MUNICIPAL MORTGAGE & EQUITY LLC
Form 10-Q
May 13, 2011

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011
OR

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

For the transition period from __________________ to __________________

Commission File Number 001-11981

MUNICIPAL MORTGAGE & EQUITY, LLC
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	52-1449733 (I.R.S. Employer Identification No.)
621 East Pratt Street, Suite 600 Baltimore, Maryland	(443) 263-2900 (Registrant's telephone number, including area code)
(Address of principal executive offices) 21202 (Zip 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 o No þ

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

There were 40,469,867 shares of common shares outstanding at May 10, 2011.

Municipal Mortgage & Equity, LLC
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This 2011 Quarterly Report on Form 10-Q (“Report”) contains forward-looking statements intended to qualify for the safe harbor contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements often include words such as “may,” “will,” “should,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “seek,” “would,” “could,” a
are made in connection with discussions of future operating or financial performance.

Forward-looking statements reflect our management’s expectations at the date of this Report regarding future conditions, events or results. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial condition may differ materially from what is anticipated in the forward-looking statements. There are many factors that could cause actual conditions, events or results to differ from those anticipated by the forward-looking statements contained in this Report. They include the factors discussed in Part I, Item 1A, “Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2010 (“2010 Form 10-K”).

Readers are cautioned not to place undue reliance on forward-looking statements in this Report or that we make from time to time, and to consider carefully the factors discussed in Part I, Item 1A, “Risk Factors” of the 2010 Form 10-K, in evaluating these forward-looking statements. We have not undertaken to update any forward-looking statements.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Municipal Mortgage & Equity, LLC
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 34,026	$ 32,544
Restricted cash	25,850	24,987
Bonds available-for-sale (includes $1,172,932 and $1,197,180 pledged as collateral)	1,199,912	1,231,036
Loans held for investment, net of allowance for loan losses (includes $20,672 and $53,096 pledged as collateral)	21,458	53,933
Loans held for sale (includes $4,340 and $18,024 pledged as collateral)	5,284	18,989
Investment in preferred stock (includes $2,000 and $2,000 pledged as collateral)	36,371	36,371
Investments in unconsolidated ventures (includes $6,779 and $6,779 pledged as collateral)	6,837	6,842
Derivative assets	6,088	6,812
Other assets (includes $13,155 and $12,527 pledged as collateral)	42,038	46,027
Assets of consolidated funds and ventures:		
Investments in Lower Tier Property Partnerships	424,311	436,971
Other assets	169,398	165,024
Total assets of consolidated funds and ventures	593,709	601,995
Total assets	$ 1,971,573	$ 2,059,536
LIABILITIES AND EQUITY		
Debt	$ 1,210,055	$ 1,277,415
Guarantee obligations	7,248	7,235
Accounts payable and accrued expenses	17,975	18,890
Derivative liabilities	18,059	20,153
Deferred revenue	1,274	1,290
Other liabilities	6,762	6,333
Liabilities of consolidated funds and ventures:		
Debt	3,677	3,709
Unfunded equity commitments to Lower Tier Property Partnerships	20,199	20,970
Other liabilities	3,055	3,136
Total liabilities of consolidated funds and ventures	26,931	27,815
Total liabilities	$ 1,288,304	$ 1,359,131
Commitments and contingencies		
Equity:		
Perpetual preferred shareholders' equity in a subsidiary company, liquidation preference of $169,000 at March 31, 2011 and $173,000 at December 31, 2010	$ 164,803	$ 168,686

Noncontrolling interests in consolidated funds and ventures (net of $1,533 and $1,922 of subscriptions receivable)	561,990	569,556
Common shareholders' equity:		
Common shares, no par value (40,204,892 and 40,204,049 shares issued and outstanding and 862,558 and 647,782 non-employee directors' and employee deferred shares issued at March 31, 2011 and December 31, 2010, respectively)	(134,433)	(130,466)
Accumulated other comprehensive income	90,909	92,629
Total common shareholders' equity (deficit)	(43,524)	(37,837)
Total equity	683,269	700,405
Total liabilities and equity	$ 1,971,573	$ 2,059,536

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

Municipal Mortgage & Equity, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share data)

