

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

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011
OR

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

For the transition period from _____ to _____

Commission File Number 001-11981

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

Delaware
(State or other jurisdiction of incorporation or
organization)

52-1449733
(I.R.S. Employer Identification No.)

621 East Pratt Street, Suite 600
Baltimore, Maryland

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

(Address of principal executive offices)
21202
(Zip Code)

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

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 No

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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

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

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

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

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

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

PART I – FINANCIAL INFORMATION

Item 1.

Financial Statements

Municipal Mortgage & Equity, LLC

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1—DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

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

Business, Going Concern and Liquidity Issues

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

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

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

The Company’s primary business is the bond business, which consists of investments in tax-exempt bonds secured by affordable housing properties. Substantially all of the Company’s operating cash flow is from the Company’s bond portfolio, which is generated by subsidiaries of the Company that hold substantially all of the Company’s bonds. These subsidiaries have certain compliance requirements that may limit or restrict their ability to distribute cash to MuniMae. One of these subsidiaries is MuniMae TE Bond Subsidiary, LLC (“TEB”), which holds 90.4% of the

carrying value of the Company's bonds at March 31, 2011. The Company indirectly owns all of TEB's common stock. TEB's operating agreement with its preferred shareholders contains covenants restricting the type of assets in which TEB can invest, the incurrence of leverage, the issuance of additional preferred equity interests, as well as cash distributions to MuniMae and imposing certain requirements in the event of merger, sale or consolidation. In 2010, TEB retained \$25.0 million of cash flows ("Retained Distributions") by limiting Distributable Cash Flow distributions to MuniMae pursuant to a March 25, 2010 amendment to its operating agreement. At March 31, 2011:

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

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

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

- Forbearance from the minimum net asset value requirement and the financial reporting requirement contained in the interest rate swap agreements until the earlier of June 30, 2012 or when TEB regains compliance with the leverage and liquidation incurrence ratios.
 - The Company must post a portion of the distributions it receives on TEB's common stock as follows:
 - o For quarterly distributions beginning in the fourth quarter of 2010 and continuing through to the third quarter of 2011, the Company will post restricted distributions equal to 50% of common distributions, less \$0.8 million.
 - o For quarterly distributions beginning in the fourth quarter of 2011 and continuing until TEB is in compliance with both its leverage ratio and liquidation preference ratio, the Company will post restricted distributions equal to 50% of common distributions. Once TEB is in compliance with its leverage ratio and liquidation preference ratios there will be no restrictions on common distributions.

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

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

Basis of Presentation and Significant Accounting Policies

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

Use of Estimates

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

Interim Period Presentation

The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in

annual financial statements prepared in accordance with United States generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

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

NOTE 2—BONDS AVAILABLE-FOR-SALE

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

Mortgage Revenue Bonds

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

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

Other Bonds

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

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

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

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

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December 31, 2010

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

(1) Includes premiums, discounts and deferred costs.

Maturity

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

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

Bonds with Lockouts, Prepayment Premiums or Penalties

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

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

Non-Accrual Bonds

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

Bond Sales

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

Provided in the table below are unrealized losses and realized gains and losses recorded through "Impairment on bonds" and "Net (losses) gains on bonds" for bonds sold or redeemed during the three months ended March 31, 2011 and 2010,

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as well as for bonds still in the Company's portfolio at March 31, 2011 and 2010, respectively.

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

Unfunded Bond Commitments

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

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

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

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

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

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

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

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

Loans Held for Sale

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

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

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

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

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

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

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

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Loans Held for Investment

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

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

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

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

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

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

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

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

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

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

impaired loans for the three months ended March 31, 2011 and 2010, respectively.

