MUNICIPAL MORTGAGE & EQUITY LLC
Form 10-Q
November 14, 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 September 30, 2011
OR

o 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 (Address of principal executive offices)	(443) 263-2900 (Registrant's telephone number, including area code)
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 40,561,190 shares of common shares outstanding at November 9, 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," ar 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)

ASSETS	September 30, 2011 (Unaudited)	December 31, 2010
Cash and cash equivalents	$36,240	$32,544
Restricted cash	15,038	24,987
Bonds available-for-sale (includes $1,150,289 and $1,197,180 pledged as collateral)	1,179,429	1,231,036
Loans held for investment, net of allowance for loan losses (includes $9,854 and $53,096 pledged as collateral)	10,518	53,933
Loans held for sale (includes $4,199 and $18,024 pledged as collateral)	4,436	18,989
Investment in preferred stock (includes $1,000 and $2,000 pledged as collateral)	36,371	36,371
Investments in unconsolidated ventures (includes $6,779 and $6,779 pledged as collateral)	6,835	6,842
Derivative assets	6,217	6,812
Other assets (includes $13,353 and $12,527 pledged as collateral)	41,650	46,027
Assets of consolidated funds and ventures:		
Investments in Lower Tier Property Partnerships	398,983	436,971
Other assets	195,975	165,024
Total assets of consolidated funds and ventures	594,958	601,995
Total assets	$1,931,692	$2,059,536
LIABILITIES AND EQUITY		
Debt	$1,134,333	$1,277,415
Guarantee obligations	6,812	7,235
Accounts payable and accrued expenses	15,995	18,890
Derivative liabilities	22,923	20,153
Other liabilities	7,941	7,623
Liabilities of consolidated funds and ventures:		
Debt	15,562	3,709
Unfunded equity commitments to Lower Tier Property Partnerships	17,820	20,970
Other liabilities	3,069	3,136
Total liabilities of consolidated funds and ventures	36,451	27,815
Total liabilities	$1,224,455	$1,359,131
Commitments and contingencies		
Equity:		
Perpetual preferred shareholders' equity in a subsidiary company, liquidation preference of $159,000 at September 30, 2011 and $173,000 at December 31, 2010	$155,033	$168,686
	554,290	569,556

Noncontrolling interests in consolidated funds and ventures (net of $3,823 and $1,922 of subscriptions receivable)		
Common shareholders’ equity (deficit):		
Common shares, no par value (40,309,416 and 40,204,049 shares issued and outstanding and 1,072,222 and 647,782 non-employee directors’ and employee deferred shares issued at September 30, 2011 and December 31, 2010, respectively)	(139,379)	(130,466)
Accumulated other comprehensive income	137,293	92,629
Total common shareholders’ equity (deficit)	(2,086)	(37,837)
Total equity	707,237	700,405
Total liabilities and equity	$1,931,692	$2,059,536

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

Municipal Mortgage & Equity, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(in thousands, except per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
REVENUE				
Interest income:				
Interest on bonds	$21,919	$21,182	$62,335	$63,798
Interest on loans	367	1,527	1,827	5,298
Interest on short-term investments	74	31	131	94
Total interest income	22,360	22,740	64,293	69,190
Fee and other income:				
Income on preferred stock investment	1,557	1,615	4,671	4,908
Other income	814	682	2,547	3,611
Total fee and other income	2,371	2,297	7,218	8,519
Revenue from consolidated funds and ventures	1,047	909	2,366	2,350
Total revenue	25,778	25,946	73,877	80,059
EXPENSES				
Interest expense	13,846	15,918	43,173	50,601
Salaries and benefits	2,785	2,690	8,712	9,172
General and administrative	1,368	1,427	4,296	5,876
Professional fees	1,961	3,726	7,004	11,088
Impairment on bonds	4,452	2,545	8,951	11,472
Provision for loan losses	–	423	858	4,440
Other expenses	649	2,840	2,932	7,056
Expenses from consolidated funds and ventures	8,682	2,124	20,214	6,222
Total expenses	33,743	31,693	96,140	105,927
Net gains on sale of bonds	617	2,302	1,946	2,784
Net gains (losses) on loans	17	197	(625)	2,136
Net losses on derivatives	(4,748)	(3,589)	(7,642)	(10,540)
Net losses on sale of real estate	(123)	–	(123)	–
Net gains on early extinguishments of liabilities	181	–	650	6,866
Net gains (losses) related to consolidated funds and ventures	2,308	(68)	5,718	(3,068)
Equity in losses from unconsolidated ventures	(33)	(14)	(143)	(218)
Equity in losses from Lower Tier Property Partnerships of consolidated funds and ventures	(9,383)	(11,789)	(26,010)	(37,770)
Loss from continuing operations before income taxes	(19,129)	(18,708)	(48,492)	(65,678)
Income tax benefit (expense)	32	793	(115)	788
	616	565	1,008	(4,761)

Income (loss) from discontinued operations, net of tax				
Net loss	(18,481)	(17,350)	(47,599)	(69,651)
Income allocable to noncontrolling interests:				
Income allocable to perpetual preferred shareholders of a subsidiary company	(2,304)	(2,466)	(7,116)	(7,398)
Net losses (income) allocable to noncontrolling interests in consolidated funds and ventures:				
Related to continuing operations	16,178	16,105	42,581	46,747
Related to discontinued operations	–	(78)	–	(103)
Net loss to common shareholders	$(4,607)	$(3,789)	$(12,134)	$(30,405)
Basic and diluted loss per common share:				
Loss per common share	$(0.11)	$(0.09)	$(0.30)	$(0.75)
Weighted-average common shares outstanding	41,223	40,606	41,050	40,489

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

Municipal Mortgage & Equity, LLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)
(in thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
Net loss	$(18,481)	$(17,350)	$(47,599)	$(69,651)
Other comprehensive income (loss) allocable to common shareholders:				
Unrealized gains on bonds available-for-sale:				
Unrealized net holding gains arising during the period	19,279	10,608	39,524	22,393
Reversal of unrealized gains on sold/redeemed bonds	(579)	(2,480)	(3,053)	(2,915)
Reclassification of unrealized losses to operations	4,452	2,545	8,951	11,472
Total unrealized gains on bonds available-for-sale	23,152	10,673	45,422	30,950
Foreign currency translation adjustment	(444)	(192)	(758)	482
Other comprehensive income allocable to common shareholders	22,708	10,481	44,664	31,432
Other comprehensive income (loss) allocable to noncontrolling interest:				
Foreign currency translation adjustment	(15,931)	5,066	(17,930)	3,156
Comprehensive loss	$(11,704)	$(1,803)	$(20,865)	$(35,063)

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

Municipal Mortgage & Equity, LLC
CONSOLIDATED STATEMENTS OF EQUITY

For the nine months ended September 30, 2011
(Unaudited)
(in thousands)

For the nine months ended September 30, 2011

	Common Shares Number	Common Shares Amount	Accumulated Other Comprehensive Income (Loss)	Total 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	–	(12,134)	–	(12,134)	7,116	(42,581)	(47,599)
Other comprehensive income (loss)	–	–	44,664	44,664	–	(17,930)	26,734
Distributions	–	–	–	–	(7,116)	(95)	(7,211)
Common, restricted and deferred shares issued under employee and non-employee director share plans	530	68	–	68	–	–	68
Preferred share repurchases	–	3,153	–	3,153	(13,653)	–	(10,500)
Contributions	–	–	–	–	–	45,340	45,340
Balance, September 30, 2011	41,381	$ (139,379)	$ 137,293	$ (2,086)	$ 155,033	$ 554,290	$ 707,237

For the nine months ended September 30, 2010

	Common Shares Number	Common Shares Amount	Accumulated Other Comprehensive Income (Loss)	Total Common Shareholders' Equity (Deficit)	Perpetual Preferred Shareholders' Equity	Noncontrolling Interest in Consolidated Funds and Ventures	Total Equity
Balance, December 31, 2009	40,363	$ (101,876)	$ 59,934	$ (41,942)	$ 168,686	$ 567,383	$ 694,127

Net (loss) income	–	(30,405)	–	(30,405)	7,398	(46,644)	(69,651)
Other comprehensive income	–	–	31,432	31,432	–	3,156	34,588
Distributions	–	–	–	–	(7,398)	–	(7,398)
Common, restricted and deferred shares issued under employee and non-employee director share plans	357	90	–	90	–	–	90
Mark to market activity for liability classified awards previously classified as equity	–	3	–	3	–	–	3
Contributions	–	–	–	–	–	27,220	27,220
Net change due to consolidation or disposition	–	–	–	–	–	17,258	17,258
Balance, September 30, 2010	40,720	$ (132,188)	$ 91,366	$ (40,822)	$ 168,686	$ 568,373	$ 696,237

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

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

	For the nine months ended September 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(47,599)	$(69,651)
Less net loss attributable to noncontrolling interests	(35,465)	(39,246)
Net loss to common shareholders	(12,134)	(30,405)
Adjustments to reconcile net loss to common shareholders to net cash provided by operating activities:		
Net gains on sales of bonds and loans	(1,321)	(4,920)
Net losses on sales of real estate and other investments	149	5,017
Unrealized (gain) loss on fund investments	(4,278)	3,068
Provisions for credit losses and impairment	23,007	15,912
Equity in losses, net from equity investments in partnerships	26,143	37,988
Net losses allocable to noncontrolling interests from consolidated funds and ventures	(42,581)	(46,644)
Income allocable to perpetual preferred shareholders of a subsidiary company	7,116	7,398
Purchases, advances on and originations of loans held for sale	(196)	(236)
Principal payments and sales proceeds received on loans held for sale	1,095	6,088
Premium paid for options	(532)	–
Federal income tax refund	–	7,694
Depreciation and amortization	11,827	11,374
Other	65	(2,342)
Net cash provided by operating activities	8,360	9,992
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances on and purchases of bonds	(10,000)	(5,950)
Principal payments and sales proceeds received on bonds	59,770	29,679
Advances on and originations of loans held for investment	(1,884)	(85)
Principal payments received on loans held for investment	24,384	35,429
Investments in property partnerships	(40,663)	(32,592)
Proceeds from the sale of real estate and other investments	3,899	5,827
(Increase) decrease in restricted cash and cash of consolidated funds and ventures	(1,925)	1,125
Capital distributions received from investments in partnerships	892	528
Net cash provided by investing activities	34,473	33,961
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Proceeds from borrowing activity	12,142	14,248
Repayment of borrowings	(77,742)	(69,852)
Payment of debt issue costs	(284)	(1,034)
Contributions from holders of noncontrolling interests	45,340	27,220
Distributions paid to holders on noncontrolling interests	(95)	–
Distributions paid to perpetual preferred shareholders of a subsidiary company	(7,298)	(7,398)
Repurchase and retirement of perpetual preferred shares	(10,500)	–
Net cash used in financing activities	(38,437)	(36,816)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(700)	570
Net increase in cash and cash equivalents	3,696	7,707

Unrestricted cash and cash equivalents at beginning of period	32,544	18,084
Unrestricted cash and cash equivalents at end of period	$36,240	$25,791

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

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

	For the nine months ended September 30,	
	2011	2010
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$38,474	$42,475
Income taxes paid	149	42
Non-cash investing and financing activities:		
Unrealized gains included in other comprehensive income	26,734	34,588
Debt assumed upon acquisition of interests in securitization trusts	1,183	634
Debt and liabilities extinguished through sales and collections on bonds	42,228	90,432
Debt and liabilities extinguished through the collections on loans	31,776	–
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 consolidated financial statements.