	For the three months ended March 31, 2011	2010
REVENUE		
Interest income:		
Interest on bonds	$ 20,822	$ 21,120
Interest on loans	1,011	2,111
Interest on short-term investments	30	33
Total interest income	21,863	23,264
Fee and other income:		
Syndication fees	16	490
Asset management and advisory fees	283	335
Income on preferred stock investment	1,557	1,671
Other income	488	1,134
Total fee and other income	2,344	3,630
Revenue from consolidated funds and ventures	560	591
Total revenue	24,767	27,485
EXPENSES		
Interest expense	15,098	18,077
Salaries and benefits	3,069	3,416
General and administrative	1,353	2,619
Professional fees	3,181	3,711
Impairment on bonds	3,510	6,434
Provision for loan losses	565	3,467
Other expenses	802	2,182
Expenses from consolidated funds and ventures	5,339	5,114
Total expenses	32,917	45,020
Net (losses) gains on sale of bonds	(321)	366
Net (losses) gains on loans	(170)	3,017
Net losses on derivatives	(71)	(1,867)
Net gains on early extinguishments of liabilities	293	6,866
Equity in (losses) earnings from unconsolidated ventures	(6)	1
Equity in losses from Lower Tier Property Partnerships of consolidated funds and ventures	(7,873)	(12,291)
Loss from continuing operations before income taxes	(16,298)	(21,443)
Income tax (expense) benefit	(112)	16
(Loss) income from discontinued operations, net of tax	(110)	29
Net loss	(16,520)	(21,398)
(Income) loss allocable to noncontrolling interests:		
Income allocable to perpetual preferred shareholders of a subsidiary company	(2,442)	(2,466)

Net losses allocable to noncontrolling interests in consolidated funds and ventures:		
Related to continuing operations	14,266	13,779
Related to discontinued operations	–	51
Net loss to common shareholders	$ (4,696)	$ (10,034)
Basic and diluted loss per common share:		
Loss per common share	$ (0.11)	$ (0.25)
Weighted-average common shares outstanding	40,855	40,369

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

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Municipal Mortgage & Equity, LLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)
(in thousands)

	For the three months ended March 31, 2011	2010
Net loss	$ (16,520)	$ (21,398)
Other comprehensive income (loss) allocable to common shareholders:		
Unrealized gains (losses) on bonds available-for-sale:		
Unrealized net holding losses arising during the period	(4,067)	(2,415)
Reversal of unrealized gains on sold/redeemed bonds	(888)	(417)
Reclassification of unrealized losses to operations	3,510	6,434
Total unrealized (losses) gains on bonds available-for-sale	(1,445)	3,602
Currency translation adjustment	(275)	506
Other comprehensive (loss) income allocable to common shareholders	(1,720)	4,108
Other comprehensive (loss) income allocable to noncontrolling interests:		
Currency translation adjustment	(2,361)	16
Comprehensive loss	$ (20,601)	$ (17,274)

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

Municipal Mortgage & Equity, LLC
CONSOLIDATED STATEMENT OF EQUITY
For the three months ended March 31, 2011
(Unaudited)
(in thousands)

	Common Shares Number	Common Shares Amount	Accumulated Other Comprehensive Income (Loss)	Common Shareholders' Equity (Deficit)	Perpetual Preferred Shareholders' Equity	Noncontrolling Interest in Consolidated Funds and Ventures	Total Equity
Balance, December 31, 2010	40,851	$ (130,466)	$ 92,629	$ (37,837)	$ 168,686	$ 569,556	$ 700,405
Net (loss) income	–	(4,696)	–	(4,696)	2,442	(14,266)	(16,520)
Other comprehensive loss	–	–	(1,720)	(1,720)	–	(2,361)	(4,081)
Distributions	–	–	–	–	(2,442)	–	(2,442)
Common, restricted and deferred shares issued under employee and non-employee director share plans	216	26	–	26	–	–	26
Preferred share repurchases	–	703	–	703	(3,883)	–	(3,180)
Contributions	–	–	–	–	–	9,061	9,061
Balance, March 31, 2011	41,067	$ (134,433)	$ 90,909	$ (43,524)	$ 164,803	$ 561,990	$ 683,269

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

Municipal Mortgage & Equity, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	For the three months ended March 31, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (16,520)	$ (21,398)
Less net loss attributable to noncontrolling interests	(11,824)	(11,364)
Net loss to common shareholders	(4,696)	(10,034)
Adjustments to reconcile net loss to common shareholders to net cash provided by operating activities:		
Net losses (gains) on sales of bonds and loans	491	(3,384)
Net gains on sales of real estate	(2)	(205)
Provisions for credit losses and impairment	7,802	12,643
Equity in losses, net from equity investments	7,870	12,290
Net losses allocable to noncontrolling interests from consolidated funds and ventures	(14,266)	(13,830)
Income allocable to perpetual preferred shareholders of a subsidiary company	2,442	2,466
Purchases, advances on and originations of loans held for sale	(106)	(12)
Principal payments and sales proceeds received on loans held for sale	152	4,499
Federal income tax refund	–	7,694
Other	4,938	4,479
Net cash provided by operating activities	4,625	16,606
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal payments and sales proceeds received on bonds	24,931	9,463
Principal payments received on loans held for investment	45,495	1,318
Investments in property partnerships	(5,200)	(14,622)
Increase in restricted cash and cash of consolidated funds and ventures	(2,526)	(10,297)
Other	75	293
Net cash provided by (used in) investing activities	62,775	(13,845)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from borrowing activity	35	10,374
Repayment of borrowings	(69,387)	(24,399)
Payment of debt issue costs	(5)	(544)
Contributions from holders of noncontrolling interests	9,061	12,781
Distributions paid to perpetual preferred shareholders of a subsidiary company	(2,442)	(2,466)
Repurchase and retirement of perpetual preferred shares	(3,180)	–
Net cash used in financing activities	(65,918)	(4,254)
Net increase (decrease) in cash and cash equivalents	1,482	(1,493)
Unrestricted cash and cash equivalents at beginning of period	32,544	18,084
Unrestricted cash and cash equivalents at end of period	$ 34,026	$ 16,591

