans, permanent loans, taxable loans and other loans. The general terms of the loans owned by the Company are discussed in Note 9 to the Company's 2000 Form 10-K. The following table summarizes loans receivable by loan type at September 30, 2001 and December 31, 2000.

(000s) Loan Type	September 30, 2001	December 31, 2000
Taxable construction loans	$250,009	$270,481
Permanent Loans	69,312	39,821
Taxable loans	32,529	18,416
Other loans	28,610	21,424
	380,460	350,142
Allowance for loan losses	(809)	(851)
Total	$379,651	$349,291

NOTE 7 - NOTES PAYABLE

The Company's notes payable consist primarily of notes payable and advances under line of credit arrangements. The notes payable are borrowings by Midland Financial Holdings, Inc. ("Midland") used to finance construction lending and working capital needs. The general terms of the Company's notes payable are discussed in Note 12 to the Company's 2000 Form 10-K. The following table summarizes notes payable at September 30, 2001 and December 31, 2000.

(000s)	September 30, 2001	December 31, 2000
Notes payable	$212,692	$234,830
Group Trust Warehouse Facility and Lines of Credit	52,415	26,225
Residential Funding Warehouse Facility	52,619	54,481
Bank Lines of Credit	13,325	8,539
Other	313	5,084
Total	$331,364	$329,159

NOTE 8 - TERM DEBT

In July 2001, TE Bond Sub refinanced its Term Securitization Facility (discussed fully in Note 4 to the Company's 2000 Form 10-K). The result of the refinancing was a reduction of the outstanding debt from $67 million to $45 million. Substantially all other terms of the debt remained the same. TE Bond Sub now holds a $5,000 Class B certificate in the facility and the $45.0 million

Class A certificates are held by a third party investor. In order to accomplish the refinancing, the Company removed the Gannon-Dade bond (face amount of $55.1 million) and the Whispering Palms bond (face amount of $12.7 million) from the Term Securitization Facility. These assets were replaced with four new assets with a total face amount of $45.0 million. The new assets in the trust are: Jefferson Commons (face amount of $16.1 million), Florida A&M (face amount of $9.9 million), Village Green (face amount of $6.4 million) and Arlington (face amount of $12.6 million).

In conjunction with this transaction, after the Gannon-Dade bond was removed from the Term Securitization Facility, the Company securitized a $29.0 million (face amount) interest in the bond through the Merrill Lynch P-FLOATs(sm) program. The Company purchased a $5,000 RITES(sm) interest for in the Gannon-Dade securitization trust for $33,000.

NOTE 9 - PREFERRED SHAREHOLDERS' EQUITY IN A SUBSIDIARY COMPANY

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

	Series A Preferred Shares	Series B Preferred Shares
Issue date	May 27, 1999	June 2, 2000
Number of shares	42	30
Par amount per share	$2,000,000	$2,000,000
Dividend rate	6.875%	7.75%
First remarketing date	June 30, 2009	November 1, 2010
Optional redemption date	June 30, 2009	November 1, 2010
Redemption date	June 30, 2049	June 30, 2050

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

	Series A Preferred Shares	Series B Preferred Shares	Total
Balance, December 31, 2000	$80,060	$57,604	$137,664
Offering costs adjustment	-	(9)	(9)
Income allocable to preferred shares	4,330	3,488	7,818
Distributions	(4,330)	(3,488)	(7,818)
Balance, September 30, 2001	$80,060	$57,595	$137,655

The assets of TE Bond Sub and its subsidiaries, while indirectly controlled by MuniMae and thus included in the consolidated financial statements of the Company, are legally owned by TE Bond Sub and are not available to the creditors of the Company. The assets owned by TE Bond Sub and its subsidiaries are identified in footnotes to the Investment in Mortgage Revenue Bonds table in Note 2 and in footnotes to the Other Bond Related Investments table in Note 4. The fair value of such assets aggregated $452.1 million at September 30, 2001.