Municipal Mortgage & Equity, LLC
NOTES TO 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 we have 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 continues 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 continues to reduce its operating costs in order to sustain its business. 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 related debt in a manner sufficient 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 the remaining $196.7 million (unpaid principal balance) of subordinated debentures was 2.1% at September 30, 2011. Our pay rates are due to increase in the first and second quarters of 2012, which will bring the weighted average pay rate to 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.

Substantially all of the Company's operating cash flow is generated from the Company's bond portfolio, which is substantially owned by subsidiaries of the Company. These subsidiaries have certain compliance requirements that may limit or restrict their ability to distribute assets to MuniMae. One of these subsidiaries is MuniMae TE Bond Subsidiary, LLC ("TEB"), which held 90.7% of the carrying value of the Company's bonds at September 30, 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, and the distribution of assets to MuniMae, and imposes 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 September 30, 2011:

- TEB's leverage ratio was 56.5%, which was below the incurrence limit of 60.0%.
- TEB's liquidation preference ratios were at amounts that would restrict it from raising additional preferred equity ranking senior to or on parity with the existing Series A, B and C preferred shares outstanding; and
- TEB's ability to distribute assets 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 to the Company for the nine months ended September 30, 2011 and 2010 were $26.4 million and $8.6 million, respectively.

All of TEB's common stock is pledged 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 Company's interest rate swap agreements until the earlier of June 30, 2012 or when TEB regains compliance with the leverage and liquidation incurrence ratios. Taking into account the preferred share buybacks completed during the fourth quarter of 2011discussed in Note 8, "Debt", if bond valuations do not change materially from September 30, 2011 we expect TEB to be in compliance with its liquidation as well as its leverage incurrence ratios as of December 31, 2011.

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

  - For quarterly distributions pertaining to the fourth quarter of 2010 and continuing through to the third quarter of 2011, the Company will post restricted distributions equal to 50.0% of common distributions, less $0.8 million.

  - For quarterly distributions pertaining to 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 50.0% 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, asset and net worth requirements related to a TEI debt agreement. TEI was in compliance with its debt covenants at September 30, 2011.

Basis of Presentation and Significant Accounting Policies

The accompanying 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 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 omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

The 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 consolidated financial statements should be read in conjunction with the note disclosures contained in this Report. 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.

The following table summarizes the investment in bonds and the related unrealized losses and unrealized gains at September 30, 2011 and December 31, 2010:

	September 30, 2011				
(in thousands)	Unpaid Principal Balance	Basis Adjustments(1)	Unrealized Losses	Unrealized Gains	Fair Value
Mortgage revenue bonds	$1,095,031	$ (8,318)	$(149,879)	$110,994	$1,047,828
Other bonds	157,771	(13,433)	(39,209)	26,472	131,601
Total	$1,252,802	$ (21,751)	$(189,088)	$137,466	$1,179,429

	December 31, 2010				
(in thousands)	Unpaid Principal Balance	Basis Adjustments (1)	Unrealized Losses	Unrealized Gains	Fair Value
Mortgage revenue bonds	$1,181,450	$(7,852)	$(145,684)	$69,883	$1,097,797
Other bonds	164,038	(13,369)	(39,590)	22,160	133,239
Total	$1,345,488	$(21,221)	$(185,274)	$92,043	$1,231,036

(1) Composed of premiums, discounts and deferred costs.

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. 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.

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 $53.7 million and $40.2 million at September 30, 2011 and December 31, 2010, respectively. For all but $1.9 million of fair value, the Company also holds the related senior bond.

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. The Company's participating mortgage revenue bonds had an aggregate fair value of $60.1 million and $52.9 million at September 30, 2011 and December 31, 2010, respectively. Both the stated and participating interest on the Company's mortgage revenue bonds are exempt from federal income tax. However, a significant portion of the tax exempt income from mortgage revenue bonds is subject to inclusion in a shareholder's alternative minimum tax ("AMT") calculation for federal income tax purposes.

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 issuers or incremental tax revenue generated by the underlying properties. The income on these bonds is also exempt from federal income tax and is generally not included in shareholders' AMT calculation.

Maturity

The following table summarizes, by contractual maturity, the amortized cost and fair value of bonds available-for-sale at September 30, 2011.

	September 30, 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	20,167	48,349
Amortizing:		
Due at stated maturity dates between December 2013 and June 2056	1,021,796	1,131,080
	$1,041,963	$1,179,429

Bonds with Lockouts, Prepayment Premiums or Penalties

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. 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 September 30, 2011, as well as the year in which the remaining portfolio becomes repayable without restriction or penalty.

	September 30, 2011	
(in thousands)	Amortized Cost	Fair Value
Bonds that may be prepaid without restrictions or penalties at September 30, 2011	$114,277	$144,457
October 1 through December 31, 2011	8,472	9,573
2012	24,909	25,383
2013	14,741	15,538
2014	15,104	15,679
2015	4,249	4,630
Thereafter	779,598	869,024
Bonds that may not be prepaid	80,613	95,145
Total	$1,041,963	$1,179,429

Non-Accrual Bonds

The carrying value of bonds on non-accrual was $85.2 million and $83.6 million at September 30, 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 $2.3 million and $2.6 million for the nine months ended September 30, 2011 and 2010, respectively.

The following table provides an aging analysis for the carrying value of bonds available-for-sale at September 30, 2011 and December 31, 2010.

(in thousands)	September 30, 2011	December 31, 2010
Total current	$ 1,086,925	$ 1,139,143
30-59 days past due	21,147	22,355
60-89 days past due	–	–
Greater than 90 days	71,357	69,538

Bond Sales

The Company recorded cash proceeds on sales and redemptions of bonds of $46.5 million and $14.6 million for the nine months ended September 30, 2011 and 2010, respectively. In connection with the 2011 sales, the Company used cash of $22.6 million to pay down its senior interests and debt owed to securitization trusts.

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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 and nine months ended September 30, 2011 and 2010, as well as for bonds still in the Company's portfolio at September 30, 2011 and 2010, respectively.

	For the three months ended September 30,		For the nine months ended September 30,	
(in thousands)	2011	2010	2011	2010
Bond impairment recognized on bonds held at each period-end	$(4,452)	$(2,545)	$(8,898)	$(10,855)
Bond impairment recognized on bonds sold/redeemed during each period	–	–	(53)	(617)
Losses recognized at time of sale/redemption	–	–	(1,036)	–
Gains recognized at time of sale/redemption	617	2,302	2,982	2,784
Total net gains (losses) on bonds	$(3,835)	$(243)	$(7,005)	$(8,688)

Unfunded Bond Commitments

Unfunded bond commitments are agreements to fund construction or renovation of properties securing the bonds over the construction or renovation period. Since September 30, 2010 there have been 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 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 September 30, 2011 and December 31, 2010:

(in thousands)	September 30, 2011	December 31, 2010
Construction	$–	$5,601
Permanent	12,372	20,647
Bridge	1,793	1,793
Other	779	640
	14,944	28,681
LOCOM Adjustment	(10,508)	(9,692)
Loans held for sale, net	$4,436	$18,989

Outstanding loan balances include net deferred fee income of $0.4 million at September 30, 2011 and December 31, 2010.

The carrying value of non-accrual loans was zero at September 30, 2011 and $0.7 million at December 31, 2010.

The Company recorded cash proceeds on loan sales and pay-offs of $13.6 million and $27.4 million and corresponding net losses on loan sales and pay-offs of zero and $0.6 million for the nine months ended September 30, 2011 and 2010, respectively.

The following table summarizes the activity in LOCOM adjustments for the three months and nine months ended September 30, 2011 and 2010:

(in thousands)	2011	2010
Balance-January 1,	$9,692	$32,582
LOCOM adjustments	194	(208)
Charge-offs, net	–	(18,356)
Balance-March 31,	9,886	14,018
LOCOM adjustments	506	127
Charge-offs, net	–	(2,708)
Balance-June 30,	10,392	11,437
LOCOM adjustments	116	366
Charge-offs, net	–	(1,617)
Balance-September 30,	$10,508	$10,186

Loans Held for Investment

The following table summarizes loans held for investment ("HFI") by loan type at September 30, 2011 and December 31, 2010:

(in thousands)	September 30, 2011	December 31, 2010
Construction	$–	$31,776
Permanent	5,524	9,048
Bridge	20,496	27,177
Other	18,211	19,645
	44,231	87,646
Allowance for loan losses	(33,713)	(33,713)
Loans held for investment, net	$10,518	$53,933

Outstanding loan balances include net deferred fee income of $0.4 million at September 30, 2011 and December 31, 2010.

The carrying value of non-accrual loans was $7.5 million at September 30, 2011 and December 31, 2010, respectively. At September 30, 2011 and December 31, 2010 there were no loans held for investment which were 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 September 30, 2011 and December 31, 2010:

(in thousands)	September 30, 2011	December 31, 2010
Total current	$3,057	$46,472
30-59 days past due	–	–
60-89 days past due	–	–
Greater than 90 days	7,461	7,461

The following table summarizes the carrying value of loans held for investment that were specifically identified as impaired at September 30, 2011 and December 31, 2010:

(in thousands)	September 30, 2011	December 31, 2010
Impaired loans with a specific reserve	$9,345	$9,450
Impaired loans without a specific reserve (1)	–	–
Total impaired loans	$9,345	$9,450
Average carrying value of impaired loans for nine and twelve months, respectively	$9,381	$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 $44.9 million and $45.0 million at September 30, 2011 and December 31, 2010, respectively. The Company recognized $0.4 million, on a cash basis, of interest income on impaired loans for the nine months ended September 30, 2011 and 2010.