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

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Municipal Mortgage & Equity, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS– (continued)
(Unaudited)
(in thousands)

	For the three months ended March 31, 2011	2010
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 12,546	$ 14,277
Income taxes paid	18	22
Non-cash investing and financing activities:		
Unrealized (losses) gains included in other comprehensive income	(4,081)	4,124
Debt and liabilities extinguished through sales and collections on bonds	925	26,035
Decrease in unfunded commitments for equity investments	771	12,481
Debt assumed upon acquisition of interests in securitization trusts	–	634
Assets received in troubled debt restructuring	–	9,450
Increase in assets due to initial consolidation of funds and ventures	–	45,692
Increase in liabilities and noncontrolling interests due to initial consolidation of funds and ventures	–	45,692
Decrease in assets due to deconsolidation of funds and ventures	–	29,141
Decrease in liabilities and noncontrolling interests due to deconsolidation of funds and ventures	–	25,107

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

Municipal Mortgage & Equity, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1—DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

Except as expressly indicated or unless the context otherwise requires, the "Company," "MuniMae," "we," "our" or "us" mean Municipal Mortgage & Equity, LLC, a Delaware limited liability company, and its majority owned subsidiaries.

Business, Going Concern and Liquidity Issues

Beginning in the second half of 2007, the capital markets in which the Company operates began to deteriorate, which restricted the Company's access to capital. This lack of liquidity resulted in the Company having to sell assets, liquidate collateral positions, post additional collateral, sell or close different business segments and work with its creditors to restructure or extend debt arrangements. Although the Company has been able to extend, restructure and obtain forbearance agreements on various debt and interest rate swap agreements, such that none of our obligations have been accelerated at present, most of these extensions, restructurings and forbearance agreements are short-term in nature and do not provide a viable long-term solution to the Company's liquidity issues.

The Company plans to continue to work with its capital partners to extend debt maturities, restructure debt payments or settle debt at amounts below the contractual amount due. In addition, the Company will have to continue to reduce its operating costs in order to be a sustainable business. All of these actions are being pursued in order to achieve the objective of the Company continuing operations. However, the success of management's objective is dependent on obtaining creditor concessions, liquidating non-bond related assets and generating sufficient bond portfolio net interest income that can be used to service the Company's non-bond related debt and the Company's on-going operating expenses. There can be no assurance that management will be successful in addressing the Company's liquidity issues. More specifically, there is uncertainty as to whether management will be able to restructure or settle its non-bond debt in a sufficient manner to allow the Company's cash flow to support its operations.

The Company's ability to restructure its debt is especially important with respect to our subordinated debentures. The weighted average pay rate on $196.7 million (unpaid principal balance) of subordinated debentures was 2.08% at March 31, 2011. Our pay rates are due to increase, beginning in the first quarter of 2012, to a weighted average rate of approximately 8.6%. We do not currently have the liquidity to meet these increased payments. In addition, substantially all of our assets are encumbered, which limits our ability to increase our liquidity by selling assets or incurring additional indebtedness. There is also uncertainty related to the Company's ability to liquidate non-bond related assets at sufficient amounts to satisfy associated debt and other obligations and there are a number of business risks surrounding the Company's bond investing activities that could impact the Company's ability to generate sufficient cash flow from the bond portfolio. These uncertainties could adversely impact the Company's financial condition or results of operations. In the event management is not successful in restructuring or settling its remaining non-bond related debt, or in generating liquidity from the sale of non-bond related assets or if the bond portfolio net interest income and the common equity distributions the Company receives from its subsidiaries are substantially reduced, the Company may have to consider seeking relief through a bankruptcy filing. Collectively, these factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company's primary business is the bond business, which consists of investments in tax-exempt bonds secured by affordable housing properties. Substantially all of the Company's operating cash flow is from the Company's bond portfolio, which is generated by subsidiaries of the Company that hold substantially all of the Company's bonds. These subsidiaries have certain compliance requirements that may limit or restrict their ability to distribute cash to MuniMae. One of these subsidiaries is MuniMae TE Bond Subsidiary, LLC ("TEB"), which holds 90.4% of the carrying value of the Company's bonds at March 31, 2011. The Company indirectly owns all of TEB's common stock. TEB's operating agreement with its preferred shareholders contains covenants restricting the type of assets in which TEB can invest, the incurrence of leverage, the issuance of additional preferred equity interests, as well as cash distributions to MuniMae and imposing certain requirements in the event of merger, sale or consolidation. In 2010, TEB retained $25.0 million of cash flows ("Retained Distributions") by limiting Distributable Cash Flow distributions to MuniMae pursuant to a March 25, 2010 amendment to its operating agreement. At March 31, 2011:

- TEB's leverage ratio was 59.3%, which was effectively at the incurrence limit of 60%;
- TEB's liquidation preference ratios were at amounts that would restrict it from raising additional preferred equity on parity with the existing preferred shares outstanding; and
- TEB's ability to distribute cash to MuniMae was and continues to be limited to Distributable Cash Flows (TEB's net income adjusted to exclude the impact of non-cash items) and TEB does not have the ability to make redemptions of common stock or distributions to MuniMae other than Distributable Cash Flows ("Restricted Payments") because the current liquidation preference ratios prohibit it.

Total common shareholder distributions from TEB for the three months ended March 31, 2011 and 2010 were $9.2 million and $2.5 million, respectively.

All of TEB's common stock is pledged by the Company to a creditor to support collateral requirements related to certain debt and derivative agreements. On December 8, 2010, the Company entered into a forbearance agreement with this creditor ("Counterparty") which restricted the Company's ability to utilize common distributions from TEB. The key provisions of this agreement are as follows:

- Forbearance from the minimum net asset value requirement and the financial reporting requirement contained in the interest rate swap agreements until the earlier of June 30, 2012 or when TEB regains compliance with the leverage and liquidation incurrence ratios.

- The Company must post a portion of the distributions it receives on TEB's common stock as follows:

o For quarterly distributions beginning in the fourth quarter of 2010 and continuing through to the third quarter of 2011, the Company will post restricted distributions equal to 50% of common distributions, less $0.8 million.

o For quarterly distributions beginning in the fourth quarter of 2011 and continuing until TEB is in compliance with both its leverage ratio and liquidation preference ratio, the Company will post restricted distributions equal to 50% of common distributions. Once TEB is in compliance with its leverage ratio and liquidation preference ratios there will be no restrictions on common distributions.

The restricted distributions have been and are expected to be utilized by the Company to purchase and retire various preferred shares issued by TEB.

TEB's common stock is wholly owned by MuniMae TEI Holdings, LLC ("TEI"), which is ultimately wholly owned by MuniMae. TEI's ability to remit cash to MuniMae for liquidity needs outside of TEI may be restricted due to minimum liquidity and net worth requirements related to a TEI debt agreement. The most restrictive covenant requires TEI to maintain a minimum net worth of $125 million. At March 31, 2011, TEI's net worth was $163.4 million.

Basis of Presentation and Significant Accounting Policies

The accompanying condensed consolidated financial statements represent the consolidation of Municipal Mortgage & Equity, LLC and all companies that we directly or indirectly control, either through majority ownership or otherwise. See Note 1, "Description of the Business and Basis of Presentation" to the consolidated financial statements in our 2010 Form 10-K, which discusses our consolidation presentation and our significant accounting policies.

Use of Estimates

The preparation of the Company's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, commitments and contingencies and revenues and expenses. Management has made significant estimates in certain areas, including the determination of fair values for bonds, loans held for sale ("HFS"), derivative financial instruments, guarantee obligations, and certain other assets and liabilities of consolidated funds and ventures. Management has made significant estimates in the determination of impairment on bonds, loans and real estate investments. Actual results could differ materially from these estimates.

Interim Period Presentation

The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with United States generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

The condensed consolidated financial statements are unaudited. These statements include all adjustments (consisting of normal recurring accruals) that we considered necessary to present a fair statement of our results of operations, financial position and cash flows. These condensed consolidated financial statements should be read in conjunction with the financial statements included in our 2010 Form 10-K. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

NOTE 2—BONDS AVAILABLE-FOR-SALE

Bonds available-for-sale includes mortgage revenue bonds and other bonds.

Mortgage Revenue Bonds

Mortgage revenue bonds are issued by state and local governments or their agencies or authorities to finance multifamily housing; however, the only source of recourse on these bonds is the collateral, which is a first mortgage or a subordinate mortgage on the underlying properties. For subordinate mortgages, the payment of debt service on the bonds occurs only after payment of senior obligations which have priority to the cash flow of the underlying collateral. The Company's subordinate bonds had an aggregate fair value of $46.6 million and $40.2 million at March 31, 2011 and December 31, 2010, respectively. The Company's rights under the mortgage revenue bonds are defined by the contractual terms of the underlying mortgage loans, which are pledged to the bond issuer and assigned to a trustee for the benefit of bondholders to secure the payment of debt service (any combination of interest and/or principal as laid out in the trust indenture) on the bonds. The mortgage loans are not assignable unless the bondholder has consented.