NOTE 10 - EARNINGS PER SHARE

The table below reconciles the numerators and denominators in the basic and diluted EPS calculations for common shares for the three and nine months ended September 30, 2001 and 2000.

MUNICIPAL MORTGAGE & EQUITY, LLC
RECONCILIATION OF BASIC AND DILUTED EPS
(In thousands, except share and per share data)
(unaudited)

	For the three months ended September 30, 2001			For
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator
Basic EPS				
Net income allocable to common shares	$ 6,514	21,590,584	$ 0.30	$ 7,234
Effect of Dilutive Securities				
Options and deferred shares	-	526,053		-
Convertible preferred shares to the extent dilutive	3	281,344		-
Diluted EPS				
Net income allocable to common shares plus assumed conversions	$ 6,517	22,397,981	$ 0.29	$ 7,234

	For the nine months ended September 30, 2001			For
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator
Basic EPS				
Net income allocable to common shares	$ 9,263	21,034,369	$ 0.44	$ 20,732
Effect of Dilutive Securities				
Options and deferred shares	-	492,371		-

Convertible preferred shares to the extent dilutive	3	93,781		-
Diluted EPS				
Net income allocable to common shares plus assumed conversions	$ 9,266	21,620,521	$ 0.43	$ 20,732

NOTE 11 - DISTRIBUTIONS

On October 18, 2001, the Board of Directors declared distributions for the three months ended September 30, 2001 for shareholders of record on October 29, 2001. The payment date was November 9, 2001. The per share distributions are shown on the table below.

	Common Shares	Preferred Shares Series I	Preferred Shares Series II
Distributions paid on May 11, 2001 to holders of record on April 30, 2001: For the three months ended March 31, 2001 (1)	$ 0.4250	$ 10.08	$ 5.00
Distributions paid on August 10, 2001 to holders of record on July 30, 2001: For the three months ended June 30, 2001 (2)	0.4275	11.70	11.40
Distributions paid on November 9, 2001 to holders of record on October 29, 2001: For the three months ended September 30, 2001	0.4300	11.70	11.40
Total 2001 Distributions	$ 1.2825	$ 33.48	$ 27.80

(1) The distributions for the Series I Preferred Shares and Preferred Capital Distribution Shares include a special distribution of $1.48 which represents their pro rata portion of the proceeds from the sale of a taxable loan secured by the property known as Mountain View.

(2) In June 2001, approximately 26% of Series I Preferred Shares and Preferred Capital Distribution Shares and approximately 56% of Series II Preferred Shares and Preferred Capital Distribution Shares were redeemed. The effect of this redemption was a decrease in the number of shares outstanding, which, in turn caused the per share distribution to increase.

NOTE 12 - BUSINESS SEGMENT REPORTING

In the fourth quarter of 1999, the Company adopted Financial Accounting Standards Board Statement 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 Midland acquisition, the Company restructured its operations into two business segments: (1) an operating segment consisting of Midland 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 the summary of significant accounting policies. A complete description of the Company's reporting segments is described in Note 22 to the Company's 2000 Form 10-K.

The table below reflects the results of the Company's segments for the three and nine months ended September 30, 2001 and 2000.

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

	For the three months ended September 30, 2001			
INCOME:	Investing	Operating	Adjustments	Total Consolidat
Interest on mortgage revenue bonds and other bond related investments	$ 11,393	$ 760	$ -	$ 12,153
Interest on loans	757	7,704	-	8,461
Loan origination and brokerage fees	-	1,411	(89) (1)	1,322
Syndication fees	-	3,291	-	3,291
Loan servicing fees	-	1,659	-	1,659
Interest on short-term investments	308	179	-	487
Other income	-	1,395	-	1,395
Net gain on sales	2,227	1,294	-	3,521
Total income	14,685	17,693	(89)	32,289
EXPENSES:				
Salaries and benefits	437	5,090	-	5,527
Professional Fees	273	841	-	1,114
Operating expenses	183	1,698	-	1,881
Goodwill and other intangibles amortization	-	694	-	694
Interest expense	1,551	6,322	-	7,873
Other-than-temporary impairments related to investments in mortgage revenue bond and other bond related investments	-	-	-	-