The following table summarizes the activity in the allowance for loan losses for the three months and nine months ended September 30, 2011 and 2010:

(in thousands)	2011	2010
Balance-January 1,	$33,713	$29,238
Provision for loan losses	565	3,467
Recoveries, net	–	35
Balance-March 31,	34,278	32,740
Provision for loan losses	293	550
Charge-offs, net	(565)	–
Balance-June 30,	34,006	33,290
Provision for loan losses	–	423
Charge-offs, net	(293)	–
Balance-September 30	$33,713	$33,713

Unfunded Loan Commitments

Unfunded loan commitments are agreements to fund construction or renovation of properties securing certain loans. At September 30, 2011 there were no unfunded loan commitments.

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 sale, 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 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. On the Agency Lending business sale date, the Company recorded the estimated fair value of the preferred stock of $37.7 million.

Subsequent to the sale, 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 September 30, 2011 and December 31, 2010. The estimated fair value of the preferred stock was $39.0 million and $37.5 million at September 30, 2011 and December 31, 2010, respectively. The Company did not record impairment charges on the preferred stock for the nine months ended September 30, 2011. The Company recorded impairment charges on the preferred stock of $ 0.5 million for the nine months ended September 30, 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 September 30, 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 September 30, 2011 and December 31, 2010:

(in thousands)	September 30, 2011	December 31, 2010
Investments in Real Estate Related Entities	$6,835	$6,842

Investments in Real Estate Related Entities

The Company has historically invested in real estate funds or partnerships that invest in debt and equity instruments related to commercial real estate. However, since December 31, 2010, the Company’s primary investment in unconsolidated ventures is the result of the Company having received in 2010 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 ownership 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 September 30, 2011 and December 31, 2010:

(in thousands)	September 30, 2011	December 31, 2010
Investments in unconsolidated ventures:		
Total assets (primarily real estate)	$56,391	$66,601
Total liabilities (primarily debt)	23,064	22,600

The following table displays the net income for the three months and nine months ended September 30, 2011 and 2010 for the ventures in which the Company holds an equity investment:

	For the three months ended September 30,		For the nine months ended September 30,	
(in thousands)	2011	2010	2011	2010
Net (loss) income	$(135)	$(2,860)	$(1,806)	$(553)

NOTE 6—OTHER ASSETS

The following table summarizes other assets at September 30, 2011 and December 31, 2010:

(in thousands)	September 30, 2011	December 31, 2010
Other assets:		
Accrued interest receivable	$10,471	$10,793
Property and equipment, net	920	1,453
State tax receivables, net	3,817	5,539
Debt issue costs, net	9,368	10,349
Real estate owned, held for use	5,295	13,231
Real estate owned, held for sale	8,058	–
Other assets	3,721	4,662
Total other assets	$41,650	$46,027

Property and equipment are recorded at cost, net of accumulated depreciation and amortization, which was $4.0 million and $3.8 million at September 30, 2011 and December 31, 2010, respectively. Depreciation expense totaled $0.5 million and $0.6 million for the nine months ended September 30, 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.

State tax receivables represent the net refund position as reflected on the Company's various state tax returns. A portion of these receivables may be subject to challenge by the relevant tax authority and therefore a contingent liability for uncertain tax positions of $2.3 million and $2.2 million at September 30, 2011 and December 31, 2010, respectively, has been recorded through other liabilities.

Real estate owned represents foreclosed property or properties acquired through a deed in lieu of foreclosure as a result of borrower defaults on debt owed to the Company. At September 30, 2011 and December 31, 2010, the Company had two parcels of undeveloped land with a carrying value of $5.3 million. At September 30, 2011, the

Company had a senior living facility with a carrying value of $8.1 million which it classified as held for sale during the second quarter of 2011 with an anticipated sale in the fourth quarter of 2011. In connection with the held for sale classification, the Company accounted for the property's operations as discontinued operations. See Note 16, "Discontinued Operations," for more information. At December 31, 2010, this senior living facility had a carrying value of $7.9 million and was classified as held for use.

NOTE 7—DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the Company's derivative fair value balances at September 30, 2011 and December 31, 2010.

	Fair Value			
	September 30, 2011		December 31, 2010	
(in thousands)	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	$6,217	$22,140	$6,812	$19,561
Other	–	783	–	592
Total derivative financial instruments	$6,217	$22,923	$6,812	$20,153

The following table summarizes the derivative notional amounts at September 30, 2011 and December 31, 2010.

	Notional	
(in thousands)	September 30, 2011	December 31, 2010
Interest rate swaps	$303,735	$303,735
Other	15,931	23,974

The following table summarizes derivative activity for the three months and nine months ended September 30, 2011 and 2010.

	Realized/Unrealized Gains (Losses) For the three months ended September 30,		Realized/Unrealized Gains (Losses) For the nine months ended September 30,	
(in thousands)	2011	2010	2011	2010
Interest rate swaps	$(4,620)	$(3,473)	$(7,187)	$(10,658)
Other	(128)	(116)	(455)	118
Total	$(4,748)	$(3,589)	$(7,642)	$(10,540)

(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 $1.7 million for the three months ended September 30, 2011 and 2010, respectively. Net cash paid was $4.2 million and $5.3 million for the nine months ended September 30, 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 September 30, 2011, the Company had interest rate swap contracts with the Counterparty totaling $303.7 million (notional) with a net fair value obligation of $15.9 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. Taking into account transactions completed during the fourth quarter of 2011, if bond valuations do not change materially from September 30, 2011 we expect TEB to be in compliance with its liquidation as well as its leverage incurrence ratios as of December 31, 2011.

NOTE 8—DEBT

The table below summarizes the Company's outstanding debt balances, the weighted-average interest rates and term dates at September 30, 2011 and December 31, 2010.

(in thousands)	September 30, 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)	$ 21,425	2.2 %	$ 15,985	0.4 %
Due after one year (2)	658,285	0.5	732,115	0.7
Mandatorily redeemable preferred shares (3):				
Due within one year	5,877	7.5	5,558	7.5
Due after one year	114,135	8.5	127,971	8.6
Notes payable and other debt (4):				
Due within one year	5,634	6.0	5,654	6.0
Due after one year	56,622	6.8	68,444	6.7
Total bond related debt	861,978		955,727	
Non-bond related debt:				
Notes payable and other debt:				
Due within one year	61,954	8.1	106,520	7.4
Due after one year	17,781	10.4	27,267	12.1
Subordinated debentures (5)				
Due after one year	192,620	8.8	183,711	8.8
Line of credit facilities:				
Due within one year	–	–	4,190	6.0
Total non-bond related debt	272,355		321,688	
Total debt	$ 1,134,333		$ 1,277,415	

(1) Debt related to bond investing activities is debt that is either collateralized or securitized by bonds or other debt obligations of TEB and TEI.

(2) The Company also incurs on-going fees related to credit enhancement, liquidity, custodian, trustee and remarketing as well as upfront debt issuance costs, which when added to the weighted average interest rate brings the overall weighted average interest expense (due within one year) to 2.6% and 1.9% at September 30, 2011 and December 31, 2010, respectively. These additional fees bring the weighted average interest rate (due after one year) to 1.8% and 2.0% at September 30, 2011 and December 31, 2010, respectively.

(3) Included in mandatorily redeemable preferred shares are unamortized discounts of $3.8 million and $4.4 million at September 30, 2011 and December 31, 2010, respectively.

(4) Included in notes payable and other debt are unamortized discounts of $1.7 million and $1.8 million at September 30, 2011 and December 31, 2010, respectively.

(5) Included in subordinated debentures are unamortized discounts of $4.1 million and $13.0 million at September 30, 2011 and December 31, 2010, respectively.

Senior Interests and Debt Owed to Securitization Trusts

The Company securitizes bonds through several programs and under each program the Company transfers bonds into a trust, receives cash proceeds from the sales of the senior interests and retains the subordinated interests. Substantially all of the senior interests are variable rate debt. The residual interests the Company retains are subordinated securities entitled to the net cash flow of each trust after the payment of trust expenses and interest on the senior certificates. To increase the attractiveness of the senior interests to investors, the senior interests are credit enhanced or insured by a third party. For certain programs, a liquidity provider agrees to acquire the senior certificates upon a failed remarketing. The senior interest holders have recourse to the third party credit enhancer or insurance provider, while the credit enhancer or insurance provider has recourse to the bonds deposited in the trusts and the additional collateral pledged. In certain cases, the credit enhancer or insurance provider may also have recourse to the Company to satisfy the outstanding debt balance to the extent the bonds deposited in the trust and the additional collateral pledged is not sufficient to satisfy the debt. The Company's total senior interests and debt owed to securitization trusts balance was $679.7 million at September 30, 2011, of which $6.6 million and $550.4 million have maturing credit enhancement and liquidity facilities in 2011 and 2013, respectively. On November 2, 2011, the $6.6 million of senior interests and debt owed to securitization trusts with maturing facilities in 2011 were repaid in full. If we were unable to renew or replace our third party credit enhancement and liquidity facilities, we might not be able to extend or refinance our bond related debt. In this instance, an investor holding the debt issued by the securitization trust could tender its investment to the third party liquidity provider who in turn could liquidate the bonds within the securitization trust as well as our bonds pledged as collateral to the securitization trust in order to satisfy the outstanding debt balance. If we are able to extend or replace the third party credit enhancement and liquidity facilities or if we are able to remarket the debt without the benefit of third party credit enhancement and liquidity facilities, we could experience higher bond related interest expense.

Mandatorily Redeemable Preferred Shares

TEB has mandatorily redeemable preferred shares outstanding. These shares have quarterly distributions that are payable (based on the stated distribution rate) to the extent of TEB's net income. For this purpose, net income is defined as TEB's taxable income, as determined in accordance with the United States Internal Revenue Code, plus any income that is exempt from federal taxation, but excluding gains from the sale of assets. In addition to quarterly distributions, the holders of the cumulative mandatorily redeemable preferred shares receive an annual capital gains distribution equal to an aggregate of 10.0% of any realized net capital gains during the immediately preceding taxable year, if any. There were no capital gains distributions for the nine months ended September 30, 2011 and 2010.

