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MUNICIPAL MORTGAGE & EQUITY LLC

Form 10-Q

May 12, 2003

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 March 31, 2003

Commission File Number: 001-11981

MUNICIPAL MORTGAGE & EQUITY, LLC

-----  
(Exact Name of Registrant as Specified in Its Charter)

Delaware

52-1449733

-----  
(State or other jurisdiction of  
incorporation or organization)

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

218 North Charles Street, Suite 500,  
Baltimore, Maryland

21201

-----  
(Address of Principal Executive Offices)

-----  
(Zip Code)

(443) 263-2900

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

The Registrant had 28,869,553 common shares outstanding as of May 5, 2003.

MUNICIPAL MORTGAGE & EQUITY, LLC  
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### PART I. FINANCIAL INFORMATION

#### Item 1. Financial Statements

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

(unaudited)  
March 31, 2012

#### ASSETS

Investment in tax-exempt bonds, net (Note 2)		\$ 80
Loans receivable, net (Note 3)		44
Investments in partnerships		9
Residual interests in bond securitizations (Note 4)		1
Investment in derivative financial instruments (Note 5)		1
Cash and cash equivalents		4
Interest receivable		1
Restricted assets		4
Other assets (Note 6)		3
Mortgage servicing rights, net		1
Goodwill		3
		-----
Total assets		\$ 1,55
		=====

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Notes payable (Note 7)		\$ 38
Short-term debt (Note 7)		21
Long-term debt (Note 7)		14
Residual interests in bond securitizations (Note 4)		
Investment in derivative financial instruments (Note 5)		4
Accounts payable and accrued expenses		

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Unearned revenue and other liabilities		1
Distributions payable		
Total liabilities		82
Commitments and contingencies (Note 8)		
Preferred shareholders' equity in a subsidiary company		16
Shareholders' equity:		
Common shares, par value \$0 (32,303,599 shares authorized, including 28,869,430 shares issued and outstanding, and 32,311 deferred shares at March 31, 2003 and 29,083,599 authorized, 25,571,580 shares issued and outstanding, and 29,844 deferred shares at December 31, 2002)		54
Less common shares held in treasury at cost (55,444 at March 31, 2003 and December 31, 2002)		
Less unearned compensation (deferred shares) (Note 12)		(
Accumulated other comprehensive income		2
Total shareholders' equity		56
Total liabilities and shareholders' equity		\$ 1,55

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 March 31,	
	2003	2002
INCOME:		
Interest income		
Interest on bonds and residual interests in bond securitizations	\$ 15,985	\$
Interest on loans	9,503	
Interest on short-term investments	192	
Total interest income	25,680	
Fee income		
Syndication fees	1,411	
Origination fees	698	
Loan servicing fees	1,909	
Asset management and advisory fees	1,076	
Other income	2,197	
Total fee income	7,291	

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Net gain on sales	1,278	
Total income	34,249	
EXPENSES:		
Interest expense	10,368	
Salaries and benefits	5,966	
General and administrative	1,656	
Professional fees	989	
Amortization of mortgage servicing rights and other intangibles	389	
Total expenses	19,368	
Net holding gains on derivatives	2,873	
Impairments and valuation allowances related to investments (Notes 2 and 3)	-	
Net losses from equity investments in partnerships	(747)	
Net income before income taxes and income allocated to preferred shareholders in a subsidiary company	17,007	
Income tax expense	68	
Net income before income allocated to preferred shareholders in a subsidiary company	16,939	
Income allocable to preferred shareholders in a subsidiary company	2,994	
Net income	\$ 13,945	\$
Net income allocated to:		
Term growth shares	\$ -	\$
Common shares	\$ 13,945	\$
Basic earnings per common share:		
Basic earnings per common share	\$ 0.51	\$
Weighted average common shares outstanding	27,342,870	23,
Diluted earnings per common share:		
Diluted earnings per common share	\$ 0.50	\$
Weighted average common shares outstanding	27,681,511	24,

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

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

For the three m  
March

2003

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Net income	\$ 13,945
Other comprehensive income (loss):	
Unrealized gains (losses) on investments:	
Unrealized holding gains (losses) arising during the period	4,576
Reclassification adjustment for gains included in net income	-
Other comprehensive income (loss)	4,576
Comprehensive income	\$ 18,521

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

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

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$
Adjustments to reconcile net income to net cash provided by operating activities:	
Income allocated to preferred shareholders in a subsidiary company	
Net holding gains on trading securities	
Impairments and valuation allowances related to investments	
Net gain on sales	
Loss from investments in partnerships	
Distributions received from investments in partnerships	
Net amortization of premiums, discounts and fees on investments	
Depreciation and amortization	
Tax benefit from deferred share benefit	
Deferred share compensation expense	
Common and deferred shares issued under the Non-Employee Directors' Share Plans	
Net change in assets and liabilities:	
(Increase) decrease in interest receivable	
Decrease in other assets and goodwill	
Decrease in accounts payable, accrued expenses and other liabilities	
Net cash provided by operating activities	

CASH FLOWS FROM INVESTING ACTIVITIES:

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

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Net cash (used in) provided by investing activities

CASH FLOWS FROM FINANCING ACTIVITIES:

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

Net cash used in financing activities

Net increase (decrease) in cash and cash equivalents

Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid

Income taxes paid

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

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

	Common Shares	Treasury Shares	Unearned Compensation
Balance, January 1, 2003	\$ 471,946	\$ (857)	\$ (3,274)
Net income	13,945	-	-
Unrealized gains on investments, net of reclassifications	-	-	-
Distributions	(11,335)	-	-
Options exercised	188	-	-
Issuance of common shares	71,953	-	-
Deferred shares issued under the Non-Employee Directors' Share Plans (Note 12)	58	-	-
Deferred share grants (Note 12)	900	-	(900)

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Forfeiture of deferred shares	(452)	-	452
Amortization of deferred compensation (Note 12)	-	-	444
Tax benefit from exercise of options and vesting of deferred shares	313	-	-
	-----	-----	-----
Balance, March 31, 2003	\$ 547,516	\$ (857)	\$ (3,278)
	=====	=====	=====

SHARE ACTIVITY:	Common Shares	Treasury Shares
	-----	-----
Balance, January 1, 2003	25,545,980	55,444
Options exercised	10,000	-
Issuance of common shares	3,220,381	-
Issuance of common shares under employee share incentive plans (Note 12)	67,469	-
Deferred shares issued under the Non-Employee Directors' Share Plans (Note 12)	2,467	-
	-----	-----
Balance, March 31, 2003	28,846,297	55,444
	=====	=====

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, together with its subsidiaries, the "Company") provides debt and equity financing to developers of multifamily housing. The Company invests in tax-exempt bonds, or interests in bonds, issued by state and local governments or their agencies or authorities to finance multifamily housing developments. Interest income derived from the majority of these bond investments is exempt income for federal income tax purposes. Multifamily housing developments, as well as the rents paid by the tenants, secure these investments.

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

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

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

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

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

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

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

### New Accounting Pronouncements

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

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

The Company originates investments in tax-exempt bonds and taxable loans primarily to the affordable multifamily housing industry. Tax-exempt bonds are issued by state and local government authorities to finance multifamily housing developments or other real estate financings. The bonds are typically secured by nonrecourse mortgage loans or tax levies on the underlying properties. The Company's sources of capital to fund these lending activities include proceeds from equity offerings, securitizations, and draws on lines of credit. The Company earns interest income from its investment in tax-exempt bonds and taxable loans. The Company also earns origination and construction administration fees from originating the bonds and servicing the bonds during the construction period. For further discussion of the general terms of tax-exempt bonds see Note 1 to the Company's 2002 Form 10-K.

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As of March 31, 2003 and December 31, 2002, the Company held \$801.3 million and \$770.3 million of tax-exempt bonds, respectively. The following table summarizes tax-exempt bonds by type.

				March 31, 2003		
(000s)	Face Amount	Amortized Cost	Unrealized Gain (Loss)	\$		
Non-participating bonds	\$ 678,542	\$ 648,146	\$ (1,157)	\$		
Participating bonds	82,735	81,839	2,506			
Subordinate non-participating bonds	19,037	17,698	153			
Subordinate participating bonds	58,890	35,799	16,304			
<b>Total</b>	<b>\$ 839,204</b>	<b>\$ 783,482</b>	<b>\$ 17,806</b>			

				December 31, 2002		
(000s)	Face Amount	Amortized Cost	Unrealized Gain (Loss)	\$		
Non-participating bonds	\$ 651,737	\$ 621,594	\$ (4,692)	\$		
Participating bonds	82,852	81,956	1,893			
Subordinate non-participating bonds	19,039	17,700	106			
Subordinate participating bonds	58,890	35,799	15,989			
<b>Total</b>	<b>\$ 812,518</b>	<b>\$ 757,049</b>	<b>\$ 13,296</b>			

During the first quarter of 2003, the Company invested in tax-exempt bonds with a face amount of \$18.7 million for \$18.7 million. These investments represent new primary investments (bonds which the Company originated).

In order to facilitate the securitization (see Note 1 to the Company's 2002 Form 10-K) of certain assets at higher leverage ratios than otherwise available to the Company without the posting of additional collateral, the Company has pledged additional bonds as collateral for senior interests in certain securitization trusts and credit enhancement facilities. At March 31, 2003 and

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December 31, 2002, the total carrying amount of the tax-exempt bonds pledged as collateral for such trusts and facilities was \$387.8 million and \$372.9 million, respectively.

### NOTE 3 - LOANS RECEIVABLE

The Company's loans receivable consist primarily of construction loans, permanent loans, supplemental loans and other taxable loans. For further discussion of the general terms of loans held by the Company see the description of mortgage banking activities in Note 1 to the Company's 2002 Form 10-K. The following table summarizes loans receivable by loan type at March 31, 2003 and December 31, 2002.

(000s)	March 31, 2003	December 31, 2002
	-----	-----
Loan Type:		
Construction loans	\$ 304,406	\$ 300,266
Taxable permanent loans	12,671	44,665
Supplemental loans	87,623	80,459
Other taxable loans	36,484	37,130
	-----	-----
	441,184	462,520
Allowance for loan losses	(1,072)	(1,072)
	-----	-----
Total	\$ 440,112	\$ 461,448
	=====	=====

The Company pledges its construction loans and permanent loans as collateral for the Company's notes payable and line of credit borrowings. In addition, in order to facilitate the securitization of certain assets at higher leverage ratios than otherwise available to the Company without the posting of additional collateral, the Company has pledged additional taxable loans to a pool that acts as collateral for senior interests in certain securitization trusts and credit enhancement facilities. At March 31, 2003 and December 31, 2002, the total carrying amount of the loans receivable pledged as collateral was \$357.0 million and \$417.1 million, respectively.