Total expenses	2,444	14,645	-	17,089
Net holding losses on trading securities	(4,670)	-	-	(4,670)
Net income before income allocated to preferred shareholders in a subsidiary company, income taxes and cumulative effect of accounting change	7,571	3,048	(89)	10,530
Income allocable to preferred shareholders in a subsidiary company	2,606	-	-	2,606
Net income before income taxes and cumulative effect of accounting change	4,965	3,048	(89)	7,924
Income taxes	-	805	-	805
Net income before cumulative effect of accounting change	4,965	2,243	(89)	7,119
Cumulative effect on prior years of change in accounting for derivative financial instruments	-	-	-	-
Net income	$ 4,965	$ 2,243	$ (89)	$ 7,119

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

	For the nine months ended September 30, 2001				
INCOME:	Investing	Operating	Adjustments		Total Consolida
Interest on mortgage revenue bonds and other bond related investments	$ 34,135	$ 1,997	$ -		$ 36,1
Interest on loans	1,883	23,527	-		25,4
Loan origination and brokerage fees	-	3,623	(509)	(1)	3,1
Syndication fees	-	8,016	-		8,0
Loan servicing fees	-	5,020	-		5,0
Interest on short-term investments	1,562	620	-		2,1
Other income	-	7,851	-		7,8
Net gain on sales	2,227	2,339	-		4,5
Total income	39,807	52,993	(509)		92,2
EXPENSES:					
Salaries and benefits	1,199	13,803	-		15,0
Professional Fees	771	1,947	-		2,7
Operating expenses	645	4,917	-		5,5
Goodwill and other intangibles amortization	-	2,015	-		2,0
Interest expense	4,638	18,830	-		23,4
Other-than-temporary impairments related to					

investments in mortgage revenue bond and other bond related investments	-	3,256	-	3,2
Total expenses	7,253	44,768	-	52,0
Net holding losses on trading securities	(8,263)	-	-	(8,2
Net income before income allocated to preferred shareholders in a subsidiary company, income taxes and cumulative effect of accounting change	24,291	8,225	(509)	32,0
Income allocable to preferred shareholders in a subsidiary company	7,818	-	-	7,8
Net income before income taxes and cumulative effect of accounting change	16,473	8,225	(509)	24,1
Income taxes	-	1,032	-	1,0
Net income before cumulative effect of accounting change	16,473	7,193	(509)	23,1
Cumulative effect on prior years of change in accounting for derivative financial instruments	(12,277)	-	-	(12,2
Net income	$ 4,196	$ 7,193	$ (509)	$ 10,8

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

NOTE 13 - SUBSEQUENT EVENT

In October 2001, TE Bond Sub sold to institutional investors 8 shares of 6.30% Series A-1 Cumulative Preferred Shares Due 2049 ("Series A-1 Shares") and 4 shares of 6.80% Series B-1 Subordinate Cumulative Preferred Shares Due 2050 ("Series B-1 Shares"). The Series A-1 Shares and Series B-1 Shares are senior to the Company's ownership interest in TE Bond Sub. The Series A-1 Shares are equal in priority of payment to the Series A Preferred Shares issued in May 1999 (see Note 9). The Series B-1 Shares are equal in priority of payment to the Series B Preferred Shares issued in June 2000 (see Note 9). The following table provides a summary of certain terms of the Series A-1 and Series B-1 Shares.