The table below summarizes the terms of the cumulative mandatorily redeemable preferred shares issued by TEB at September 30, 2011:

	Issue Date	Number of Shares	Liquidation Amount Per Share	Annual Distribution Rate	Next Remarketing/ Mandatory Tender Date	Mandatory Redemption Date
Series A	May 27, 1999	37.5	$ 1,755,426	7.50 %	June 30, 2012	June 30, 2049
Series B	June 2, 2000	29	2,000,000	9.56	November 1, 2011	June 30, 2050

The credit ratings of TEB and each series of preferred shares are currently non-investment grade due to credit weaknesses in the multifamily housing sector and the rollover risk of the Freddie Mac credit facility on bonds that provide revenues to TEB, which expires in 2013. These credit ratings are not required under TEB's Operating Agreement and therefore do not change any terms or rights of the preferred shares.

The Series A cumulative mandatorily redeemable preferred shares and the Series A-2, A-3 and A-4 cumulative perpetual preferred shares are all of equal priority. See Note 13, "Equity," for the terms related to the perpetual preferred shares. Series B subordinate cumulative mandatorily redeemable preferred shares and the Series B-2 and B-3 subordinate cumulative perpetual preferred shares are all of equal priority and are junior to Series A cumulative mandatorily redeemable preferred shares and the Series A-2, A-3, and A-4 cumulative perpetual preferred shares. Unlike the cumulative mandatorily redeemable preferred shares, the cumulative perpetual preferred shares are included in equity.

The mandatorily redeemable preferred shares are currently subject to annual remarketing on the dates specified in the table above. The holders of a majority of the outstanding Series A cumulative mandatorily redeemable preferred shares, voting separately, elected to waive the June 30, 2010 and the June 30, 2011 remarketing requirement. As a result, the next mandatory remarketing date for the Series A cumulative mandatorily redeemable preferred shares will occur on June 30, 2012.

The holders of a majority of the outstanding Series A cumulative mandatorily redeemable preferred shares, voting separately, also elected on October 24, 2011 to amend the Series A Series Exhibit to the TEB Operating Agreement. Pursuant to the Amended and Restated Series Exhibit approved in 2009, TEB was obligated to make a fixed payment equal to 12.68% of the original $84.0 million issue amount, of which an amount equal to 7.5%, of the outstanding principal balance was allocated to distribution and the remainder was allocated to redeem those Series A shares outstanding. This had the effect of accelerating the retirement of the Series A shares at an ever increasing pace, especially if additional shares were repurchased and retired. The 2011 amendment removed the fixed payment equal to 12.68% of the original $84.0 million issue amount and established a set redemption schedule that equals, on a per share basis, the schedule in effect just prior to the approval of the 2011 amendment. The distribution rate continues to

be 7.5% and, assuming no repurchases and retirements beyond those that took place on November 2, 2011, no further amendments and an unsuccessful remarketing, TEB will make approximately $5.0 million in scheduled redemptions in 2012.

The Series B subordinate cumulative mandatorily redeemable preferred shares were subject to a remarketing on November 1, 2011. Effective November 1, 2011, the holders of the majority of the outstanding Series B subordinate cumulative mandatorily redeemable preferred shares, voting separately, elected to waive the November 1, 2011 remarking requirement and to allow the distribution rate to reset to two times the 15 year BAA municipal bond yield. As a result, effective November 1, 2011, the distribution rate on the Series B subordinate cumulative mandatorily redeemable preferred shares increased from 9.56% to 9.64% for one year. The next mandatory remarketing date for the Series B subordinate cumulative mandatorily redeemable preferred shares will occur on November 1, 2012.

On each remarketing date, the remarketing agent will seek to remarket the shares at the lowest distribution rate that would result in a resale of the mandatorily redeemable preferred shares at a price equal to par plus all accrued but unpaid dividends, subject to a cap described herein. If the remarketing agent is unable to remarket these shares successfully, distributions (interest expense) could increase and this increase could adversely impact the Company's financial condition and results of operations. The distribution rate on the Series B shares could, at most, reset to two times the 15 year BAA municipal bond yield if the remarking on November 1, 2012 were to fail. However, the 7.5% distribution rate and scheduled redemptions on the Series A cumulative mandatorily redeemable preferred shares would continue until there is a remarketing that is not a failed remarketing.

On January 24, 2011, the Company repurchased $4.0 million of the original par amount of the 6.8% Series B-1 subordinate cumulative mandatorily redeemable preferred shares at 86.5% of face value and recognized a gain on debt extinguishment of $0.4 million. On May 4, 2011, the Company repurchased the remaining $4.0 million original par amount of the 6.8% Series B-1 subordinate cumulative mandatorily redeemable preferred shares at 86.5% of face value and recognized a gain on debt extinguishment of $0.4 million. The Company retired these shares and therefore there are no more Series B-1 subordinate cumulative mandatorily redeemable shares outstanding. On August 2, 2011 the Company repurchased $2.0 million original par amount of the 9.56% Series B subordinate cumulative mandatorily redeemable preferred shares at 87.0% of face value and recognized a gain on debt extinguishment of $0.2 million. On November 2, 2011 the Company repurchased $5.0 million original par amount of the 9.56% Series B subordinate cumulative mandatorily redeemable preferred shares at 88.0% of face value and recognized a gain on debt extinguishment of $0.4 million. On November 2, 2011 the Company repurchased $10.3 million outstanding par amount of the 7.5% Series A cumulative mandatorily redeemable preferred shares at 97.0% of face value and recognized a loss on debt extinguishment of $0.1 million.

Notes Payable and Other Debt

This debt is primarily related to secured borrowings collateralized primarily with the Company's bond assets. In most cases, the Company has guaranteed the debt or is the direct borrower.

Subordinated Debentures

The table below represents a summary of the key terms of the subordinated debentures issued by MMA Mortgage Investment Corporation ("MMIC") and MMA Financial Holdings, Inc. ("MFH") at September 30, 2011:

(dollars in thousands)

Issuer	Debenture Principal	Net Discount(1)	Debenture Carrying Value	Optional Redemption Date	Interim Principal Payments	Debentures Maturity Date	Coupon Interest Rate
MMIC	$ 30,000	$ –	$ 30,000	May 5, 2014	–	May 5, 2034	9.5% to May 2014, then greater of 9.5% or 6.0% plus 10 year Treasury
MFH	58,420	(845)	57,575	May 5, 2014	–	May 5, 2034	0.75% to January 2012, 9.5% to May 2014, then greater of 9.5% or 6.0% plus 10 year Treasury

MFH	61,000	(1,536)	59,464	March 30, 2010	$8,900 due June 2014	March 30, 2035	0.75% to May 2012, 8.05% to May 2015, then 3 month LIBOR plus 3.3%
MFH	47,275	(1,694)	45,581	July 30, 2010	$6,500 due July 2014	July 30, 2035	0.75% to May 2012, 7.62% to May 2015, then 3 month LIBOR plus 3.3%
	$ 196,695	$ (4,075)	$ 192,620				

(1) The discount represents $31.9 million of additional principal owed for which no cash proceeds were received less $27.9 million of cumulative discount that has been amortized through September 30, 2011.

Interest expense on the subordinated debentures totaled $12.0 million and $11.3 million for the nine months ended September 30, 2011 and 2010, respectively.

If the Company is not able to negotiate other arrangements, the Company will not be able to pay the increased interest payments on the subordinated debentures which are due to take effect in the first and second quarter of 2012. If these subordinated debentures were accelerated the Company would not be able to repay the debt.

Covenant Compliance and Debt Maturities

The following table summarizes the annual principal payment commitments at September 30, 2011:

(in thousands)	
2011	$7,921
2012 (1)	114,584
2013	27,688
2014	33,209
2015	39,375
Thereafter	911,556
Total	$1,134,333

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(1) Of this amount, $54.6 million represents proceeds from the legal transfer of assets that failed to receive sale accounting and are therefore accounted for as a secured borrowing, all of which is subject to the above mentioned forbearance agreements.

As a result of the Company restructuring its debt agreements or obtaining forbearance agreements, none of our obligations have been accelerated at present. The Company had debt agreements totaling $54.6 million at September 30, 2011 that had payment defaults at maturity, but were subject to forbearance agreements that expire on June 30, 2012.

As of September 30, 2011, the Company and/or its wholly owned subsidiaries are parties to debt agreements ("Credit Facilities") with an outstanding principal balance of $42.0 million that contain cross-default provisions pursuant to which defaults could be declared under such Credit Facilities as a result of the occurrence of defaults under certain other obligations of the Company, its subsidiaries and affiliates, and other parties. However, the documents evidencing these Credit Facilities generally include protective provisions that impose limits on the ability of the lenders under such Credit Facilities to declare defaults, including provisions limiting cross-defaults to circumstances where (1) such other obligations are "material" or exceed specified amounts, (2) the Company and/or its wholly owned subsidiaries have first been provided with notice of and the ability to cure such default under the unrelated obligations, (3) such defaults have resulted in the actual acceleration of such unrelated obligations, and (4) the Company and/or its wholly owned subsidiaries have not posted acceptable collateral.

Letters of Credit

The Company has letter of credit facilities with multiple financial institutions and institutional investors that are generally used as a means to pledge collateral to support Company obligations. At September 30, 2011, the Company had $45.3 million in outstanding letters of credit posted as collateral, of which $20.3 million will mature in 2012 and the remaining $25.0 million will mature in 2014. As of November 9, 2011 the Company had $34.9 million in outstanding letters of credit posted as collateral, of which $15.9 million will mature in 2012 and the remaining $19.0 million will mature in 2014. Although we currently expect that we will be able to reduce the amount outstanding on our expiring letters of credit or otherwise extend their maturities, if we are unable to do so our liquidity and financial condition may be adversely affected.

NOTE 9—FINANCIAL INSTRUMENTS

The following table provides information about financial assets and liabilities not carried at fair value in the consolidated balance sheets. This table excludes non-financial assets and liabilities.

The fair value estimates are made at a discrete point in time based on relevant market information and information about the financial instruments. A description of how the Company estimates fair values is provided below. These estimates are subjective in nature, involve uncertainties and significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

	September 30, 2011		December 31, 2010	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Loans held for investment	$1,190	$443	11,539	$9,634
Loans held for sale	3,664	3,949	11,637	12,293
Investment in Series C preferred stock	6,371	8,953	6,371	7,487
Liabilities:				
Line of credit facilities	–	–	4,190	4,190
Senior interests and debt owed to securitization trusts	679,710	679,901	748,100	748,665
Bond related notes payable and other debt	62,256	64,649	74,098	75,449
Non-bond related notes payable and other debt	79,734	32,944	133,787	86,575
Subordinated debentures issued by MFH	162,620	23,337	153,711	23,337
Subordinated debentures issued by MMIC	30,000	30,000	30,000	30,000
Mandatorily redeemable preferred shares	120,011	111,259	133,529	123,444
Liabilities of consolidated funds and ventures:				
Notes payable	15,562	15,562	3,709	3,709
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Off-Balance Sheet Financial Instruments:				
Lending Commitments	$–	$–	$315	$–

Loans held for investment and loans held for sale –The Company estimates fair value by discounting the expected cash flows using current market yields for similar loans.