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

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

Unfunded Loan Commitments

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

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

NOTE 4—INVESTMENTS IN PREFERRED STOCK

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

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

NOTE 5—INVESTMENTS IN UNCONSOLIDATED VENTURES

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

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

Investments in Real Estate Related Entities

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

Balance Sheet and Operating Results for the Unconsolidated Ventures

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

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

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

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

NOTE 6—OTHER ASSETS

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

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

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

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

NOTE 7—DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

Interest Rate Swaps

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

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

NOTE 8—DEBT

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

| (in thousands) | March 31, 2011 | Weighted-Average Interest Rate at Period-End | December 31, 2010 | Weighted-Average Interest Rate at Period-End | |
|--|--------------------|--|----------------------|--|---|
| Debt related to bond investing activities (1): | | | | | |
| Senior interests and debt owed to securitization trusts: | | | | | |
| Due within one year (2) | \$— | — | \$15,985 | 0.4 | % |
| Due after one year (2) | 729,910 | 0.7 | 732,115 | 0.7 | |
| Mandatorily redeemable preferred shares (3): | | | | | |
| Due within one year | 5,662 | 7.5 | 5,558 | 7.5 | |
| Due after one year | 122,744 | 8.5 | 127,971 | 8.6 | |
| Notes payable and other debt (4): | | | | | |
| Due within one year | 5,654 | 6.0 | 5,654 | 6.0 | |
| Due after one year | 66,859 | 6.7 | 68,444 | 6.7 | |
| Total bond related debt | 930,829 | | 955,727 | | |
| Non-bond related debt: | | | | | |
| Notes payable and other debt: | | | | | |
| Due within one year | 59,588 | 7.4 | 106,520 | 7.4 | |
| Due after one year | 33,021 | 10.9 | 27,267 | 12.1 | |
| Subordinated debentures (5) | | | | | |
| Due after one year | 186,617 | 8.8 | 183,711 | 8.8 | |
| Line of credit facilities: | | | | | |
| Due within one year | — | — | 4,190 | 6.0 | |
| Total non-bond related debt | 279,226 | | 321,688 | | |
| Total debt | \$1,210,055 | | \$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 1.9% December 31, 2010. These additional fees bring the weighted average interest rate (due after one year) to 1.9% and 2.0% at March 31, 2011 and December 31, 2010, respectively.

(3) Included in mandatorily redeemable preferred shares are unamortized discounts of \$4.2 million and \$4.4 million at March 31, 2011 and December 31, 2010, respectively.

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

(5) Included in subordinated debentures are unamortized discounts of \$10.1 million and \$13.0 million at March 31, 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. To increase the attractiveness of the senior interests to investors, the senior interests are credit enhanced or insured by a third party. 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. 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 enhancement or insurance, while the credit enhancer or insurance provider has recourse to the bonds deposited in the trusts, the additional collateral pledged, and, in certain cases, to the general recourse of the Company.

Mandatorily Redeemable Preferred Shares

TEB has mandatorily redeemable preferred shares outstanding. These shares have quarterly distributions which 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% of any realized net capital gains during the immediately preceding taxable year, if any. There were no capital gains distributions for the three months ended March 31, 2011 and 2010.

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The table below summarizes the terms of the cumulative mandatorily redeemable preferred shares issued by TEB at March 31, 2011:

| | Issue Date | Number of Shares | Liquidation Amount Per Share | Annual Distribution Rate | Annual Aggregate Distribution and Redemption Rate | Next Remarketing/ Mandatory Tender Date | Mandatory Redemption Date |
|--|-----------------|------------------|------------------------------|--------------------------|---|---|---------------------------|
| Series A Mandatorily Redeemable Preferred Shares | May 27, 1999 | 37.5 | \$ 1,829,523 | 7.50 % | 12.68 % | June 30, 2011 | June 30, 2049 |
| Series B Mandatorily Redeemable Preferred Shares | June 2, 2000 | 30 | 2,000,000 | 9.56 | N/A | November 1, 2011 | June 30, 2050 |
| Series B-1 Mandatorily Redeemable Preferred Shares | October 9, 2001 | 2 | 2,000,000 | 9.56 | N/A | 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, required amortization of certain preferred shares, as well as the rollover risk of the Federal Home Loan Mortgage Corporation (“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.