Mortgage revenue bonds can be non-participating or participating. Participating mortgage revenue bonds allow the Company to receive additional interest from net property cash flows in addition to the base interest rate. Both the stated and participating interest on the Company's mortgage revenue bonds are exempt from federal income tax, although this income may be included as part of a taxpayer's alternative minimum tax for federal income tax purposes. The Company's participating mortgage revenue bonds had an aggregate fair value of $53.6 million and $52.9 million at March 31, 2011 and December 31, 2010, respectively.

Other Bonds

Other bonds are primarily municipal bonds issued by community development districts or other municipal issuers to finance the development of community infrastructure supporting single-family housing and mixed-use and commercial developments such as storm water management systems, roads and community recreational facilities. In some cases these bonds are secured by specific payments or assessments pledged by the community development districts that issue the bonds or incremental tax revenue generated by the underlying properties.

Principal payments on bonds are based on amortization tables set forth in the bond documents. If no principal amortization is required during the bond term, the outstanding principal balance is required to be paid in a lump sum payment at maturity or at such earlier time as defined under the bond documents. The bonds typically contain provisions that prohibit prepayment of the bond for a specified period of time.

The following table summarizes the investment in bonds and the related unrealized losses and unrealized gains at March 31, 2011 and December 31, 2010:

	March 31, 2011				
(in thousands)	Unpaid Principal Balance	Basis Adjustments (1)	Unrealized Losses	Unrealized Gains	Fair Value
Mortgage revenue bonds	$ 1,154,839	$ (8,020)	$ (147,590)	$ 69,903	$ 1,069,132
Other bonds	163,156	(13,190)	(39,882)	20,696	130,780
Total	$ 1,317,995	$ (21,210)	$ (187,472)	$ 90,599	$ 1,199,912

	December 31, 2010				
(in thousands)	Unpaid Principal Balance	Basis Adjustments (1)	Unrealized Losses	Unrealized Gains	Fair Value
Mortgage revenue bonds	$ 1,196,695	$ (7,852)	$ (145,684)	$ 69,883	$ 1,113,042
Other bonds	148,793	(13,369)	(39,590)	22,160	117,994
Total	$ 1,345,488	$ (21,221)	$ (185,274)	$ 92,043	$ 1,231,036

(1) Includes premiums, discounts and deferred costs.

Maturity

The following table summarizes, by contractual maturity, the amortized cost and fair value of bonds available-for-sale at March 31, 2011.

	March 31, 2011	
(in thousands)	Amortized Cost	Fair Value
Non-Amortizing:		
Due in less than one year	$–	$–
Due between one and five years	–	–
Due between five and ten years	–	–
Due after ten years	20,152	41,747
Amortizing:		
Due at stated maturity dates between December 2013 and June 2056	1,089,161	1,158,165
	$1,109,313	$1,199,912

Bonds with Lockouts, Prepayment Premiums or Penalties

Substantially all of the Company's bonds include provisions that allow the borrowers to prepay the bonds at a premium or at par after a specified date that is prior to the stated maturity date. The following table provides the amount of bonds that are prepayable without restriction or penalty at March 31, 2011, as well as the year in which the remaining portfolio becomes prepayable without restriction or penalty.

	March 31, 2011		
(in thousands)	Unpaid Principal Balance	Amortized Cost	Fair Value
Bonds that may be prepaid without restrictions or penalties at March 31, 2011	$153,222	$120,439	$143,188
April 1 through December 31, 2011	8,550	7,257	7,413
2012	31,219	25,598	26,609
2013	16,797	14,905	15,788
2014	29,138	28,792	30,048
Thereafter	979,562	828,205	881,651
Bonds that may not be prepaid	99,507	84,117	95,215
Total	$1,317,995	$1,109,313	$1,199,912

Non-Accrual Bonds

The carrying value of bonds on non-accrual was $87.7 million and $83.6 million at March 31, 2011 and December 31, 2010, respectively. During the period in which these bonds were on non-accrual, the Company recognized interest income, on a cash basis, of $1.4 million and $0.2 million for the three months ended March 31, 2011 and 2010, respectively.

Bond Sales

The Company recorded cash proceeds on sales and redemptions of bonds of $5.9 million and $0.2 million for the three months ended March 31, 2011 and 2010, respectively.