Investment in preferred stock –The fair value of the preferred stock was determined based on the terms and conditions of the preferred stock as compared to other, best available market benchmarks, as well as determining the fair value of the embedded loss-sharing feature that is contained in the Series C preferred stock agreements.

Line of credit facilities – The carrying value approximates fair value as these are collateralized variable interest rate loans with indexes and spreads that approximate market.

Senior interests and debt owed to securitization trusts – The carrying value approximates fair value for weekly reset variable rate senior certificates as these are variable interest rate securities with indexes and spreads that approximate market. The fair value of senior interests in securitization trusts for fixed rate senior securities was estimated by discounting contractual cash flows using current market rates for comparable debt.

Notes payable and other debt – The fair value was estimated based on discounting contractual cash flows using a market rate of interest, taking into account credit risk and collateral values.

Subordinated debentures and mandatorily redeemable preferred shares – The fair value of the subordinated debentures and mandatorily redeemable preferred shares was estimated using current market prices for comparable instruments, taking into account credit risk.

Liabilities of consolidated funds and ventures:

Notes Payable – The fair value was estimated by discounting contractual cash flows incorporating market yields for comparable debt, taking into account credit risk and collateral values.

Off-Balance Sheet Financial Instruments:

Lending commitments – The fair value of lending commitments was estimated based on the fair value of the corresponding funded loans, taking into consideration the remaining commitment amount.

NOTE 10—FAIR VALUE MEASUREMENTS

As required by GAAP, assets and liabilities are classified into levels based on the lowest level of input that is significant to the fair value measurement. The determination of which level an asset or liability gets classified into is based on the following fair value hierarchy:

- Level 1: Quoted prices in active markets for identical instruments.
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs or significant value drivers are observable in active markets.
- Level 3: Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

The following tables present assets and liabilities that are measured at fair value on a recurring basis at September 30, 2011 and December 31, 2010.

(in thousands)	September 30, 2011	Fair Value Measurement Levels at September 30, 2011 Level 1	Level 2	Level 3
Assets:				
Bonds available-for-sale	$ 1,179,429	$ –	$ –	$ 1,179,429
Derivative assets	6,217	–	6,217	–
Liabilities:				
Derivative liabilities	$ 22,923	$ –	$ 22,408	$ 515

(in thousands)	December 31, 2010	Fair Value Measurement Levels at December 31, 2010 Level 1	Level 2	Level 3
Assets:				
Bonds available-for-sale	$ 1,231,036	$ –	$ –	$ 1,231,036
Derivative assets	6,812	–	6,812	–
Liabilities:				
Derivative liabilities	$ 20,153	$ –	$ 19,603	$ 550

The following table presents activity for assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for the nine months ended September 30, 2011:

(in thousands)	Bonds Available-for-Sale	Derivative Liabilities
Balance, January 1, 2011	$ 1,231,036	$ (550)
Total (losses) gains included in earnings	(11,566)	35
Total gains included in other comprehensive income	45,422	–
Impact from purchases	11,183	–

Impact from sales	(81,862)	–
Impact from settlements	(14,784)	–
Balance, September 30, 2011	$ 1,179,429	$ (515)

The following table provides the amount included in earnings related to the activity presented in the table above, as well as additional realized gains (losses) recognized at settlement for the nine months ended September 30, 2011.

(in thousands)	Net losses on bonds(1)	Equity in Losses from Lower Tier Property Partnerships	Net gains (losses) on derivatives
Change in realized losses related to assets and liabilities held at January 1, 2011, but settled during 2011	$ (53)	$ –	$ 72
Change in unrealized losses related to assets and liabilities still held at September 30, 2011	(8,898)	(2,615)	(37)
Additional realized gains (losses) recognized at settlement	1,946	–	(3)
Total (losses) gains reported in earnings	$ (7,005)	$ (2,615)	$ 32

(1) Amounts are reflected through "Impairment on bonds" and "Net (losses) gains on sale of bonds" in the consolidated statements of operations.

The following table presents activity for assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for the nine months ended September 30, 2010:

(in thousands)	Bonds Available-for-Sale	Derivative Liabilities
Balance, January 1, 2010	$ 1,348,133	$ (919)
Total (losses) gains included in earnings	(13,482)	447
Total gains included in other comprehensive income	30,950	–
Impact from purchases	6,584	–
Impact from sales	(81,100)	–
Impact from deconsolidation of GP Take Back partnership	6,423	–
Impact from settlements	(34,419)	–
Balance, September 30, 2010	$ 1,263,089	$ (472)

The following table provides the amount included in earnings related to the activity presented in the table above, as well as additional realized gains recognized at settlement for the nine months ended September 30, 2010.

(in thousands)	Net (losses) gains on bonds(1)	Equity in Losses from Lower Tier Property Partnerships	Net gains on derivatives
Change in realized (losses) gains related to assets and liabilities held at January 1, 2010, but settled during 2010	$ (617)	$ –	$ 412
Change in unrealized (losses) gains related to assets and liabilities still held at September 30, 2010 (10,855	(10,855)	(2,010)	35
Additional realized gains recognized at settlement	2,784	–	–
Total (losses) gains reported in earnings	$ (8,688)	$ (2,010)	$ 447

(1) Amounts are reflected through “Impairment on bonds” and “Net (losses) gains on sale of bonds” in the consolidated statements of operations.

The following table presents activity for assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for the three months ended September 30, 2011:

(in thousands)	Bonds Available-for-Sale	Derivative Liabilities
Balance, July 1, 2011	$ 1,190,627	$ (510)
Total (losses) gains included in earnings	(5,257)	(5)
Total gains included in other comprehensive income	23,152	–
Impact from purchases	1,183	–
Impact from sales	(25,140)	–
Impact from settlements	(5,136)	–
Balance, September 30, 2011	$ 1,179,429	$ (515)

The following table provides the amount included in earnings related to the activity presented in the table above, as well as additional realized gains recognized at settlement for the three months ended September 30, 2011.

(in thousands)	Net (losses) gains on bonds(1)	Equity in Losses from Lower Tier Property Partnerships	Net gains (losses) on derivatives
Change in realized gains related to assets and liabilities held at July 1, 2011, but settled during 3rd quarter 2011	$ –	$ –	$ –
Change in unrealized losses related to assets and liabilities still held at September 30, 2011	(4,452)	(805)	(5)
Additional realized gains recognized at settlement	617	–	–
Total losses reported in earnings	$ (3,835)	$ (805)	$ (5)

(1) Amounts are reflected through "Impairment on bonds" and "Net (losses) gains on sale of bonds" in the consolidated statements of operations.

The following table presents activity for assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for the three months ended September 30, 2010:

(in thousands)	Bonds Available-for-Sale	Derivative Liabilities
Balance, July 1, 2010	$ 1,292,695	$ (455)
Total (losses) gains included in earnings	(3,335)	(17)
Total gains included in other comprehensive income	10,673	–
Impact from purchases	5,950	–
Impact from sales	(33,593)	–
Impact from settlements	(9,301)	–
Balance, September 30, 2010	$ 1,263,089	$ (472)

The following table provides the amount included in earnings related to the activity presented in the table above, as well as additional realized gains recognized at settlement for the three months ended September 30, 2010.

(in thousands)	Net (losses) gains on bonds (1)	Equity in Losses from Lower Tier Property Partnerships	Net gains on derivatives
Change in realized gains related to assets and liabilities held at July 1, 2010, but settled during 3rd quarter 2010	$ –	$ –	$ –
Change in unrealized (losses) gains related to assets and liabilities still held at September 30, 2010	(2,545)	(790)	(17)
Additional realized gains recognized at settlement	2,302	–	–
Total losses reported in earnings	$ (243)	$ (790)	$ (17)

(1) Amounts are reflected through "Impairment on bonds" and "Net (losses) gains on sale of bonds" in the consolidated statements of operations.

The following methods or assumptions were used to estimate the fair value of these recurring financial instruments:

Bonds Available-for-Sale – The fair value is based on quoted prices, where available. Otherwise, the fair value of performing bonds is based on discounted cash flows based on the expected bond payments, including certain prepayment assumptions that take into consideration lockout and other prepayment penalties. The discount rate takes into consideration current market yields for similar instruments, specific bond credit characteristics and other bond attributes, like the location of the property securing the bond and the bond size. The weighted average discount rate for the performing bond portfolio was 6.68% and 7.13% at September 30, 2011 and December 31, 2010, respectively. The fair value for the non-performing bond portfolio and collateral dependent bonds is based on an estimate of the collateral value, which is derived from a number of sources, including purchase and sale agreements, appraisals or broker opinions of value. If the sale price is not readily estimable from such sources, the Company estimates fair value by discounting the property's expected cash flows and residual proceeds using estimated market discount and capitalization rates, less estimated selling costs. The discount rate averaged 9.3% and 9.9% at September 30, 2011 and December 31, 2010, respectively. The capitalization rate averaged 8.1% and 8.5% at September 30, 2011 and December 31, 2010, respectively.

Derivative Financial Instruments – The fair value of derivatives was based on dealer quotes, where available, or estimated using valuation models incorporating current market assumptions. The Company's interest rate swap agreements have collateral posting requirements that are considered in determining the fair value of these instruments.

The following tables present assets that are measured at fair value on a non-recurring basis at September 30, 2011 and December 31, 2010.

		Fair Value Measurement Levels at September 30, 2011				
(in thousands)	September 30, 2011	Level 1	Level 2	Level 3	Total Losses Reported Through the Three Months Ended September 30, 2011:	Total Losses Reported Through the Nine Months Ended September 30, 2011:
Assets:						
Loans held for investment	$ 9,328	$ –	$ –	$ 9,328	$ –	$ –
Loans held for sale	772	–	–	772	(117)	(817)
Investment in Series A and B preferred stock	30,000	–	–	30,000	–	–

		Fair Value Measurement Levels at December 31, 2010				
(in thousands)	December 31, 2010	Level 1	Level 2	Level 3	Total Losses Reported Through the Three Months Ended September 30, 2010:	Total Losses Reported Through the Nine Months Ended September 30, 2010:
Assets:						
Loans held for investment	$ 42,394	$ –	$ –	$ 42,394	$ (423)	$ (4,475)
Loans held for sale	7,352	–	–	7,352	(366)	(484)
Investment in Series A and B preferred stock	30,000	–	–	30,000	–	–
Investment in an unconsolidated venture	6,779	–	–	6,779	–	–

The following methods or assumptions were used to estimate the fair value of these nonrecurring financial and non-financial instruments:

Loans Held for Investment and Loans Held for Sale – For non-performing loans, given that the Company has the right to foreclose on the underlying real estate which is collateral for the loan, the Company estimates the fair value by using an estimate of sales price, if available, less estimated selling costs. Estimates of sales prices are derived from a number of sources including current bids, appraisals and/or broker opinions of value. If the sales price is not readily estimable from such sources, as well as for all performing loans, the Company estimates fair value by discounting the expected cash flows using current market yields for similar loans.