On January 24, 2011, the Company repurchased \$4.0 million of the original par amount of the 6.80% 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 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 cumulative mandatorily redeemable preferred shares and the Series B-2 and B-3 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. See Note 13, “Equity.”

The mandatorily redeemable 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 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 successfully remarket these shares, distributions could increase and this increase could adversely impact the Company's financial condition and results of operations. More specifically, the aggregate distribution and redemption rate on the Series A shares would continue at 12.68% until there is a remarketing which is not a failed remarketing. However, the distribution rate on the Series B shares could, at most, be reset to two times the 15 year BAA municipal bond yield if the remarketing on November 1, 2011 were to fail. On May 12, 2011, two times the 15 year BAA municipal bond yield was 10.7%.

Except as described below, the mandatorily redeemable preferred shares are not redeemable prior to the remarketing dates.

Each series of mandatorily redeemable preferred shares has been subject to a remarketing event; however, due to market conditions a remarketing of the shares did not occur and the following events occurred on or prior to the remarketing date.

- The Series B and B-1 shares were subject to remarketing on November 1, 2010. The holders of a majority of the outstanding Series B and B-1 shares, voting separately, elected to waive the November 1, 2010 remarketing requirement, effective November 1, 2010, and to increase the distribution rate on the Series B and B-1 shares from 7.75% and 6.8%, respectively, to 9.56% for one year. The next mandatory remarketing date for the Series B Preferred Shares will occur on November 1, 2011.
- Effective June 30, 2009, the Series Exhibit for Series A was amended and restated. The amendment increased the distribution rate from 6.88% to 7.50% effective July 1, 2009, on the outstanding mandatorily redeemable preferred shares and provided for redemptions of shares beginning in October 31, 2009 and continuing through October 31, 2021, for an annual aggregate distribution and redemption rate of 12.68%. The holders of a majority of the outstanding Series A shares, voting separately, elected to waive the June 30, 2010 remarketing requirement. As a result, the next mandatory remarketing date for the Series A Preferred Shares will occur on June 30, 2011.

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 March 31, 2011:

(dollars in thousands)

| Issuer | Debt Principal | Net Discount (1) | Debt Carrying Value | Optional Redemption Date | Interim Principal Payments | Debt 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 | (3,247) | 55,173 | 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 | (3,616) | 57,384 | 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 | (3,215) | 44,060 | 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 | \$(10,078) | \$186,617 | | | | |

(1) The discount represents additional principal owed for which no cash proceeds were received less the amount of cumulative discount that has been amortized through March 31, 2011.

Interest expense on the subordinated debentures totaled \$3.9 million and \$3.7 million for the three months ended March 31, 2011 and 2010, respectively.

If the Company is not able to negotiate other arrangements, the Company will not be able to pay the interest on the subordinated debentures when the rate increases beginning in the first quarter of 2012, or possibly sooner. If these subordinated debentures were accelerated the Company would not be able to pay the debt.

Covenant Compliance and Debt Maturities

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 March 31, 2011 that had payment defaults at maturity, but were subject to forbearance agreements that expire on June 30,

2011. The Company is currently negotiating an extension of these forbearance agreements.

The following table summarizes the annual principal payment commitments at March 31, 2011:

(in thousands)

| | |
|--------------|---------------------|
| 2011 (1) | \$ 68,850 |
| 2012 | 72,896 |
| 2013 | 47,039 |
| 2014 | 32,898 |
| 2015 | 39,745 |
| Thereafter | 948,627 |
| Total | \$ 1,210,055 |

(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.