### NOTE 4 - RESIDUAL INTERESTS IN BOND SECURITIZATIONS

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

(000s)	March 31, 2003			
	-----			
	Face	Amortized	Unrealized	Fair Value (
	Amount	Cost	Gain (Loss)	Assets
				-----
				Liabilities

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	-----	-----	-----	-----	-----
Total RITESM (3)	\$ 329	\$ 3,542	\$ 6,019	\$ 10,999	\$ (1,43
	=====	=====	=====	=====	=====
(000s)				December 31, 2002	
	-----	-----	-----	-----	-----
	Face	Amortized	Unrealized		Fair Value
	Amount	Cost	Gain (Loss)	Assets	Liabilities
	-----	-----	-----	-----	-----
Total RITESM (3)	\$ 334	\$ 3,639	\$ 5,953	\$ 11,039	\$ (1,44
	=====	=====	=====	=====	=====

- (1) The amounts disclosed represent the fair values of all the Company's investments in residual interests in bond securitizations at the reporting date.
- (2) The aggregate negative fair value of the investments is included in liabilities for financial reporting purposes. The negative fair value of these investments is considered temporary and is not indicative of the future earnings on these investments.
- (3) The amount of outstanding Puttable Floating Option Tax-Exempt Receipts ("P-FloatsSM"), which are senior to the Company's RITESM investments and which are not reflected in the Company's balance sheet, was \$177.6 million and \$177.8 million at March 31, 2003 and December 31, 2002, respectively.

The Company did not purchase or sell any RITESM interests in the first quarter of 2003.

RITESM Valuation Analysis

The fair value of a RITESM investment is derived from the quote on the underlying bond reduced by the outstanding corresponding P-FLOATsSM face amount. The Company bases the fair value of the underlying bond, which has a limited market, on quotes from external sources, such as brokers, for these or similar bonds. The fair value of the underlying bond includes a prepayment risk factor. The prepayment risk factor is reflected in the fair value of the bond by assuming the bond will prepay at the most adverse time to the Company given current market rates and estimates of future market rates. Based on this, an adverse change in prepayment risk would not have an effect on the fair value of the Company's RITESM investments. In addition, the RITESM 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 March 31, 2003 and December 31, 2002, a 10% and 20% adverse change in key assumptions used to estimate the fair value of the Company's RITESM would have the following impact.

(000s)

March 31, 2003

December 31, 2002

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Fair value of retained interests, net	\$9,561	\$9,592
Residual cash flows discount rate (annual rate)	3.2% - 8.6%	3.8% - 8.1%
Impact on fair value of 10% adverse change	(\$8,963)	(\$9,108)
Impact on fair value of 20% adverse change	(\$17,162)	(\$17,444)

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

### NOTE 5 - INVESTMENT IN DERIVATIVE FINANCIAL INSTRUMENTS

At March 31, 2003 and December 31, 2002, the Company's investments in derivative financial instruments consisted of interest rate swaps and put option contracts. For further discussion of the Company's investment in derivative financial instruments see Note 6 to the Company's 2002 Form 10-K. The Company did not purchase or sell any derivative financial instruments in the first quarter of 2003. The following table provides certain information with respect to the derivative financial instruments held by the Company at March 31, 2003 and December 31, 2002.

(000s)	March 31, 2003			Notional Amount (1)
	Notional Amount (1)	Fair Value (2) Assets	Liabilities(3)	
Interest rate swap agreements	\$ 349,810	\$ 18,404	\$ (46,128)	\$ 349,810
Put option agreements	98,539	-	-	98,539
Total investment in derivative financial instruments		\$ 18,404	\$ (46,128)	
		=====	=====	

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

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

(3) The aggregate negative fair value of the investments is included in liabilities for financial reporting purposes. The negative fair value of these investments is considered temporary and is not indicative of the future earnings on these investments.

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### NOTE 6 - OTHER ASSETS

The Company's investment in other assets includes prepaid expenses, other receivables, debt issue costs, property and equipment, and certain investments in interest-only securities. Included in the other asset balance at March 31, 2003 and December 31, 2002, is \$7.3 million and \$23.3 million, respectively, of receivables due from various syndicated low-income housing tax credit funds (for further discussion of syndicated low-income housing tax credit funds, see Note 1 to the Company's 2002 Form 10-K). The decrease in this receivable from December 31, 2002 to March 31, 2003 is due to certain funds repaying the Company after obtaining an alternative source of financing.

### NOTE 7 - NOTES PAYABLE AND DEBT

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

(000s)	Total of Facilities	March 31, 2003	Decem
	-----	-----	-----
Short-term notes payable	N/A	123,635	
Lines of credit - unaffiliated entities	\$ 154,000	59,834	
Lines of credit - affiliated entities	\$ 240,000	45,181	
Short-term debt	N/A	219,590	
		-----	-----
Total short-term notes payable and debt		448,240	
		-----	-----
Long-term notes payable	N/A	152,423	
Long-term debt	N/A	146,987	
		-----	-----
Total long-term notes payable and debt		299,410	
		-----	-----
Total notes payable and debt		\$ 747,650	
		=====	=====

### Covenant Compliance

Under the terms of the various credit facilities, the Company is required to comply with covenants including net worth, interest coverage, collateral and other terms and conditions. The Company was in compliance with its debt covenants at March 31, 2003.