Provided in the table below are unrealized losses and realized gains and losses recorded through "Impairment on bonds" and "Net (losses) gains on bonds" for bonds sold or redeemed during the three months ended March 31, 2011 and 2010, as well as for bonds still in the Company's portfolio at March 31, 2011 and 2010, respectively.

	For the three months ended March 31,	
(in thousands)	2011	2010
Bond impairment recognized on bonds held at each period-end	$(3,510)	$(6,434)
Losses recognized at time of sale/redemption	(1,036)	(2)
Gains recognized at time of sale/redemption	715	368
Total net losses on bonds	$(3,831)	$(6,068)

Unfunded Bond Commitments

Unfunded bond commitments are agreements to fund construction or renovation of properties securing the bonds over the construction or renovation period. At March 31, 2011 and December 31, 2010, there were no unfunded bond commitments.

NOTE 3—LOANS HELD FOR INVESTMENT AND LOANS HELD FOR SALE

The Company disaggregates its lending portfolio into four categories: construction, permanent, bridge and other loans, defined as follows.

Construction loans are short-term or interim financing provided primarily to builders and developers of multifamily housing and other property types for the construction and lease-up of the property.

Permanent loans are used to pay off the construction loans upon the completion of construction and lease-up of the property or to refinance existing stabilized properties.

Bridge loans are short-term or intermediate term loans secured with either a first mortgage position or a subordinated position. These loans are used primarily to finance the acquisition and improvements on transitional properties until their conversion to permanent financing.

Other loans are primarily pre-development loans and land or land development loans. Pre-development loans are loans to developers to fund up-front costs to help them secure a property before they are ready to fully develop it. Land or land development loans are used to fund the purchase or the purchase and costs of utilities, roads and other infrastructure and are typically repaid from lot sales.

See Note 17, "Consolidated Funds and Ventures," for discussion of the Company's loans related to consolidated funds and ventures.

Loans Held for Sale

The following table summarizes the cost basis of loans held for sale by loan type and the lower of cost or market ("LOCOM") adjustment to record these loans at the lower of cost or market at March 31, 2011 and December 31, 2010:

(in thousands)	March 31, 2011	December 31, 2010
Construction	$–	$5,601
Permanent	12,663	20,647
Bridge	1,793	1,793
Other	714	640
	15,170	28,681
LOCOM Adjustment	(9,886)	(9,692)
Loans held for sale, net	$5,284	$18,989

Outstanding loan balances include unearned income and net deferred fees of $0.4 million at March 31, 2011 and December 31, 2010.

The carrying value of non-accrual loans was $0.7 million at March 31, 2011 and December 31, 2010.

The Company recorded cash proceeds on loan sales and pay-offs of $13.6 million and $5.4 million and corresponding net gains on loan sales and pay-offs of $0.1 million and losses of $0.2 million for the three months ended March 31, 2011 and 2010, respectively.

The following table summarizes the activity in LOCOM adjustments (all reported through continuing operations) for the three months ended March 31, 2011 and 2010:

(in thousands)	For the three months ended March 31, 2011	2010
Balance-January 1,	$9,692	$32,582
LOCOM adjustments	194	(208)
Recoveries and (charge-offs), net	–	(18,356)
Balance-March 31,	$9,886	$14,018

Loans Held for Investment

The following table summarizes loans held for investment ("HFI") by loan type at March 31, 2011 and December 31, 2010:

(in thousands)	March 31, 2011	December 31, 2010
Construction	$–	$31,776
Permanent	8,980	9,048
Bridge	27,154	27,177
Other	19,602	19,645
	55,736	87,646
Allowance for loan losses	(34,278)	(33,713)
Loans held for investment, net	$21,458	$53,933

Outstanding loan balances include unearned income and net deferred fees of $0.4 million at March 31, 2011 and December 31, 2010.

The carrying value of non-accrual loans was $7.5 million at March 31, 2011 and December 31, 2010. At March 31, 2011 and December 31, 2010 there were no loans held for investment past due 90 days or more and still accruing interest.

The following table provides an aging analysis for the carrying value of loans held for investment at March 31, 2011 and December 31, 2010:

(in thousands)	March 31, 2011	December 31, 2010
Total current	$ 13,997	$ 46,472
30-59 days past due	–	–
60-89 days past due	–	–
Greater than 90 days	7,461	7,461

The following table summarizes information about loans held for investment which were specifically identified as impaired at March 31, 2011 and December 31, 2010:

(in thousands)	March 31, 2011	December 31, 2010
Impaired loans with a specific reserve	$ 15,509	$ 9,450
Impaired loans without a specific reserve (1)	–	–
Total impaired loans	$ 15,509	$ 9,450
Average carrying value of impaired loans	$ 15,820	$ 9,847

(1) A loan is impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement; however, when the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, the loan does not require a specific reserve.