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 March 31, 2011, the Company had \$55.8 million in outstanding letters of credit posted as collateral, of which \$10.0 million will mature in the second quarter of 2011; \$25.1 million will mature in the third quarter of 2011; \$14.2 million will mature in 2012 and the remaining \$6.5 million will mature in 2017. For those letters of credit that expire in the second and third quarters of 2011, we are in the process of either reducing them or having their maturity dates extended. 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.

| (in thousands) | March 31, 2011 | | December 31, 2010 | |
|---|-----------------|----------------------|-------------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Assets: | | | | |
| Loans held for investment | \$21,458 | \$19,734 | \$53,933 | \$52,045 |
| Loans held for sale | 5,284 | 5,732 | 18,989 | 20,156 |
| Investment in preferred stock | 36,371 | 37,845 | 36,371 | 37,487 |
| Liabilities: | | | | |
| Line of credit facilities | – | – | 4,190 | 4,190 |
| Senior interests and debt owed to securitization trusts | 729,910 | 730,449 | 748,100 | 748,665 |
| Notes payable and other debt | 165,122 | 118,299 | 207,885 | 162,024 |
| Subordinated debentures | 186,617 | 27,537 | 183,711 | 27,537 |
| Mandatorily redeemable preferred shares | 128,406 | 118,189 | 133,529 | 123,444 |
| Liabilities of consolidated funds and ventures: | | | | |
| Notes payable | 3,677 | 3,677 | 3,709 | 3,709 |
| | Notional Amount | Estimated Fair Value | Notional Amount | Estimated Fair Value |
| Off-Balance Sheet Financial Instruments: | | | | |
| Lending Commitments | \$283 | \$283 | \$315 | \$315 |

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 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, similar instruments in the market, as well as determining the fair value of the embedded loss sharing feature that is contained in the Series B and C preferred stock agreements.

Line of credit – 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 March 31, 2011 and December 31, 2010.

| (in thousands) | Fair Value Measurement Levels at March 31, 2011 | | | |
|--------------------------|---|---------|-----------|--------------|
| | March 31, 2011 | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Bonds available-for-sale | \$ 1,199,912 | \$ – | \$ – | \$ 1,199,912 |
| Derivative assets | 6,088 | – | 6,088 | – |
| Liabilities: | | | | |
| Derivative liabilities | \$ 18,059 | \$ – | \$ 17,488 | \$ 571 |

| (in thousands) | Fair Value Measurement Levels at December 31, 2010 | | | |
|--------------------------|--|---------|-----------|--------------|
| | 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 three months ended March 31, 2011:

| (in thousands) | Bonds Available-for-Sale | Derivative Liabilities |
|----------------|--------------------------|------------------------|
| | | |

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| | | |
|---|--------------|-----------|
| Balance, January 1, 2011 | \$ 1,231,036 | \$ (550) |
| Total losses included in earnings | (4,260) | (21) |
| Total losses included in other comprehensive income | (1,445) | – |
| Impact from sales | (21,123) | – |
| Impact from settlements | (4,296) | – |
| Balance, March 31, 2011 | \$ 1,199,912 | \$ (571) |

The following table provides the amount included in earnings from continuing operations related to the activity presented in the table above, as well as additional realized gains (losses) recognized at settlement.

| (in thousands) | Net losses 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 January 1, 2011, but settled during 2011 | \$ - | \$ - | \$ 9 |
| Change in unrealized losses related to assets and liabilities still held at March 31, 2011 | (3,510) | (750) | (30) |
| Additional realized losses recognized at settlement | (321) | - | - |
| Total losses reported in earnings | \$ (3,831) | \$ (750) | \$ (21) |

(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 March 31, 2010:

| (in thousands) | Bonds Available- for-Sale | Derivative Liabilities |
|---|---------------------------------|---------------------------|
| Balance, January 1, 2010 | \$ 1,348,133 | \$ (919) |
| Total (losses) gains included in earnings | (6,988) | 447 |
| Total gains included in other comprehensive income | 3,602 | - |
| Impact from purchases | 635 | - |
| Impact from sales | (14,793) | - |
| Impact from deconsolidation of GP Take Back partnership | 6,422 | - |
| Impact from settlements | (19,393) | - |
| Balance, March 31, 2010 | \$ 1,317,618 | \$ (472) |

The following table provides the amount included in earnings continuing operations related to the activity presented in the table above, as well as additional realized gains (losses) recognized at settlement.