### NOTE 8 - GUARANTEES, COMMITMENTS AND CONTINGENCIES

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

### Guarantees

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

The following table summarizes the Company's guarantees by type at March 31, 2003.

(in millions)		March 31, 2003		
Guarantee	Note	Maximum Exposure	Carrying Amount	Supporting Colla
Loss-Sharing Agreement with Fannie Mae and GNMA/HUD	(1)	\$ 170.4	\$ -	\$5.0 million Letter of Credit
Bank Line of Credit Guarantees	(2)	105.0	-	Investment in partnership a
Tax Credit Related Guarantees	(3)	42.8	0.1	None
Other Financial/Payment Guarantees	(4)	408.9	1.8	None
Put Options	(5)	101.6	-	\$30 million of loans and ta
Letter of Credit Guarantees	(6)	25.8	-	None
Indemnification Contracts	(7)	13.6	-	None
		\$ 868.1	\$ 1.9	

### Notes:

- (1) As a Fannie Mae DUS lender and Government National Mortgage Association ("GNMA") loan servicer, the Company may share in losses relating to underperforming real estate mortgage loans delivered to Fannie Mae and GNMA. More specifically, if the borrower fails to make a payment on a DUS loan originated by the Company and sold to Fannie Mae, of principal, interest, taxes or insurance premiums, the Company may be required to make servicing advances to Fannie Mae. Also, the Company may participate in a deficiency after foreclosure on DUS and GNMA loans. As a DUS lender, the Company must maintain a minimum net worth and collateral with a custodian. The term of the loss sharing agreement is based on the contractual requirements of the underlying loans delivered to Fannie Mae and GNMA, which varies to a maximum of 30 years.
- (2) The Company, or its subsidiaries, provides payment or performance guarantees for certain borrowings under line of credit facilities with a term of 1 year or less.
- (3) The Company acquires and sells interests in partnerships that provide low-income housing tax credits for investors. In conjunction with the sale of these partnership interests, the Company may provide performance

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guarantees on the underlying properties owned by the partnerships or guarantees to the fund investors. These guarantees have various expirations to a maximum term of 18 years.

- (4) The Company, or its subsidiaries, has entered into arrangements that require the Company to make payment in the event a specified third party fails to perform on its financial obligation. The Company typically provides these guarantees in conjunction with the sale of an asset to a third party or the Company's investment in equity ventures. The term of the guarantee varies based on loan payoff schedules or Company divestitures.
- (5) The Company has entered into put option agreements with counterparties whereby the counterparty has the right to sell to the Company, and the Company has the obligation to buy, an underlying investment at a specified price. These put option agreements expire at various dates between February 1, 2006 and February 26, 2008.
- (6) The Company, or its subsidiaries, provide a guarantee of the repayment on losses incurred under letters of credit issued by third parties or provide a guarantee to provide substitute letters of credit at a predetermined future date. In addition, the Company may provide a payment guarantee for certain assets in securitization programs. These guarantees expire at various dates between March 1, 2004 and September 1, 2017.
- (7) The Company has entered into indemnification contracts, which require the guarantor to make payments to the guaranteed party based on changes in an underlying investment that is related to an asset or liability of the guaranteed party. These agreements typically require the Company to reimburse the guaranteed party for legal and other costs in the event of an adverse judgment in a lawsuit or the imposition of additional taxes due to a change in the tax law or an adverse interpretation of the tax law. The term of the indemnification varies based on the underlying program life, loan payoffs, or Company divestitures. Based on the terms of the underlying contracts, the maximum exposure amount only includes amounts that can be reasonably estimated at this time; the actual exposure amount could vary significantly.

### NOTE 9 - COMMON SHARE OFFERING

In February 2003, the Company sold to the public 2.8 million common shares at a price of \$23.60 per share and granted the underwriters an option to purchase up to an aggregate of 420,000 common shares to cover over-allotments at the same price. Net proceeds on the 2.8 million shares approximated \$62.5 million. On February 11, 2003, the underwriters exercised their option to purchase 420,000 common shares, generating net proceeds of approximately \$9.4 million. The net proceeds from this offering will be used for general corporate purposes, including funding of new investments, paying down debt and working capital.

### NOTE 10 - EARNINGS PER SHARE

The following table reconciles the numerators and denominators in the basic and diluted earnings per share ("EPS") calculations for common shares for the three months ended March 31, 2003 and 2002. The effect of all potentially dilutive securities was included in the calculation.

For the three months ended March 31, 2003

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	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)
	-----	-----	-----	-----
(000s, except share and per share data)				
Basic EPS				
Income allocable to common shares	\$ 13,945	27,342,870	\$ 0.51	\$ 14,89
			=====	
Effect of Dilutive Securities				
Options and deferred shares	-	338,641		
Earnings contingency	-	-		
	-----	-----		-----
Diluted EPS				
Income allocable to common shares plus assumed conversions	\$ 13,945	27,681,511	\$ 0.50	\$ 14,89
	=====	=====	=====	=====

NOTE 11 - DISTRIBUTIONS

On April 17, 2003, the Board of Directors declared a distribution of \$0.4450 for the three months ended March 31, 2003, to common shareholders of record on April 28, 2003. The payment date was May 9, 2003.

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

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

	For the Three Months Ended March 31, 2003
	-----
Risk-free interest rate	3%
Dividend yield	7.5%
Volatility	20%
Expected option life	7.5 years
Weighted average fair value of options	\$ 1.40

The following table illustrates the effect on net income and earnings per

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share as if the compensation expense had been determined based on the fair value recognition provisions of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" as amended by Financial Accounting Standards No.148 "Accounting for Stock-Based Compensation-Transition and Disclosure."