	Series A-1 Preferred Shares	Series B-1 Preferred Shares
Issue date	October 9, 2001	October 9, 2001
Number of shares	8	4
Par amount per share	$2,000,000	$2,000,000
Dividend rate	6.30%	6.80%
First remarketing date	June 30, 2009	November 1, 2010
Optional redemption date	June 30, 2009	November 1, 2010
Redemption date	June 30, 2049	June 30, 2050

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

General Business

Municipal Mortgage & Equity, LLC ("MuniMae") and its subsidiaries (together with MuniMae, the "Company") are principally engaged in originating, investing in and servicing investments related to multifamily housing financings.

Results of Operations

Quarterly Results Analysis

Total income for the three months ended September 30, 2001 increased by approximately $6.4 million over the same period last year due primarily to (i) an increase in collections of interest totaling $1.8 million on bonds, other bond related investments and loans, (ii) an increase in loan servicing fees, loan origination and brokerage fees, syndication fees and other income of $2.0 million due primarily to an increase in syndication fees and commissions, (iii) an increase in gain on sale of taxable loans of $3.3 million as a result of the gain related to the pay off of the Newport on Seven bond and net gains on the sale of loans on which the Company retained the servicing rights, (iv) offset in part by a $0.7 million decrease in interest on short-term investments.

Salary and benefits, professional fees and operating expenses for the three months ended September 30, 2001 increased by approximately $2.5 million over the same period last year due primarily to (i) a $1.7 million increase in salary and benefits expense associated with an increase in the number of employees and an increase in bonus compensation accruals as a result of the increase in equity syndication production, (ii) a $0.3 million increase in operating expenses due to commissions paid on equity syndication production, and (iii) a $0.5 million increase in professional fees associated with legal and consulting fees on information systems initiatives.

The Company incurred interest expense of $7.9 million for the three months ended September 30, 2001 as a result of interest expense from short-term borrowings associated with taxable construction lending activity of $6.3 million and $1.6 million in interest expense related to securitization transactions accounted for as borrowings.

The Company recorded income allocable to preferred shareholders of TE Bond Sub of $2.6 million for the three months ended September 30, 2001 as a result of the June 2000 and May 1999 Preferred Equity Offerings (see Note 9 to the consolidated financial statements).

Year to Date Results Analysis

Total income for the nine months ended September 30, 2001 increased by approximately $23.2 million over the same period last year due primarily to (i) an increase in collections of interest totaling $8.6 million on bonds, other bond related investments and loans, (ii) an increase in loan servicing fees, loan origination and brokerage fees, syndication fees and other income of $11.2 million due primarily to an increase in syndication fees and commissions and income earned on the assumption of a bond purchase obligation, (iii) an increase in gain on sale of taxable loans of $4.4 million as a result of the gain related to the pay off of the Newport on Seven bond and net gains on the sale of loans on which the Company retained the servicing rights (iv) offset in part by a $1.0

million decrease in interest on short-term investments.

Salary and benefits, professional fees and operating expenses for the nine months ended September 30, 2001 increased by approximately $6.8 million over the same period last year due primarily to (i) a $4.2 million increase in salary and benefits expense associated with an increase in the number of employees and an increase in bonus compensation accruals as a result of the increase in equity syndication production, (ii) a $1.7 million increase in operating expenses due to commissions paid on equity syndication production, and (iii) a $0.9 million increase in professional fees, which was primarily due to legal and consulting fees on information system initiatives.

The Company recorded other-than-temporary impairments aggregating $3.3 million on two investments for the nine months ended September 30, 2001.

The Company incurred interest expense of $23.5 million for the nine months ended September 30, 2001 as a result of interest expense from short-term borrowings associated with taxable construction lending activity of $18.9 million and $4.6 million in interest expense related to securitization transactions accounted for as borrowings.

The Company recorded income allocable to preferred shareholders of TE Bond Sub of $7.8 million for the nine months ended September 30, 2001 as a result of the June 2000 and May 1999 Preferred Equity Offerings (see Note 9 to the consolidated financial statements).