The unpaid principal balance of impaired loans was $52.4 million and $45.0 million at March 31, 2011 and December 31, 2010, respectively. The Company recognized $0.2 million and $0.1 million, on a cash basis, of interest income on impaired loans for the three months ended March 31, 2011 and 2010, respectively.

The following table summarizes the activity in the allowance for loan losses for the three months ended March 31, 2011 and 2010:

	For the three months ended March 31,	
(in thousands)	2011	2010
Balance-January 1,	$ 33,713	$ 29,238
Provision for loan losses	565	3,467
(Charge-offs) and recoveries, net	–	35
Balance-March 31,	$ 34,278	$ 32,740

Unfunded Loan Commitments

Unfunded loan commitments are agreements to fund construction or renovation of properties securing certain loans. At March 31, 2011 and December 31, 2010, the total unfunded loan commitments for performing HFI loans were $0.3 million. There were no outstanding unfunded commitments for performing HFS loans at March 31, 2011 and December 31, 2010.

There were no commitments to lend additional funds to borrowers whose loans were impaired at March 31, 2011 and December 31, 2010.

NOTE 4—INVESTMENTS IN PREFERRED STOCK

As partial consideration for the Company's sale of its Agency Lending business, on May 15, 2009, the Company received three series of preferred stock from the purchaser with a par amount of $47.0 million: Series A Preferred units of $15.0 million, Series B Preferred units of $15.0 million and Series C Preferred units of $17.0 million, which entitles the Company to receive cumulative quarterly cash distributions at annualized rates of 17.5%, 14.5% and 11.5%, respectively. As part of the Company's sale of its Agency Lending business, the Company agreed to reimburse the purchaser up to a maximum of $30.0 million over the first four years after the sale date (expiring May 15, 2013), for payments the purchaser may be required to make under loss sharing arrangements with the Federal National Mortgage Association ("Fannie Mae") and other government-sponsored enterprises or agencies with regard to loans they purchased from us. The Series B and Series C preferred stock agreements have a provision that provides for this loss sharing reimbursement to be satisfied, if necessary, by cancellation of Series C Preferred units and then Series B Preferred units, rather than by cash. The fair value of the preferred stock on May 15, 2009, the sale date, was estimated at $37.7 million. This amount includes a $9.3 million reduction against the $47.0 million par amount for the estimated exposure associated with the loss sharing arrangement. The Company accounts for the preferred stock using the historical cost approach and tests for impairment at each balance sheet date. An impairment loss is recognized if the carrying amount of the preferred stock is not recoverable and exceeds its fair value. The carrying value of the preferred stock was $36.4 million at March 31, 2011 and December 31, 2010. The estimated fair value of the preferred stock was $37.8 million and $37.5 million at March 31, 2011 and December 31, 2010, respectively. The Company did not record impairment charges on the preferred stock for the three months ended March 31, 2011. The Company recorded impairment charges on the preferred stock of $0.5 million for the three months ended March 31, 2010. Since the inception date, the Company cancelled $3.0 million in Series C Preferred units to settle realized losses under the loss sharing arrangement. In May 2010, pursuant to the Series C agreement, $2.0 million of Series C Preferred units were redeemed as a result of the release of certain of the Company's letters of credit.

The Company is also obligated to fund losses on specific loans identified at the sale date that are not part of the $30.0 million loss reimbursement. The Company accounts for this obligation as a guarantee obligation and at March 31, 2011 and December 31, 2010 the fair value of this obligation was $0.5 million and $0.4 million, respectively. See Note 11, "Guarantees and Collateral." Since the sale of the Agency Lending business, the Company incurred $1.2 million in realized losses related to these specific loans.

NOTE 5—INVESTMENTS IN UNCONSOLIDATED VENTURES

The following table summarizes the investments in unconsolidated ventures at March 31, 2011 and December 31, 2010:

(in thousands)	March 31, 2011	December 31, 2010
Investments in Real Estate Related Entities	$ 6,837	$ 6,842

Investments in Real Estate Related Entities

The Company has investments in real estate funds or partnerships that invest in debt and equity instruments related to commercial real estate. In 2010, the Company received a 33.3% interest in a partnership that was formed to take a deed-in-lieu of foreclosure on land that was collateral for a loan held by the Company. The remaining interest in the partnership is held by a third party who had also loaned money to the developer on the same land parcel. The interests in the partnership were determined based on the relative loan amounts provided by the Company and the third party lender. This third party interest holder is the primary beneficiary of the partnership.