(000s)	For the Three Months Ended March 31, 2003
Net income allocated to common shares, as reported	\$ 13,945
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(10)
Net income allocated to common shares, pro forma	\$ 13,935
Earnings per common share:	
Basic - as reported	\$ 0.51
Basic - pro forma	\$ 0.51
Diluted - as reported	\$ 0.50
Diluted - pro forma	\$ 0.50

NOTE 13 - BUSINESS SEGMENT REPORTING

The Company has two reportable business segments: (1) an operating segment consisting of subsidiaries that primarily generate taxable fee income by providing loan servicing, loan origination and other related services and (2) an investing segment consisting primarily of subsidiaries holding investments producing tax-exempt interest income. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 to the Company's 2002 Form 10-K. A complete description of the Company's reporting segments is described in Note 18 to the Company's 2002 Form 10-K.

The following table reflects the results of the Company's business segments for the three months ended March 31, 2003 and 2002.

Municipal Mortgage & Equity, LLC  
Segment Reporting for the three months ended March 31, 2003  
(in thousands) (unaudited)

	For the three months ended
	Investing      Operating

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INCOME:		
Interest income		
Interest on bonds and residual interest in bond securitizations	15,739	246
Interest on loans	829	8,674
Interest on short-term investments	1,197	61
Total interest income	17,765	8,981
Fee income		
Syndication fees	-	1,411
Origination fees	-	1,160
Loan servicing fees	-	1,909
Asset management and advisory fees	-	1,076
Other income	1,308	889
Total fee income	1,308	6,445
Net gain on sales	-	1,278
Total Income	19,073	16,704
Expenses:		
Interest expense	3,491	7,943
Salaries and benefits	473	5,493
General and administrative	553	1,103
Professional fees	544	445
Amortization of mortgage servicing rights and other intangibles	-	389
Total expenses	5,061	15,373
Net holding gains on derivatives	2,873	-
Impairments and valuation allowances related to investments	-	-
Net losses from equity investments in partnerships	-	(747)
Net income before income taxes and income allocated to preferred shareholders in a subsidiary company	16,885	584
Income tax expense	-	68
Net income before income allocated to preferred shareholders in a subsidiary company	16,885	516
Income allocable to preferred shareholders in a subsidiary company	2,994	-
Net income	13,891	516

For the three mon

Investing	Operating
-----------	-----------

INCOME:  
Interest income

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Interest on bonds and residual interest in bond securitizations	14,108	1,054
Interest on loans	848	7,582
Interest on short-term investments	441	46
	15,397	8,682
Fee income		
Syndication fees	-	1,618
Origination fees	-	1,508
Loan servicing fees	-	1,908
Asset management and advisory fees	-	867
Other income	357	788
	357	6,689
Net gain on sales	956	1,210
	16,710	16,581
Expenses:		
Interest expense	2,389	6,583
Salaries and benefits	1,108	3,719
General and administrative	413	1,313
Professional fees	(25)	662
Amortization of mortgage servicing rights and other intangibles	-	318
	3,885	12,595
Net holding gains on derivatives	3,112	-
Impairments and valuation allowances related to investments	(110)	-
Net losses from equity investments in partnerships	-	(323)
	15,827	3,663
Net income before income taxes and income allocated to preferred shareholders in a subsidiary company	15,827	3,663
Income tax expense	-	1,031
	15,827	2,632
Net income before income allocated to preferred shareholders in a subsidiary company	15,827	2,632
Income allocable to preferred shareholders in a subsidiary company	2,994	-
	12,833	2,632
Net income	12,833	2,632
	12,833	2,632

### Notes:

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

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

#### General Business

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The Company provides debt and equity financing to developers of multifamily housing. The Company invests in tax-exempt bonds, or interests in bonds, issued by state and local governments or their agencies or authorities to finance multifamily housing developments. Interest income derived from the majority of these bond investments is exempt income for federal income tax purposes. Multifamily housing developments, as well as the rents paid by the tenants, secure these investments. The Company is also a mortgage banker. Mortgage banking activities include the origination, investment in and servicing of investments in multifamily housing, both for its own account and on behalf of third parties. These investments generate taxable income.

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

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

### Liquidity and Capital Resources

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

The Company relies on the regular availability of capital from pension funds, government sponsored entities ("GSEs"), equity offerings, bank lines of credit and securitization transactions to finance its growth. The Company expects to meet its cash needs in the short-term, which consist primarily of funding of new investments, payment of distributions to shareholders and funding of mortgage banking activities, from equity offering proceeds, cash on hand and bank lines of credit. To continue to grow these activities, the Company will need to increase its access to capital in 2003 and future years. The Company expects it will need \$300 to \$400 million in new capital to meet its 2003 production targets for its lending and tax credit equity businesses. The Company's February 2003 equity offering generated net proceeds of \$71.9 million to satisfy a portion of the new capital needed. The Company has entered into discussions with its existing capital providers to increase their financing commitments. In addition, the Company is seeking to establish relationships with additional pension funds and to expand its relationships with GSEs. If the Company is unable to secure the remaining additional capital needed during 2003, its production targets may decrease by \$400 to \$450 million.