New Accounting Pronouncement

During July 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of Effective Date of FASB Statement No. 133." In addition, during 2000, the Financial Accounting Standards Board issued FASB Statement 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 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 of a balance sheet item 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 income rather than through other comprehensive income. The Company adopted FAS 133 on January 1, 2001.

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. Under FAS 133, the Company's investment in total return swaps and put option contracts is recorded on the balance sheet with changes in fair value of these instruments, as well as changes in fair value of other instruments which are deemed to be derivative financial instruments, recorded in current earnings. The Company also has investments in interest rate swaps, which are held to offset the floating interest rate exposure in certain investments.

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 financial obligations under the bonds. Upon adoption, the Company's interest rate swaps and total return swaps were reclassified to trading securities; 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 ($4.7) million and ($8.3) million for the three and nine months ended September 30, 2001, respectively, due to the change in fair value of its derivative instruments. This change is reflected in net holding losses on trading securities in the statement of income.

During September 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125" ("FAS 140"). FAS 140 provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. FAS 140 is effective for transfers and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001. The disclosure requirements related to securitization transactions and collateral are required for all fiscal years ending after December 15, 2000. Accordingly, the Company has incorporated the appropriate disclosure requirements in its notes to the consolidated financial statements for the three months ended September 30, 2001. The Company believes the provisions pertaining to the transfer and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001 may over time have a significant impact on the total assets and total liabilities of the Company. In particular, new securitization transactions that would have been accounted for as a sale under Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("FAS 125") may be accounted for as a borrowing under FAS 140. Therefore, the senior interest in future securitizations may be recorded as debt and the bonds associated with the transaction may continue to be included in investments in mortgage revenue bonds rather than being excluded upon completion of the securitization transaction.

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 are effective July 1, 2001 and January 1, 2002, respectively, for the Company. FAS 141 requires that the purchase method of accounting be used for all business combinations consummated after June 30, 2001. Under FAS 142, amortization of goodwill, including goodwill recorded in past business combinations, will discontinue upon adoption of this standard. In addition, goodwill recorded as a result of business combinations completed during the six-month period ending December 31, 2001 will not be amortized. All goodwill and intangible assets will be tested for impairment in accordance with the provisions of the Statement. The Company is currently reviewing the provisions of FAS 141 and FAS 142 and assessing the impact of adoption.

Liquidity and Capital Resources

The Company's primary objective is to maximize shareholder value through increases in Cash Available for Distribution ("CAD") per common share and appreciation in the value of its common shares. The Company seeks to achieve its growth objectives by growing its investing and operating business segments. The Company grows its investment segment by acquiring, servicing and managing diversified portfolios of mortgage bonds and other bond related investments. Growth in the operating segment is derived from increasing levels of fees generated by affordable housing equity syndications, loan servicing and origination and brokerage services. The Company's business plan included structuring $300 to $375 million in bond related investment transactions in

2001. The Company expects to finance its acquisitions through a financing strategy that (1) takes advantage of attractive financing available in the tax-exempt securities markets; (2) minimizes exposure to fluctuations of interest rates; and (3) maintains maximum flexibility to manage the Company's short-term cash needs. To date, the Company has primarily used two sources, securitizations and equity offerings, to finance its acquisitions. Through the Company's management of capital for others, including Fannie Mae and several pension funds, the Company has expanded its access to capital.

For the three months ended September 30, 2001, the Company structured $106.4 million in tax-exempt bond transactions. Of this amount, $8.2 million represented investments retained by the Company. In addition, MuniMae originated $13.3 million of construction loans, $30.6 million of taxable permanent loans and equity investments totaling $23.9 million.

Preferred Equity Offering

In October 2001, TE Bond Sub sold to institutional investors 8 shares of 6.30% Series A-1 Cumulative Preferred Shares Due 2049 ($2.0 million par value) and 4 shares of 6.80% Series B-1 Subordinate Cumulative Preferred Shares Due 2050 ($2.0 million par value). The net proceeds generated from this offering were approximately $22.9 million.