Balance Sheet and Operating Results for the Unconsolidated Ventures

The following table displays the total assets and liabilities related to the ventures for which the Company holds an equity investment at March 31, 2011 and December 31, 2010:

(in thousands)	March 31, 2011	December 31, 2010
Investments in unconsolidated ventures:		
Total assets (primarily real estate)	$ 57,370	$ 66,601
Total liabilities (primarily debt)	22,707	22,600

The following table displays the net income for the three months ended March 31, 2011 and 2010 for the ventures in which the Company holds an equity investment:

	For the three months ended March 31,	
(in thousands)	2011	2010
Net income	$ 122	$ 168

NOTE 6—OTHER ASSETS

The following table summarizes other assets at March 31, 2011 and December 31, 2010:

(in thousands)	March 31, 2011	December 31, 2010
Other assets:		
Accrued interest receivable	$ 8,924	$ 10,793
Property and equipment, net	1,313	1,453
Federal and state tax receivables	5,157	5,539
Debt issue costs, net	10,123	10,349
Real estate owned	13,155	13,231
Other assets	3,366	4,662
Total other assets	$ 42,038	$ 46,027

Property and equipment are recorded at cost, net of accumulated depreciation and amortization, which was $3.8 million at March 31, 2011 and December 31, 2010. Total depreciation expense recorded through continuing operations totaled $0.1 million and $0.2 million for the three months ended March 31, 2011 and 2010, respectively. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets, which generally range from five to 15 years, depending on the asset or the lease term for leasehold improvements.

Real estate owned represents foreclosed property or properties acquired through a deed in lieu of foreclosure as a result of borrower defaults on their debt owed to the Company. At March 31, 2011 and December 31, 2010, the Company had two parcels of undeveloped land that had a carrying value of $5.3 million, and a market rate multifamily housing property with a carrying value of $7.8 million and $7.9 million, respectively.

NOTE 7—DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the Company's derivative fair value balances at March 31, 2011 and December 31, 2010.

	Fair Value			
	March 31, 2011		December 31, 2010	
(in thousands)	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	$ 6,071	$ 17,488	$ 6,812	$ 19,561
Other	17	571	–	592
Total derivative financial instruments	$ 6,088	$ 18,059	$ 6,812	$ 20,153

The following table summarizes the derivative notional amounts at March 31, 2011 and December 31, 2010.

	Notional	
(in thousands)	March 31, 2011	December 31, 2010
Interest rate swaps	$ 303,735	$ 303,735
Other	19,960	23,974

The following table summarizes derivative activity for the three months ended March 31, 2011 and 2010.

	Realized/Unrealized Gains (Losses) Reported Through Continuing Operations For the three months ended March 31,	
(in thousands)	2011	2010
Interest rate swaps (1)	$ –	$ (2,499)
Other	(71)	632
Total	$ (71)	$ (1,867)

(1) The cash paid and received on both interest rate swaps and total return swaps is settled on a net basis and recorded through "Net losses on derivatives." Net cash paid was $1.4 million and $1.8 million for the three months ended March 31, 2011 and 2010, respectively.

Interest Rate Swaps

Interest rate swaps are executed to reduce the interest rate risk associated with the variable rate interest on the debt owed to senior interests in securitization trusts. Under the interest rate swap contracts, the Company typically receives a variable rate and pays a fixed rate. The rate that the Company receives from the counterparty will generally offset the rate that the Company pays on its debt instruments. Therefore, interest rate swaps effectively convert variable rate debt to fixed rate debt. The Company's interest rate swaps are generally indexed on a variable rate based on the weekly Securities Industry and Financial Markets Association Municipal Swap Index (an index of weekly tax-exempt variable rates ("SIFMA")) or the London Interbank Offer Rate ("LIBOR"), and the fixed rate is based on SIFMA or LIBOR for the specific term of the swap.

All of the Company's interest rate swap agreements are entered into under the International Swap Dealers Association's standard master agreements ("ISDAs"), including supplemental schedules and confirmations to these agreements. At March 31, 2011, the Company had interest rate swap contracts with the Counterparty totaling $303.7 million (notional) with a net fair value obligation of $11.4 million. The supplemental schedules to the ISDAs require the Company to maintain a minimum net asset value, which the Company has not done. Without a forbearance agreement, the lack of compliance with this covenant permits the Counterparty to terminate the interest rate swaps. On December 8, 2010, the Company entered into an amended and restated forbearance agreement with the Counterparty that, among other things, extends the forbearance date to the earlier of June 30, 2012 or when TEB is in compliance with its leverage and liquidation incurrence ratios.

NOTE 8—DEBT

The table below summarizes the Company’s outstanding debt balances, the weighted-average interest rates and term dates at March 31, 2011 and December 31, 2010.

(in thousands)	March 31, 2011	Weighted-Average Interest Rate at Period-End		December 31, 2010	Weighted-Average Interest Rate at Period-End	
Debt related to bond investing activities (1):						
Senior interests and debt owed to securitization trusts:						
Due within one year (2)	$–	–		$15,985	0.4	%
Due after one year (2)	729,910	0.7	%	732,115	0.7	
Mandatorily redeemable preferred shares (3):						