For the three months ended March 31, 2003, the Company structured \$32.1 million in tax-exempt bond transactions. This includes both construction and permanent transactions because, although they relate to the same loans, the Company counts them as separate loans for consistency with tracking of taxable lending, where construction and permanent loans are legally distinct loans. In addition, the Company originated \$38.6 million of construction loans, \$37.2 million of permanent loans and \$16.8 million of supplemental loans. The Company also closed \$35.3 million for investment in syndicated tax credit equity funds

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and originated \$3.3 million of conventional market rate equity transactions.

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

### Pension Funds

MMER is a Maryland real estate investment trust established by a group of pension funds that the Company has had relationships with for over twenty-five years. In 2001, four pension funds subscribed to invest a total of \$70 million in MMER. In 2002, two of the funds subscribed to an additional \$30 million. As of March 31, 2003, \$70 million of the total \$100 million subscription has been received by MMER.

### Equity Offerings

In February 2003, the Company sold to the public 3.2 million common shares (including the entire underwriters' over-allotment option) at a price of \$23.60 per share. Net proceeds of this offering were \$71.9 million. The net proceeds from this offering will be used for general corporate purposes, including funding of new investments, paying down debt and working capital.

### Leverage

The Company's leverage ratio was 50.7% and 55.8% at March 31, 2003 and December 31, 2002, respectively. This leverage ratio is based on total debt (notes payable, short- and long-term debt) divided by the Company's total capitalization (notes payable, short- and long-term debt, preferred shareholders' equity in a subsidiary company, and shareholders' equity). Management includes short-term debt in this calculation because of the importance of short-term debt to the Company's management of its overall cost of capital. It should be noted that this leverage ratio is one of many ways to measure leverage. For example, as of March 31, 2003, this ratio excludes \$245.1 million of securitization interests that are senior to the Company's investments that were previously accounted for as sales and includes \$157.5 million of construction loans where the economic risk belongs to a third party.

The Company will continue to try to maintain overall leverage ratios in the 50% to 65% range, with certain assets at significantly higher ratios, up to approximately 99%, and other assets not leveraged at all.

### Factors that Could Affect Future Results

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

### Contractual Obligations

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

### Guarantees and Off-Balance Sheet Arrangements

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

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### Dividend Policy and Cash Available for Distribution

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

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

Since the first quarter of 2002, when the Company completed the redemption of preferred shares and term growth shares, the Company's entire net cash flow has been available for distribution to the common shares. The Company's current policy is to distribute to common shareholders at least 80% of its annual CAD to common shares. The table below shows the Company's CAD available to common shares, CAD per common share, dividend per common share and payout ratio for the three months ended March 31, 2003 and 2002.

	2003	2002
	-----	-----
CAD available to common shares (000s)	\$ 14,416	\$ 11,813
CAD per common share (1)	0.50	0.47
Dividend per common share	0.4450	0.4350
Payout ratio	89.0%	92.8%

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

The following table reconciles the Company's GAAP net income to CAD for the three months ended March 31, 2003 and 2002.

MUNICIPAL MORTGAGE & EQUITY, LLC  
RECONCILIATION OF GAAP INCOME TO CASH AVAILABLE FOR DISTRIBUTION  
(In thousands)  
(unaudited)

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	For the three months ended March 31, 2003	For the three months ended March 31, 2004
Net income allocated to common shares - GAAP Basis	\$ 13,945	\$ 14,893
<hr style="border-top: 1px dashed black;"/>		
Conversion to Cash Available for Distribution:		
(1) Mark to market adjustments	\$ (2,873)	\$ (3,112)
(2) Equity investments	2,409	440
(3) Net gain on sales	(327)	(2,126)
(3) Amortization of capitalized mortgage servicing fees	352	318
(4) Origination fees and other income, net	282	673
(5) Valuation allowances and other-than-temporary impairments	-	110
(6) Deferred tax expense	628	617
<hr style="border-top: 1px dashed black;"/>		
Cash Available for Distribution (CAD)	\$ 14,416	\$ 11,813
<hr style="border-top: 1px dashed black;"/>		

### Notes

- (1) For GAAP reporting, the Company records the non-cash change in fair value of its investment in interest rate swaps and other derivative financial instruments through net income. These non-cash gains and losses are not included in the Company's calculation of CAD.
- (2) For GAAP reporting, the Company accounts for various investments in partnerships using the equity accounting method. As a result, the Company's allocable share of the income or loss from the partnerships is reported in income (losses) from equity investments in partnerships. The income from these partnerships includes depreciation expense and changes in the fair value of investments in derivatives. For GAAP reporting, distributions are treated as a return of capital. For CAD reporting, the Company records the cash distributions it receives from the partnerships as other income.
- (3) For GAAP reporting, the Company recognizes non-cash gains and losses associated with the sale of assets or capitalization of mortgage servicing rights. The capitalized mortgage servicing rights are amortized into expense over the estimated life of the serviced loans. The non-cash gains and the associated amortization expense are not included in CAD.
- (4) Origination fees and certain other income amounts are recognized as income when received for CAD purposes, but for GAAP reporting these items are deferred and amortized into income over the life of the associated investment. This adjustment represents the net difference, for the relevant period, between fees taken into income when received for CAD and the amortization of fees recorded for GAAP.
- (5) For GAAP reporting, the Company records valuation allowances and other-than-temporary impairments on its investments in loans, bonds and other bond-related investments. Such non-cash charges do not affect the cash flow generated from the operation of the underlying properties, distributions to shareholders, or the tax-exempt status of the income of the financial obligation under the bonds. Therefore, these items are not included in the calculation of CAD.
- (6) For GAAP reporting, the Company's income tax expense contains both a current and a deferred component. Only the Company's current income tax expense is reflected in CAD.