Securitizations

The Company uses securitizations to enhance its overall return on its investments and to generate proceeds that, along with equity offering proceeds, facilitate the acquisition of additional investments. Through the use of securitizations, the Company expects to employ leverage and maintain overall leverage ratios in the 50% to 60% range, with certain assets at significantly higher ratios, approximately 99%, while not leveraging other assets at all. The Company calculates leverage by dividing the total amount of on-balance sheet debt of the investing segment plus the total amount of senior interests in its investments, which it considers the equivalent of off-balance sheet financing, by the sum of total assets owned by the Company plus senior interests owned by others adjusted for reserves equal to the net assets of the operating segment. Under this method, the Company's leverage ratio at September 30, 2001 was approximately 52.4%.

In order to facilitate the securitization of certain assets at higher leverage ratios, the Company has pledged additional bonds to the pool that acts as collateral for the senior interests in the trust.

Cash Flow

At September 30, 2001 the Company had cash and cash equivalents of approximately $31.0 million.

Cash flow from operating activities was $43.0 million and $32.6 million for the nine months ended September 30, 2001 and 2000, respectively. The increase in cash flow for 2001 versus 2000 is due primarily to an increase in income from new investments and an increase in other income attributable to Midland.

The Company uses CAD as the primary measure of its dividend paying ability. CAD differs from net income because of slight variations between generally accepted accounting principles ("GAAP") income and actual cash received. There are several 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 other significant differences are non-cash gains and losses associated with bond valuations and sales, non-cash gains and losses associated with changes in market value of derivative financial instruments, amortization of goodwill and intangibles and capitalization of mortgage servicing rights, net of deferred taxes for GAAP purposes, which are not included in the calculation of CAD.

The Company is required to distribute to the holders of its Preferred Shares and Preferred Capital Distribution Shares ("Preferred CD Shares") cash flow attributable to such shares (as defined in the Company's Amended and Restated Certificate of Formation and Operating Agreement). The Company is required to distribute 2.0% of the net cash flow to the holders of Term Growth Shares. The balance of the Company's net cash flow is available for distribution to the common shares and the Company's current policy is to distribute to common shareholders at least 80% of the annual CAD to common shares. For the three months ended September 30, 2001 and 2000, CAD to common shares was $10.3 million and $8.1 million, respectively. The Company's distribution per common share for the three months ended September 30, 2001 of $0.4300 represents a pay out ratio of 89.9%. The Company's distribution per common share for the three months ended September 30, 2000 of $0.4200 represents a pay out ratio of 90.9%.

Regular cash distributions to shareholders, for the three months ended September 30, 2001 and 2000, were $9.7 million and $7.9 million, respectively.

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

Income Tax Considerations

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

As a result of the Midland acquisition, in October 1999, the Company restructured its operations into two segments, an operating segment and an investing segment (see Note 12 to the consolidated financial statements). The operating segment, which is directly or indirectly wholly owned by MuniMae, consists primarily of entities subject to income taxes. The Company provides for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). FAS 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities.

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Since December 31, 2000 there has been no material change to the information included in Item 7A of the Company's 2000 Form 10-K, except as described below.

Interest Rate Risk

In anticipation of converting a substantial portion of the Company's short-term floating rate debt (see discussion of P-FLOATS in Note 3 to the consolidated financial statements) into longer term, fixed rate facilities, the Company revised its interest rate management strategy in the second quarter of 2001. To accomplish this, the Company entered into a series of new interest rate swaps, some of which offset certain of the Company's existing swaps. The net effect of the swap portfolio reduced the average life of the Company's interest rate swaps from eight years to three years. This new program also reduced the Company's exposure to swap-related margin call risk and decreased the annual cost of the Company's interest rate management strategy. However, the new strategy increases the Company's exposure to rollover risk, particularly in the event that the Company is unable to convert short-term floating rate debt into a longer-term fixed rate facility and interest rate swaps expire during a rising interest rate environment.