Investment in an unconsolidated venture – This is the Company's 33.3% interest in an investment in a real estate partnership that was formed to take a deed-in-lieu of foreclosure on land that was collateral for a loan held by the Company. This investment is valued based on comparable land sales and, if available, broker opinion of value.

Investment in preferred stock –The fair value of the preferred stock was determined based on the terms and conditions of the preferred stock as compared to other, best available market benchmarks.

NOTE 11—GUARANTEES AND COLLATERAL

Guarantees

The following table summarizes guarantees, by type, at September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
(in thousands)	Maximum Exposure	Carrying Amount	Maximum Exposure	Carrying Amount
Mortgage banking loss-sharing agreements	$806	$464	$430	$379
Indemnification contracts	112,404	1,948	112,404	2,198
Other financial/payment guarantees	14,841	4,400	14,812	4,658
Total	$128,051	$6,812	$127,646	$7,235

Mortgage Banking Loss-Sharing Agreements

Prior to the sale of its Agency Lending business in May 2009, the Company had exposure to losses and/or servicing advances relating to defaulted real estate mortgage loans originated by the Company and sold to Fannie Mae under its Delegated Underwriting and Servicing ("DUS") program, including servicing advances for payment of principal, interest, taxes or insurance premiums, and the loss of principal after foreclosure. As part of the sale, the Company indemnified the purchaser for the DUS obligation related to specific loans. For the nine months ended September 30, 2011 and 2010, the Company recognized guarantee losses of $0.1 million and $0.5 million, respectively. The Company incurred zero and $1.2 million actual cash payments under its DUS loss sharing and indemnification agreements for the nine months ended September 30, 2011 and 2010, respectively.

Indemnification Contracts

The Company has entered into indemnification contracts with the purchaser of the Tax Credit Equity ("TCE") business related to the guarantees of the investor yields on their investment in certain Low Income Housing Tax Credit Funds ("LIHTC Funds") and indemnifications related to property performance on certain Lower Tier Property Partnerships. The Company has not made any cash payments related to these indemnification agreements for the nine months ended September 30, 2011 and 2010. The carrying amount represents the amount of unamortized fees received related to these guarantees with no additional amounts recognized as management does not believe it is probable that it will have to make payments under these indemnifications. However, it is possible that one of the specific property performance guarantees could result in us having to pay up to $1.0 million between now and 2016.

Other Financial/Payment Guarantees

The Company has entered into arrangements that require it to make payments in the event that a third party fails to perform on its financial obligations. Generally, the Company provides these guarantees in conjunction with the sale or placement of an asset with a third party. The terms of such guarantees vary based on the performance of the asset.

The Company's maximum exposure under its guarantee obligations represents the maximum loss the Company could incur under its guarantee agreements and is not indicative of the likelihood of the expected loss under the guarantees.

Collateral and restricted assets

The following table summarizes the Company's pledged assets at September 30, 2011 and December 31, 2010:

				September 30, 2011			
(in thousands)	Note Ref.	Restricted Cash	Bonds Available-for-Sale	Loans Receivable	Investments in Unconsolidated Ventures and Other Assets	Investment in Preferred Stock	Total
Bonds held in securitization trusts and for securitization programs	A	$ 3,195	$ 1,060,990	$ –	$ –	$ –	$ 1,064,185
Notes payable, warehouse lending and lines of credit	B	8,785	54,911	14,053	6,779	1,000	85,528
Other	C	3,058	34,388	–	13,353	–	50,799
Total		$ 15,038	$ 1,150,289	$ 14,053	$ 20,132	$ 1,000	$ 1,200,512

				December 31, 2010			
(in thousands)	Note Ref.	Restricted Cash	Bonds Available-for-Sale	Loans Receivable	Investments in Unconsolidated Ventures and Other Assets	Investment in Preferred Stock	Total

Bonds held in securitization trusts and for securitization programs	A	$ 7,577	$ 1,107,705	$ –	$ –	$ –	$ 1,115,282
Notes payable, warehouse lending and lines of credit	B	14,155	55,590	71,120	6,779	2,000	149,644
Other	C	3,255	33,885	–	12,527	–	49,667
Total		$ 24,987	$ 1,197,180	$ 71,120	$ 19,306	$ 2,000	$ 1,314,593

A. This represents assets held by bond securitization trusts as well as assets pledged as collateral for bond securitizations.

B. The Company pledges bonds, loans, investments in preferred stock and investments in affordable housing properties as collateral for notes payable, warehouse lending arrangements and line of credit borrowings.

C. The Company pledges collateral in connection with other liabilities, guarantees, derivative transactions, first loss positions and leases. The Company may elect to pledge collateral on behalf of the Company's customers in order to facilitate credit and other collateral requirements. In addition, cash may be restricted for funding obligations.

NOTE 12—COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company has various operating leases that expire at various dates through 2017. Certain leases require the Company to pay property taxes, maintenance and other costs.

Rental expense for operating leases was $2.8 million (of which $1.1 million was reported as discontinued operations) and $3.3 million (of which $1.2 million was reported as discontinued operations) for the nine months ended September 30, 2011 and 2010, respectively. Rental income received from sublease rentals was $2.2 million (of which $1.1 million was reported as discontinued operations) and $2.0 million (of which $1.1 million was reported as discontinued operations) for the nine months ended September 30, 2011 and 2010, respectively.

The following table summarizes the future minimum rental commitments on non-cancelable operating leases at

September 30, 2011:

(in thousands)	
2011	$943
2012	3,710
2013	3,609
2014	2,941
2015	1,564
Thereafter	756
Total minimum future rental commitments	$13,523

The Company expects to receive $9.2 million in future rental payments from non-cancelable subleases, which is not netted against the commitments above.

Litigation

At September 30, 2011, the Company and certain of its subsidiaries, were named as defendants in various litigation matters arising in the ordinary course of business. Certain of these proceedings include claims for substantial or indeterminate compensatory or punitive damages, or for injunctive relief.

The Company establishes reserves for litigation matters when those matters present loss contingencies that are probable and can be reasonably estimated. Once established, reserves may be adjusted when new information is obtained.

It is the opinion of the Company's management that adequate provisions have been made for losses with respect to litigation matters and other claims that existed at September 30, 2011. Management believes the ultimate resolution of these matters is not likely to have a material effect on its financial position, results of operations or cash flows. Assessment of the potential outcomes of these matters involves significant judgment and is subject to change, based on future developments, which could result in significant changes.

Shareholder Matters

In the first half of 2008, the Company was named as a defendant in 11 (subsequently reduced to nine) purported class action lawsuits and six (subsequently reduced to two) derivative suits. In each of these class action lawsuits, the

plaintiffs claim to represent a class of investors in the Company’s shares who allegedly were injured by misstatements in press releases and SEC filings between May 3, 2004, and January 28, 2008. The plaintiffs seek unspecified damages for themselves and the shareholders of the class they purport to represent. The class action lawsuits have been consolidated into a single legal proceeding pending in the United States District Court for the District of Maryland. By court order, a single consolidated amended complaint was filed in the class actions on December 5, 2008 and the cases will proceed as one consolidated case. Similarly, a single consolidated amended complaint was filed in the derivative cases on December 12, 2008 and these cases will likewise proceed as a single case. In the derivative suits, the plaintiffs claim, among other things, that the Company was injured because its directors and certain named officers did not fulfill duties regarding the accuracy of its financial disclosures. A derivative suit is a lawsuit brought by a shareholder of a corporation, not on the shareholder's own behalf, but on behalf of the corporation and against the parties allegedly causing harm to the corporation. Any proceeds of a successful derivative action are awarded to the corporation, except to the extent they are used to pay fees to the plaintiffs’ counsel and other costs. The derivative cases and the class action cases have all been consolidated before the same court. The Company has filed a motion to dismiss the class action and the motion is before the court for decision. Due to the inherent uncertainties of litigation, and because these specific actions are still in a preliminary stage, the Company cannot reasonably predict the outcome of these matters at this time.

SEC Matters

After the Company announced in September 2006 that it would be restating the financial statements for 2005 and prior years, the Philadelphia Regional Office of the SEC informed the Company that it was conducting an informal inquiry and requested the voluntary production of documents and information concerning, among other things, the reasons for the restatement. The Company provided the requested documents and information and has cooperated fully with the informal inquiry. The Company has not received any correspondence related to this informal inquiry since 2008.

In December 2009, the Company received correspondence from the SEC's Division of Corporation Finance noting the Company's status as a non-current filer and advising the Company that the SEC could, in the future, bring an administrative proceeding to revoke the Exchange Act registration of the Company's common shares and/or order, without further notice, the suspension of trading of the Company's common shares. The Company provided special notice to the Division of Corporation Finance of each SEC filing containing Company financial statements that the Company made from the receipt of the agency's letter through the filing of the Company's 2010 Form 10-K, which was filed on a timely basis on March 31, 2011. The Company has continued to file periodic reports in a timely manner since such date. The Company has not received any further correspondence or information related to this issue since the original December 2009 letter.

NOTE 13—EQUITY

Loss Per Common Share

The following table provides a summary of net loss to common shareholders as well as information pertaining to weighted average shares used in the per share calculations as presented on the consolidated statements of operations for the three months and nine months ended September 30, 2011 and 2010.

	For the three months ended September 30,		For the nine months ended September 30,	
(in thousands)	2011	2010	2011	2010
Net loss from continuing operations	$(5,223)	$(4,276)	$(13,142)	$(25,541)
Net income (loss) from discontinued operations	616	487	1,008	(4,864)
Net loss to common shareholder	$(4,607)	$(3,789)	$(12,134)	$(30,405)
Basic weighted-average shares (1)	41,223	40,606	41,050	40,489
Common stock equivalents	–	–	–	–
Diluted weighted-average shares	41,223	40,606	41,050	40,489

(1) Includes common shares issued and outstanding, as well as non-employee directors' and employee deferred shares that have vested, but are not issued and outstanding.