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

### Results of Operations and Critical Accounting Estimates

#### Net Interest Income

(000s)	For the three months ended		
	2003	%	2002
Interest on bonds and residual interests in bond securitizations	\$ 15,985	104.4%	\$
Interest on loans	9,503	62.1%	
Interest on short-term investments	192	1.2%	
Total interest income	25,680		
Interest expense	(10,368)	-67.7%	
Net interest income	\$ 15,312	100.0%	\$

Total interest income for the quarter ended March 31, 2003 increased \$1.6 million over the same period last year due primarily to a \$1.9 million increase in collections of interest on bonds, residual interests in bond securitizations and loans receivable. This increase resulted from an increase in on-balance sheet assets related to securitizations and larger average notes receivable balances and was offset by a \$0.3 million decrease in interest on short-term investments resulting from lower cash balances as well as lower investment yields. Interest expense increased \$1.4 million primarily due to an increase in financing costs related to on-balance sheet securitizations and larger average notes payable balances outstanding during the quarter.

#### Fee Income

(000s)	For the three months ended March 31,			
	2003	%	2002	%
Syndication fees	\$ 1,411	19.4%	\$ 1,618	24.4%
Origination fees	698	9.6%	1,089	16.4%
Loan servicing fees	1,909	26.2%	1,908	28.8%
Asset management and advisory fees	1,076	14.7%	867	13.1%
Other income	2,197	30.1%	1,145	17.3%
Total fee income	\$ 7,291	100.0%	\$ 6,627	100.0%

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Total fee income for the quarter ended March 31, 2003 increased \$0.7 million compared to the same period last year. This increase is due primarily to a \$1.1 million increase in other income and a \$0.2 million increase in asset management and advisory fees, offset by a \$0.2 million decrease in syndication fees and a \$0.4 million decrease in origination fees. The \$1.1 million increase in other income is due primarily to prepayment fees from early payment of tax-exempt bond investments. The \$0.2 million increase in asset management and advisory fees is due to an increase in tax credit equity and MMER assets under management. The \$0.2 million decrease in syndication fees is due to taking \$0.5 million of fees for organizational and offering costs related to closed syndicated tax credit equity funds into income during the quarter ended March 31, 2002. No such fees were recognized during the quarter ended March 31, 2003. This decrease was offset by an increase in the fees related to an increase in the volume of syndications closed. The \$0.4 million decrease in origination fees is due to a decrease in the volume of permanent loans and conventional equity transactions closed during the quarter.

### Net Gain on Sales

	For the three months end		
(000s)	2003	%	20
Gain recorded for capitalized mortgage servicing rights	\$ 404	31.6%	\$
Sales and payoffs of investments	776	60.7%	
Sale of investments in partnerships	98	7.7%	
Total net gain on sales	\$ 1,278	100.0%	\$

Net gain on sales for the quarter ended March 31, 2003 decreased \$0.9 million compared to the same period last year. The decrease is due primarily to a \$0.8 million decrease in gain recorded for capitalized mortgage servicing rights and a \$0.2 million decrease in gain on sales and payoffs of investments offset by a \$0.1 million increase in gain on sales of investments in partnerships. The \$0.8 million decrease recorded for capitalized mortgage servicing rights is due primarily to a decrease in the volume of permanent loans sold. The \$0.2 million decrease in gain on sales and payoffs of investments is due primarily to a gain of \$1.0 million in the same period last year relating to the restructuring of a securitization trust, offset in the current year by a \$0.8 million increase in premiums on the delivery of loans to HUD and gain on sale on delivery of loans to a new conduit lender. The \$0.1 million increase in gain on sales of investments in partnerships is due to this item not having activity until the quarter ended December 31, 2002. The gain is due to the warehousing and subsequent transfer of tax credit equity properties at subsidiaries.

### Operating Expenses and Amortization

	For the three months end		
(000s)	2003	%	20

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Salaries and benefits	\$ 5,966	66.3%	\$
General and administrative	1,656	18.4%	
Professional fees	989	11.0%	
Amortization of mortgage servicing rights and other intangibles	389	4.3%	
	\$ 9,000	100.0%	\$
	\$ 9,000	100.0%	\$

Total expenses for the quarter ended March 31, 2003 increased \$1.5 million compared to the same period last year. This increase is due primarily to a \$1.1 million increase in salaries and benefits resulting from a \$0.3 million increase in salaries and other compensation and a \$0.9 million increase in bonuses offset by a \$0.1 million decrease in temporary assistance and employment advertising. In addition, there was a \$0.4 million increase in professional fees due primarily to a \$0.2 million increase in legal fees, a \$0.5 million increase in consulting fees and a \$0.1 million increase in printing expense offset by a \$0.5 million decrease in commission expense. Commission expense is no longer incurred by the Company because the pass-through of commission income and expense has been transferred to the syndicated tax credit equity funds.

### Net Holding Gains on Derivatives

The Company recorded net holding gains for mark-to-market adjustments on derivative financial instruments of \$2.9 million and \$3.1 million for the quarters ended March 31, 2003 and 2002, respectively.