This section should be read in conjunction with the Quantitative and Qualitative Disclosures about Market Risk section included in the Company's 2000 Form 10-K. The above discussion does not represent a full disclosure of the Company's risk with respect to interest rates.

PART II. OTHER INFORMATION

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

At the annual meeting of the Company's shareholders held on June 14, 2001, the shareholders voted on two proposals in addition to the election of the Company's directors. The election of the board of directors was passed, but the proposal to approve a 2001 Employee Share Incentive Plan and a 2001 Non-Employee Directors' Plan were tabled. The shareholders elected the following directors: William L. Jews (19,793,211 in favor and 463,027 abstaining), Douglas A. McGregor (19,803,937 in favor and 452,301 abstaining) and Carl W. Stearn (19,939,590 in favor and 316,648 abstaining). Subsequent to the meeting, the

2001 Employee Share Incentive Plan was revised so as not to exceed 5% of all outstanding shares. The annual meeting reconvened on July 19, 2001. At this meeting, the shareholders voted to adopt a new 2001 Share Incentive Plan providing for the issuance of up to 900,000 common shares to executive officers, other key employees and key independent contractors. The votes cast on this proposal were as follows: 8,473,855 in favor; 1,299,757 opposed; 453,204 abstaining; and 29,421 broker non-votes. The shareholders also voted to adopt a new 2001 Non-Employee Directors' Plan providing for the issuance of up to 150,000 common shares to non-employee directors. The votes cast on this proposal were as follows: 18,403,868 in favor; 1,335,231 opposed; 487,716 abstaining; and 29,422 broker non-votes.

Item 5. Other Information

Securities Sale

On October 9, 2001, TE Bond Sub sold 8 shares of 6.30% Series A-1 Cumulative Preferred Shares Due 2049 and 4 shares of 6.80% Series B-1 Subordinate Cumulative Preferred Shares Due 2050. The Series A-1 and B-1 Preferred Shares were offered and sold to "qualified institutional buyers" through Merrill Lynch, without being registered under the Securities Act pursuant to the exemption afforded by Rule 144A under the Securities Act.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

3.1 Amendment No. 1 to the Amended and Restated Certificate of Formation and Operating Agreement of the Company (filed as Item 6 (a) Exhibit 3.1 to the Company's report on Form 10-Q, filed with the Commission on May 14, 1998 and incorporated by reference herein).

3.2 Amended and Restated Certificate of Formation and Operating Agreement of the Company (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997, filed with the Commission on May 29, 1998 and incorporated by reference herein).

3.3 By-laws of the Company (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K, filed with the Commission on May 29, 1998 and incorporated by reference herein).

10.1 First Amendment to Employment Agreement between the Registrant and Keith J. Gloeckl, dated August 30, 2001

(b) Reports on Form 8-K:

There were no reports filed on Form 8-K for the quarter ended September 30, 2001.

SIGNATURES

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

MUNICIPAL MORTGAGE & EQUITY, LLC
(Registrant)

By: ____/s/ Mark K. Joseph____
Mark K. Joseph
Chairman of the Board, Chief Executive Officer
(Principal Executive Officer), and Director

By: ___/s/William S. Harrison____
William S. Harrison
Chief Financial Officer (Principal Financial Officer and
Principal Accounting Officer)

DATED: November 13, 2001

INDEX TO EXHIBITS

Exhibit Number	Document
10.1	First Amendment to Employment Agreement between the Registrant and Keith J. Gloeckl, dated August 30, 2001

Exhibit Number 10.1

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

THIS FIRST AMENDMENT TO EMPLOYMENT AGREEMENT (this "First Amendment") is made this 30th day of August, 2001, by and between Municipal Mortgage & Equity, LLC, a Delaware limited liability company ("Employer") and Keith J. Gloeckl ("Employee")

WHEREAS, Employer and Employee are parties to that certain Employment Agreement dated October 20, 1999 (the "Employment Agreement");