For the nine months ended September 30, 2011 and 2010, the Company had a net loss and thus, any incremental shares would be anti-dilutive. The average number of anti-dilutive options that were excluded from common stock equivalents for the nine months ended September 30, 2011 and 2010 were 1,179,031 and 1,297,423, respectively.

Perpetual Preferred Shareholders' Equity in a Subsidiary Company

TEB has perpetual preferred shares outstanding. These shares have quarterly distributions that are payable (based on the stated distribution rate) to the extent of net income. For this purpose, net income is defined as TEB's taxable income, as determined in accordance with the United States Internal Revenue Code, plus any income that is exempt from federal taxation, but excluding gain from the sale of assets. In addition to quarterly distributions, the holders of both the cumulative perpetual preferred shares and the cumulative mandatorily redeemable preferred shares receive an annual capital gains distribution equal to an aggregate of 10.0% of any net capital gains the Company recognized during the immediately preceding taxable year, if any. There were no capital gains distributions made or accumulated for the nine months ended September 30, 2011 and 2010.

TEB's operating agreement with its preferred shareholders has covenants related to the type of assets the Company can invest in as well as requirements that address leverage restrictions, limitations on issuance of preferred equity interests, limitations on cash distributions to the Company and certain requirements in the event of merger, sale or consolidation.

The following table summarizes the terms of the cumulative perpetual preferred shares outstanding at September 30, 2011.

	Issue Date	Number of Shares	Liquidation Preference Per Share	Distribution Rate	Next Remarketing Date	Optional Redemption Date
Series A-2	October 19, 2004	8	$ 2,000,000	4.90 %	September 30, 2014	September 30, 2014
Series A-3	November 4, 2005	6	2,000,000	4.95	September 30, 2012	September 30, 2012
Series A-4	November 4, 2005	8	2,000,000	5.13	September 30, 2015	September 30, 2015
Series B-2	October 19, 2004	7	2,000,000	5.20	September 30, 2014	September 30, 2014
Series B-3	November 4, 2005	11	2,000,000	5.30	September 30, 2015	September 30, 2015
Series C	October 19, 2004	13	1,000,000	9.75	September 30, 2012	September 30, 2012
Series C-1	October 19, 2004	13	1,000,000	5.40	September 30, 2014	September 30, 2014
Series C-2	October 19, 2004	13	1,000,000	5.80	September 30, 2019	September 30, 2019
Series C-3	November 4, 2005	10	1,000,000	5.50	September 30, 2015	September 30, 2015
Series D	November 4, 2005	15	2,000,000	5.90	September 30, 2015	September 30, 2020

Each series of cumulative perpetual preferred shares is equal in priority of payment to its comparable series cumulative mandatorily redeemable preferred shares. Series A are senior to Series B, which are collectively senior to Series C, which are collectively senior to Series D.

The cumulative perpetual preferred shares are subject to remarketing on the dates specified in the table above. On the remarketing date, the remarketing agent will seek to remarket the shares at the lowest distribution rate that would result in a resale of the cumulative perpetual preferred shares at a price equal to par plus all accrued but unpaid distributions, subject however, to a cap provided in each Series Exhibit. The cumulative perpetual preferred shares are not redeemable prior to the remarketing dates. If the remarketing agent is unable to remarket these shares successfully, distributions could increase. Each of the series has specified terms that define the distribution rate under a failed remarketing as a particular maturity along the municipal bond yield curve plus a specified default rate for a fixed period of time. Based on the terms of each series agreement, if all distribution rates were reset on November 9, 2011 to distribution rates under a failed remarketing, then the Company's annual distributions would increase by $0.3 million, with substantially all of this increase not becoming effective until September 2015. The Company may elect to redeem the preferred shares at their liquidation preference plus accrued and unpaid distributions based on the particular series at their respective remarketing dates.

On February 16, 2011, the Company repurchased $4.0 million of the original par amount of the 4.90% Series A-2 cumulative perpetual preferred shares at 79.5% of face value and recognized an increase in common shareholders' equity of $0.7 million.

On May 4, 2011, the Company repurchased $6.0 million of the original par amount of the 4.95% Series A-3 cumulative perpetual preferred shares at 82.0% of face value and recognized an increase in common shareholders' equity of $0.9 million.

On August 2, 2011, the Company repurchased $4.0 million of the original par amount of the 5.90% Series D subordinate cumulative perpetual preferred shares at 60.0% of face value and recognized an increase in common shareholders' equity of $1.5 million.

Noncontrolling Interests

A significant component of equity is comprised of outside investor interests in entities that the Company consolidates. In addition to the preferred shares discussed above, the Company has reported the following noncontrolling interests within equity, in entities that the Company does not wholly own at September 30, 2011 and December 31, 2010:

(in thousands)	September 30, 2011	December 31, 2010
Noncontrolling interests in:		
LIHTC Funds	$ 447,216	$ 479,174
Lower Tier Property Partnership	3,873	3,915
South African Workforce Fund	97,426	80,322
Other consolidated entities	5,775	6,145
Total	$ 554,290	$ 569,556

Substantially all of these interests represent limited partner interests in partnerships or the equivalent of limited partner interests in limited liability companies. In allocating income between the Company and the noncontrolling interest holders of the Company, the Company takes into account the legal agreements governing ownership, and other contractual agreements and interests the Company has with the consolidated entities. See Note 17, "Consolidated Funds and Ventures," for further information.

NOTE 14—STOCK-BASED COMPENSATION

The Company has stock-based compensation plans (“Plans”) for Non-employee Directors (“Non-employee Directors’ Stock-Based Compensation Plan”) and stock-based compensation plans for employees (“Employees’ Stock-Based Compensation Plan”).

Total compensation expense recorded for these Plans was as follows for the three months and nine months ended September 30, 2011 and 2010:

	For the three months ended September 30,		For the nine months ended September 30,	
(in thousands)	2011	2010	2011	2010
Employees’ Stock-based Compensation plan	$17	$17	$49	$79
Non-employee Directors’ Stock-based Compensation plan	50	50	138	150
Total	$67	$67	$187	$229

Employees’ Stock-Based Compensation Plan

The Employees’ Stock-Based Compensation Plan has 4,722,033 shares authorized to be issued, of which 1,237,993 shares were still available to be issued at September 30, 2011. The Employees’ Stock-Based Compensation Plan authorizes grants of a broad variety of awards; however, the Company only has outstanding non-qualified common stock options.

Employee Common Stock Options

The Company measures the fair value of options granted using a lattice model for purposes of recognizing compensation expense. The Company believes the lattice model provides a better estimate of the fair value of options as it uses a range of possible outcomes over an option term and can be adjusted for exercise patterns. For the nine months ended September 30, 2011, the per share weighted average fair value for the Company’s outstanding options and the corresponding liability was inconsequential.

The following table summarizes option activity for the nine months ended September 30, 2011 under the Employees’ Stock-Based Compensation Plan:

(in thousands, except per option data)	Number of Options	Weighted-average Exercise Price per Option	Weighted-average Remaining Contractual Life per Option (in years)	Aggregate Intrinsic Value	Period End Liability
Outstanding at January 1, 2011	1,145.0	$ 7.01	8.2	$ –	$ 116
Granted	–				
Exercised	–				
Forfeited/Expired	–				
Outstanding at September 30, 2011	1,145.0	$ 7.01	7.5	$ –	$ 165

Options exercisable at:					
September 30, 2011	861.7	$	9.24	7.1	$ –

Employee Deferred Shares

An employee deferred share is a share award that typically has a four year vesting schedule and also provides for the acceleration of vesting at the Company's discretion, upon a change in control, or upon death or disability. The deferred share award requires that the employee provide continuous service with the Company from the grant date up to and including the date(s) on which the award vests. Once the deferred shares vest, the Company typically issues common shares to the employee; however, some employees elected to have the Company delay the issuance of the shares until the shares can be freely traded.

There was no outstanding liability for deferred share awards at September 30, 2011 and December 31, 2010.

The following table summarizes deferred share activity under the Employees' Stock-Based Compensation Plan for the nine months ended September 30, 2011:

(in thousands)	Number of Shares
Unvested shares at January 1, 2011	1.9
Granted	–
Forfeited	–
Rescinded	–
Vested	(1.9)
Unvested shares at September 30, 2011	–
Shares vested and expected to vest:	
September 30, 2011	–

Non-employee Directors' Stock-Based Compensation Plan

During 2009 the Company approved a new plan for non-employee directors authorizing an additional 1,500,000 shares. In 2010, another new plan was approved, which increased the number of authorized shares by an additional 1,500,000 shares, resulting in a total of 3,650,000 shares authorized to be granted under the plan. A total of 1,712,942 shares were available to be issued under the Non-employee Directors' Stock-based Compensation Plan at September 30, 2011. The Non-employee Directors' Stock-based Compensation Plan provides for grants of non-qualified common stock options, common shares, restricted shares and deferred shares.

Non-employee Director Common Stock Options

The following table summarizes option activity under the Non-employee Directors' Stock-based Compensation Plan:

(in thousands, except per option data)	Number of Options	Weighted-average Exercise Price per Option	Weighted-average Remaining Contractual Life per Option (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2011	59.0	$ 24.44	1.5	$ –
Exercised				
Expired/Forfeited	(25.0)			
Outstanding at September 30, 2011	34.0	$ 24.86	1.7	$ –
Options Exercisable at:				
September 30, 2011	34.0	$ 24.86	1.7	$ –

Non-employee Director Restricted Shares and Deferred Shares

The following table summarizes the restricted and deferred shares granted to the directors for their services for the nine months ended September 30, 2011 and 2010. The directors are fully vested in these shares at the grant date.

(in thousands, except per share data)	Restricted Share Grants	Weighted-average Grant Date Share	Deferred Share Grants	Weighted-average Grant Date Share	Directors' Fees Expense

			Price			Price		
September 30, 2011	144,741	$	0.13	383,120	$	0.13	$	137.5
September 30, 2010	–		–	347,222		0.22		150.0

For the nine months ended September 30, 2011 and 2010, the Company recognized $137,500 and $150,000 in director fees expense, respectively, of which $68,750 and $75,000 was paid in cash, respectively. Directors' Fees Expense is reflected in "General and administrative" in the consolidated statements of operations.