| (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 January 1, 2010, but settled during 2010 | \$ - | \$ - | \$ 403 |
| Change in unrealized (losses) gains related to assets and liabilities still held at March 31, 2010 | (6,434) | (554) | 44 |
| Additional realized gains recognized at settlement | 366 | - | - |
| Total (losses) gains reported in earnings | \$ (6,068) | \$ (554) | \$ 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 methods or assumptions were used to estimate the fair value of these recurring financial and non-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 lock-out 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 7.03% and 7.13% at March 31, 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 9.7% and 10.0% at March 31, 2011 and December 31, 2010, respectively. The capitalization rate averaged 8.5% and 8.7% at March 31, 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 March 31, 2011 and December 31, 2010.

| (in thousands) | March 31, 2011 | Fair Value Measurement Levels at March 31, 2011 | | | Total Losses Reported Through: | |
|--|----------------------|---|---------|---------|---|----------------------------|
| | | Level 1 | Level 2 | Level 3 | Continuing Operations | Discontinued Operations |
| Assets: | | | | | | |
| Loans held for sale | \$1,591 | \$– | \$– | \$1,591 | \$ (195) | \$ – |
| Assets: | | | | | | |
| (in thousands) | December 31, 2010 | Fair Value Measurement Levels at December 31, 2010 | | | Total Gains (Losses) Reported Through: | |
| | | Level 1 | Level 2 | Level 3 | Continuing Operations | Discontinued Operations |
| Assets: | | | | | | |
| Loans held for sale | \$7,352 | \$– | \$– | \$7,352 | \$19 | \$– |
| Investments in unconsolidated ventures | 6,779 | – | – | 6,779 | (2,652) | – |

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

Loans Held for Sale – The fair value of loans held for sale was estimated by discounting the expected cash flows using current market yields for similar loans.

NOTE 11—GUARANTEES AND COLLATERAL

Guarantees

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

| (in thousands) | March 31, 2011 | | December 31, 2010 | |
|--|---------------------|--------------------|---------------------|--------------------|
| | Maximum Exposure | Carrying Amount | Maximum Exposure | Carrying Amount |
| Mortgage banking loss-sharing agreements | \$ 806 | \$ 463 | \$ 430 | \$ 379 |
| Indemnification contracts | 112,404 | 2,116 | 112,404 | 2,198 |
| Other financial/payment guarantees | 8,284 | 4,669 | 8,284 | 4,658 |
| Total | \$ 121,494 | \$ 7,248 | \$ 121,118 | \$ 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 retained its DUS obligation related to specific loans; however, beginning May 2009, the obligation is to the purchaser of the Agency Lending business. For the three months ended March 31, 2011 and 2010, the Company recognized a loss of \$0.1 million and \$0.4 million, respectively. The Company incurred no actual cash payments under its DUS loss sharing and indemnification agreements for the three months ended March 31, 2011 and 2010.

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 three months ended March 31, 2011 and 2010.

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 March 31, 2011 and December 31, 2010:

| (in thousands) | Note Ref. | Restricted Cash | Bonds Available-for-Sale | Loans Receivable | March 31, 2011 | | Total |
|---|-----------|------------------|--------------------------|------------------|---|-------------------------------|---------------------|
| | | | | | Investments in Unconsolidated Ventures and Other Assets | Investment in Preferred Stock | |
| Bonds held in securitization trusts and for securitization programs | A | \$ 7,960 | \$ 1,086,249 | \$ - | \$ - | \$ - | \$ 1,094,209 |
| Notes payable, warehouse lending and lines of credit | B | 14,549 | 54,225 | 25,012 | 6,779 | 2,000 | 102,565 |
| Other | C | 3,341 | 32,458 | - | 13,155 | - | 48,954 |
| Total | | \$ 25,850 | \$ 1,172,932 | \$ 25,012 | \$ 19,934 | \$ 2,000 | \$ 1,245,728 |

| (in thousands) | Note Ref. | Restricted Cash | Bonds Available-for-Sale | Loans Receivable | December 31, 2010 | | Total |
|---|-----------|------------------|--------------------------|------------------|---|-------------------------------|---------------------|
| | | | | | Investments in Unconsolidated Ventures and Other Assets | Investment in Preferred Stock | |
| 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 2016. Certain leases require the Company to pay property taxes, maintenance and other costs.