WHEREAS, Employer and Employee are also parties to that certain Stock Purchase and Contribution Agreement dated as of September 30, 1999 (the "Purchase Agreement");

WHEREAS, Employer and Employee wish to make certain adjustments to the Employment Agreement and the Purchase Agreement.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Employer and Employee hereby agree as follows:

1. Deferred Purchase Price.

(a) Employer and Employee agree that the installments of the Deferred

Purchase Price described in Sections 2.04(a)(B) and (C) of the Purchase Agreement shall be fully earned and payable on the dates and in the amounts set forth therein without any adjustment under Section 2.04 (b) of the Purchase Agreement; provided, however, that no installment of Deferred Purchase Price shall be due and payable to Employee if on the date such payment would be due, (i) Employee is in violation of the covenant not to compete set forth in Section 8 of the Employment Agreement, (ii) Employee has resigned his employment with the Company for any reason other than one of those permitted by Section 7(b)(ii) of the Employment Agreement, or (iii) Employee is in violation of Section 5.10 of the Purchase Agreement (as modified by Section 1(b) below). Employee hereby certifies that his share of each installment of the Deferred Purchase Price is 20%, that Mr. Banks' is 60%, that Mr. Mathis has assigned his share in its entirety to Midland Senior Management Associates, LLC, a Florida limited liability company ("MSM"), and that MSM's share of each installment is 20%; and Employee agrees to hold Employer harmless from any claim to the contrary by any person.

(b) In consideration of the elimination of any adjustment to the amount of the Deferred Purchase Price under Section 2.04 (b) of the Purchase Agreement, Employee hereby waives (i) any and all provisions of the Purchase Agreement pertaining to how Employer must operate the Company and its Subsidiaries (each as defined therein), including without limitation Section 6.05 thereof, and (ii) Section 7 (b)(ii)(H) of the Employment Agreement.

2. Transfer Restrictions.

Employer and Employee agree that transfers of Purchaser Closing Shares (as defined in the Purchase Agreement) by Employee to trusts of which Employee is a Trustee and all of the beneficiaries of which are related to Employee by blood or marriage shall be deemed to comply with the requirements of Section 5.10 of the Purchase Agreement that Employee retain ownership of his Purchaser Closing Shares for certain periods of time and in certain amounts; provided, however, that any transfer permitted by this sentence shall be explicitly subject to the requirement that the transferee trust be bound by the ownership restrictions of Section 5.10. All Purchaser Closing Shares subject to Section 5.10 shall continue to bear restrictive legends for as long as Section 5.10 applies by its terms to those shares. Upon Employee's request, Employer shall remove such restrictive legend from those Purchaser Closing Shares which are no longer subject to Section 5.10. This Section shall not affect any restrictive legends required to be placed upon Employee's shares under applicable federal or state securities laws or in conformity with Employer's policies applicable to all shares in Employer which are owned by its senior management.

3. Incentive Compensation.

Section 2(b) of the Employment Agreement is hereby amended to delete the clause which reads "provided, however, that no Incentive Compensation shall be payable for any year in which Midland does not achieve the Earn-out target for such year as set forth, subject to adjustment as provided in Sections 2.04(a) and 2.04(b) of the Purchase Agreement (as hereinafter defined)."

4. No Other Admendments.

Subject to the modifications as set forth herein, the Employment Agreement remains in full force and effect in accordance with its terms. Subject to the modifications set forth herein, those provisions of the Purchase Agreement which survived the closing thereunder remain in full force and effect in accordance with their terms.

IN WITNESS WHEREOF and intending to be legally bound, the parties have executed this First Amendment as of the date and year first above written.

EMPLOYER:

Municipal Mortgage & Equity, LLC

By: /s/Michael L. Falcone

Michael L. Falcone
President

EMPLOYEE:

/s/Keith J. Gloeckl

Keith J. Gloeckl