NOTE 15—RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH AFFILIATES

Transactions with Shelter Group, LLC ("Shelter Group")

Mark Joseph (Chairman of MuniMae's Board of Directors) has direct and indirect minority ownership interests in Shelter Group. One of the Company's tax-exempt bond investments is secured by a multifamily property in which the Shelter Group has an ownership interest. Shelter Group also provides management services for certain properties that serve as collateral for some of the Company's tax-exempt bond investments. During the nine months ended September 30, 2011 and 2010, there were three such property management contracts between properties securing the Company's bonds and Shelter Group for which fees paid by the properties under these contracts approximated $0.4 million for each nine-month period. The Company's carrying value of the tax-exempt bond secured by property owned by Shelter Group was $9.1 million and $8.9 million at September 30, 2011 and December 31, 2010, respectively.

Transactions with SCA Successor, Inc., SCA Successor II, Inc., and SCA Umbrella Limited Liability Company (collectively referred to as "SCA")

At September 30, 2011, Mr. Joseph had direct and indirect ownership interests in SCA, which held the general partner interests and limited partner interests in certain real estate partnerships which own properties that serve as collateral for certain tax-exempt bonds that the Company holds. The Company is not the primary beneficiary of SCA and therefore, at September 30, 2011, the Company did not consolidate SCA and the properties it owns. The Company's carrying value of the tax-exempt bonds secured by properties owned by SCA was $93.8 million and $87.2 million at September 30, 2011 and December 31, 2010, respectively.

On October 1, 2011, Mr. Joseph donated all of his remaining interests in SCA to a non-profit organization that provides charitable services and programs for the affordable housing market. At September 30, 2011 the Company consolidates this non-profit organization because it is deemed to have a controlling interest as defined by GAAP. As a result of this donation, the non-profit organization will effectively control the real estate properties and therefore the Company will consolidate these properties beginning October 1, 2011.

NOTE 16—DISCONTINUED OPERATIONS

Business Sales

The Company sold the following business segments prior to 2011: the TCE business, the Agency Lending business and the Renewable Ventures business. These business segment disposals, as well as several other business dispositions, were accounted for as discontinued operations. Under discontinued operations accounting, the revenues, expenses and all other statement of operations activity from the businesses that were sold, including the gains and losses on dispositions, have been classified as "Loss from discontinued operations, net of tax" and "Net losses allocable to noncontrolling interests from consolidated funds and ventures – related to discontinued operations" in the consolidated statements of operations. At September 30, 2011, one of the Company's Real Estate Owned ("REO") properties is in the process of being sold and as such the property's operations are accounted for as discontinued operations. In addition to this property's operations, there is continuing activity related to some of these dispositions that impact the 2010 and 2011 periods. The following table represents the ongoing activity related to these dispositions.

	For the three months ended September 30,		For the nine months ended September 30,	
(in thousands)	2011	2010	2011	2010

Operations:				
Sublease income	$369	$369	$1,107	$738
Other income	84	300	250	1,240
Rent expense	(369)	(369)	(1,107)	(759)
Other expenses	–	(370)	(202)	(1,494)
REO operations	532	633	951	530
Other gains	–	2	–	359
Equity in earnings from Lower Tier Property Partnerships	–	–	9	–
Income from operations	616	565	1,008	614
Disposal:				
Net loss on sale	–	–	–	(5,375)
Net income (loss) from discontinued operations	616	565	1,008	(4,761)
Net income allocable to noncontrolling interests	–	(78)	–	(103)
Net income (loss) to common shareholders from discontinued operations	$616	$487	$1,008	$(4,864)

NOTE 17—CONSOLIDATED FUNDS AND VENTURES

Due to the Company's minimal ownership interest in certain consolidated entities, the assets, liabilities, revenues, expenses, equity in losses from those entities' unconsolidated Lower Tier Property Partnerships and the losses allocated to the noncontrolling interests of the consolidated entities have been separately identified in the consolidated balance sheets and statements of operations. Third-party ownership in these consolidated funds and ventures is recorded in equity as "Noncontrolling interests in consolidated funds and ventures."

The total assets, by type of consolidated fund or venture, at September 30, 2011 and December 31, 2010, are summarized as follows:

(in thousands)	September 30, 2011	December 31, 2010
LIHTC Funds	$ 449,694	$ 485,998
Lower Tier Property Partnership	19,824	20,763
South African Workforce Fund	112,903	83,274
Other consolidated entities	12,537	11,960
Total assets of consolidated funds and ventures	$ 594,958	$ 601,995

The following provides a detailed description of the nature of these entities.

LIHTC Funds

In general, the LIHTC Funds invest in limited partnerships that develop or rehabilitate and operate multifamily affordable housing rental properties. These properties generate tax operating losses and federal and state income tax credits for their investors, enabling them to realize a return on their investment through reductions in income tax expense. The LIHTC Funds' primary assets are their investments in Lower Tier Property Partnerships, which are the owners of the affordable housing properties. The LIHTC Funds account for these investments using the equity method of accounting. The Company sold its general partner interest in substantially all of the LIHTC Funds through the sale of its TCE business in July 2009. However, the Company retained its general partner interest in certain LIHTC Funds. The Company continues to consolidate 11 funds at September 30, 2011 and December 31, 2010. The Company's general partner ownership interests of the funds remaining at September 30, 2011 ranges from 0.01% to 0.04%. The Company has guarantees associated with these funds. These guarantees, along with the Company's ability to direct the activities of the funds have resulted in the Company being the primary beneficiary. At September 30, 2011 and December 31, 2010, the Company's maximum exposure under these guarantees is estimated to be approximately $865 million; however, the Company does not anticipate any losses under these guarantees.

Consolidated Lower Tier Property Partnerships

Due to financial or operating issues at a Lower Tier Property Partnership, the Company will assert its rights to assign the general partner's interest in the Lower Tier Property Partnership to affiliates of the Company. Generally, the Company will take these actions to either preserve the tax status of the Company's bond investments and/or to protect the LIHTC Fund's interests in the tax credits. As a result of its ownership interest, controlling financial interest or its designation as the primary beneficiary, the Company consolidates these Lower Tier Property Partnerships. A number of these consolidated Lower Tier Property Partnerships were transferred to the buyer of the TCE business in July 2009. At September 30, 2011 and December 31, 2010, there was one consolidated Lower Tier Property Partnership.

South African Workforce Fund

The Company is the general partner of the South Africa Workforce Housing Fund SA I ("SA Fund"), which is an investment fund formed to invest directly or indirectly in housing development projects and housing sector companies in South Africa. The Company has an equity funding commitment of $4.3 million or 2.7% of the total committed SA Fund capital.

Other

The Company also has consolidated entities where it has been deemed to be the primary beneficiary or the Company has a controlling interest. At September 30, 2011, these entities include non-profit organizations that provide charitable services and programs for the affordable housing market and two Company sponsored solar funds where the Company is the managing member.

The following section provides more information related to the assets of the consolidated funds and ventures at September 30, 2011 and December 31, 2010.

Asset Summary:

(in thousands)	September 30, 2011	December 31, 2010
Investments in Lower Tier Property Partnerships	$ 398,983	$ 436,971
Other assets of consolidated funds and ventures:		
Cash, cash equivalents and restricted cash	47,509	36,082
Real estate, net	19,335	20,368
South African Fund investments	99,225	78,222
Solar projects	10,303	10,719
Other assets	19,603	19,633
Total assets of consolidated funds and ventures	$ 594,958	$ 601,995

Substantially all of the assets of the consolidated funds and ventures are restricted for use by the specific owner entity and are not available for the Company's general use.

Investments in unconsolidated Lower Tier Property Partnerships

The Lower Tier Property Partnerships of the LIHTC Funds are considered variable interest entities; although, in most cases it is the third party general partner who is the primary beneficiary. Therefore, substantially all of the LIHTC Funds' investments in Lower Tier Property Partnerships are accounted for under the equity method. The following table provides the investment balances in unconsolidated Lower Tier Property Partnerships held by the LIHTC Funds and the underlying assets and liabilities of the Lower Tier Property Partnerships at September 30, 2011 and December 31, 2010:

(in thousands)	September 30, 2011	December 31, 2010
LIHTC Funds:		
Funds' investment in Lower Tier Property Partnerships	$ 398,983	$ 436,971
Total assets of Lower Tier Property Partnerships (1)	$ 1,436,109	$ 1,461,505
Total liabilities of Lower Tier Property Partnerships (1)	1,051,245	1,049,244

(1) The assets of the Lower Tier Property Partnerships are primarily real estate and the liabilities are predominantly mortgage debt.

The Company's maximum exposure to loss from these unconsolidated Lower Tier Property Partnerships is generally limited to the Company's equity investment (shown above), loans or advances and bond investments in these partnerships. The Company's total loan investment, including commitments to lend to these partnerships at September 30, 2011 and December 31, 2010, was zero. The Company's total bond investment at September 30, 2011 and December 31, 2010, was $453.8 million and $439.9 million, respectively. The Company is subject to an agreement that requires the Company to post collateral in order to foreclose on the properties securing these bond investments.

Real estate, net

Real estate, net is comprised of the following at September 30, 2011 and December 31, 2010:

(in thousands)	September 30, 2011	December 31, 2010
Building, furniture and fixtures	$ 26,274	$ 26,272
Accumulated depreciation	(7,962)	(6,927)
Land	1,023	1,023
Total	$ 19,335	$ 20,368

Depreciation expense was $1.0 million for the nine months ended September 30, 2011 and 2010. Buildings are depreciated over a period of 40 years. Furniture and fixtures are depreciated over a period of six to seven years. The Company did not recognize any impairment losses for the nine months ended September 30, 2011 and 2010.

South African Fund Investments

The Company carries its investments at fair value, which are based on estimates as there are no readily available market values. In establishing fair values of its investments, the Company considers financial conditions and operating results, local market conditions, market values of comparable companies and real estate, the stage of each investment, and other factors as appropriate, including obtaining appraisals from independent third-party licensed appraisers.

Solar Projects

The Company is the managing member of two solar funds that have investments in five solar energy generation projects. These projects generate energy that is sold under long-term power contracts to the owner or lessee of the property that the projects are built on. The useful life of these solar facilities is generally ten to twenty years. The Company's managing member interest in these two funds is less than 1.0%.

The following section provides more information related to the liabilities of the consolidated funds and ventures at September 30, 2011 and December 31, 2010.

Liability Summary

(in thousands)	September 30, 2011	December 31, 2010
Liabilities of consolidated funds and ventures:		
Debt	$ 15,562	$ 3,709
Unfunded equity commitments to unconsolidated Lower Tier Property Partnerships	17,820	20,970
Other liabilities	3,069	3,136
Total liabilities of consolidated funds and ventures	$ 36,451	$ 27,815