### Impairments and Valuation Allowances Related to Investments

In accordance with the Company's valuation and impairment policies, the Company did not record any other-than-temporary impairments during the quarter ended March 31, 2003. During the quarter ended March 31, 2002, the Company recorded an other-than-temporary impairment of \$0.1 million on a bond with a face amount of \$0.7 million.

### Net Losses from Equity Investments in Partnerships

Net losses from equity investments in partnerships increased by \$0.4 million for the quarter ended March 31, 2003 compared to the same period last year due primarily to \$0.5 million in losses generated from investments in real estate operating partnerships that are being warehoused before transfer to syndicated tax credit equity funds. This increase was offset by a decrease in losses from an investment in income-producing real estate operating partnerships and related swap partnerships. While these investments generate cash flow to the Company in the form of quarterly distributions, on a GAAP basis they generate a net loss due to non-cash adjustments for depreciation and mark-to-market adjustments related to the swap partnerships. The mark-to-market adjustments cause volatility in the losses that are recorded.

### Income Tax Expense

Income tax expense for the quarter ended March 31, 2003 decreased \$1.0 million compared to the same period last year. This decrease is due primarily to a decrease in net income within the operating segment, which contains corporations that are subject to income taxes.

### Income Allocable to Preferred Shareholders in a Subsidiary Company

Income allocable to preferred shareholders in a subsidiary company for the quarter ended March 31, 2003 did not change compared to the same period last year. There have not been any new series of preferred shares issued since October 2001.

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### Net Income

Net income for the quarter ended March 31, 2003 decreased by \$1.1 million compared to the same period last year due primarily to: (1) a \$1.1 million increase in salaries and benefits; (2) a \$0.9 million decrease in net gain on sales; (3) a \$0.4 million decrease in origination fees; (4) a \$0.4 million increase in net losses from equity investments in partnerships; partially offset by (5) a \$1.1 million increase in other income; and (6) a \$1.0 million decrease in income tax expense.

### Other Comprehensive Income (Loss)

For the quarter ended March 31, 2003, the net adjustment to other comprehensive income for unrealized holding gains on tax-exempt bonds and residual interests in bond securitizations available for sale was \$4.6 million, and total comprehensive income was \$18.5 million.

For the quarter ended March 31, 2002, the net adjustment to other comprehensive income (loss) for unrealized holding losses on tax-exempt bonds and residual interests in bond securitizations available for sale was \$4.1 million. After a reclassification adjustment for gains of \$1.0 million included in net income, other comprehensive loss for the quarter ended March 31, 2002 was \$5.1 million and total comprehensive income was \$10.0 million.

### Critical Accounting Policies and Estimates

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

### New Accounting Pronouncements

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

### Related Party Transactions

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

### Income Tax Considerations

MuniMae is organized as a limited liability company. This structure allows MuniMae to combine the limited liability, governance and management characteristics of a corporation with the pass-through income features of a partnership. Therefore, the distributive share of MuniMae's income, deductions and credits is included in each shareholder's income tax return. In addition,

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the tax-exempt income derived from certain investments remains tax-exempt when it is passed through to the shareholders. The Company records cash dividends received from subsidiaries organized as corporations as dividend income for tax purposes. Shareholders' distributive share of MuniMae's income, deductions and credits are reported to shareholders on Internal Revenue Service Schedule K-1.

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

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

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

The Company has numerous corporate subsidiaries which are subject to income taxes. The Company provides for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). FAS 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities.

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

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

### Item 4. Controls and Procedures

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

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

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

### (b) Changes in internal controls

We maintain a system of internal accounting controls that are designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed. For the quarter ended March 31, 2003, there were no significant changes to our internal controls or in other factors that could significantly affect our internal controls.

## PART II. OTHER INFORMATION

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

#### (a) Exhibits:

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

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

On January 27, 2003, the Company filed a Form 8-K announcing the resignation of a Board Member.

On February 6, 2003, the Company filed a Form 8-K to report the purchase agreement and press release announcing the pricing of an underwritten offering of 2,800,000 of common shares and that the Company had granted the underwriters an over-allotment option of up to 420,000 additional shares.

On February 28, 2003, the Company filed a Form 8-K containing the supplemental information reported to securities analysts for the three months ended December 31, 2002.

## SIGNATURES

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

MUNICIPAL MORTGAGE & EQUITY, LLC  
(Registrant)

By: \_\_\_\_/s/ Mark K. Joseph\_\_\_\_\_  
Mark K. Joseph  
Chairman of the Board, Chief Executive Officer (Principal Executive



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- b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

\_\_\_\_\_/s/ William S. Harrison\_\_\_\_\_  
Name: William S. Harrison  
Title: Chief Financial Officer

I, Mark K. Joseph, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Municipal Mortgage & Equity, LLC;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a. all significant deficiencies in the design or operation of

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

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

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

Date: May 12, 2003

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

EXHIBIT 99

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

Each of the undersigned officers of Municipal Mortgage & Equity, LLC, a Delaware limited liability company (the "Company"), hereby certifies that (i) the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2003 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (ii) the information contained in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2003 fairly presents, in all material respects, the financial condition and results of operations of the Company, at and for the periods indicated.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: May 12, 2003

\_\_\_\_/s/ Mark K. Joseph \_\_\_\_\_  
Name: Mark K. Joseph  
Title: Chief Executive Officer and  
Chairman of the Board

\_\_\_\_/s/ William S. Harrison \_\_\_\_\_  
Name: William S. Harrison  
Title: Senior Vice President and  
Chief Financial Officer