Rental expense for operating leases was \$1.0 million (of which \$0.4 million was reported as discontinued operations) and \$1.1 million (of which \$0.5 million was reported as discontinued operations) for the three months ended March 31, 2011 and 2010, respectively. Rental income received from sublease rentals was \$0.7 million (of which \$0.4 million was reported as discontinued operations) and \$0.6 million (of which \$0.4 million was reported as discontinued operations) for the three months ended March 31, 2011 and 2010, respectively.

The following table summarizes the future minimum rental commitments on non-cancelable operating leases at March 31, 2011:

| | |
|---|-----------|
| (in thousands) | |
| 2011 | \$ 2,915 |
| 2012 | 3,859 |
| 2013 | 3,768 |
| 2014 | 2,626 |
| 2015 | 1,202 |
| Thereafter | 363 |
| Total minimum future rental commitments | \$ 14,733 |

The Company expects to receive \$10.6 million in future rental payments from non-cancelable subleases, which is not netted against the commitments above.

Litigation

At March 31, 2011, the Company and certain of its subsidiaries, as well as certain former and current officers, directors and employees 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 both 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 March 31, 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.

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 has provided notice to the Division of Corporation Finance of each public financial statement filing the Company has made since the receipt of their letter in order to keep them apprised of the Company's progress toward becoming a current filer.

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 for the three months ended March 31, 2011 and 2010.

| (in thousands) | For the three months ended March 31, | |
|--|---|--------------|
| | 2011 | 2010 |
| Net loss from continuing operations | \$ (4,586) | \$ (10,114) |
| Net (loss) income from discontinued operations | (110) | 80 |
| Net loss to common shareholder | \$ (4,696) | \$ (10,034) |
| Basic weighted-average shares (1) | 40,855 | 40,369 |
| Common stock equivalents | – | – |
| Diluted weighted-average shares | 40,855 | 40,369 |

(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 three months ended March 31, 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 three months ended March 31, 2011 and 2010 were 1,189,031 and 788,921, respectively.

Perpetual Preferred Shareholders' Equity in a Subsidiary Company

TEB has perpetual preferred shares outstanding. These shares have quarterly distributions which 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% 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 three months ended March 31, 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 March 31, 2011.

| Issue Date | Number of Shares | Liquidation Preference Per Share | Distribution Rate | Next Remarketing Date | Optional Redemption Date |
|---------------------|---------------------|--|----------------------|--------------------------|-----------------------------|
| | | | | | |
| October 19, 2004 | 8 | \$ 2,000,000 | 4.90 | September 30, %2014 | September 30, 2014 |
| Series A-3 | 9 | 2,000,000 | 4.95 | | |

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| | | | | | | |
|------------|------------------|----|-----------|------|--------------------|--------------------|
| | November 4, 2005 | | | | 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 | 17 | 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 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 successfully remarket these shares, distributions could increase and this increase could be significant and adversely impact the Company's financial condition and results of operations. 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 and municipal bond yields on May 11, 2011, if all distribution rates were reset on May 12, 2011 to distribution rates under a failed remarketing, then the Company's annual distributions would increase by \$0.7 million. However, it should be noted that none of this potential increase would be realized prior to September 30, 2012, and 95% would not be realized prior to September 30, 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 Subordinate Cumulative Perpetual Preferred Shares at 79.5% of face value. On February 17, 2011, the Company retired the shares 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 Subordinate Cumulative Perpetual Preferred Shares at 82.0% of face value and recognized an increase in common shareholders' equity of \$0.9 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 March 31, 2011 and December 31, 2010:

| (in thousands) | March 31, 2011 | December 31, 2010 |
|-------------------------------------|-------------------|----------------------|
| Noncontrolling interests in: | | |
| LIHTC Funds | \$ 467,949 | \$ 479,174 |
| Lower Tier Property Partnership | 3,486 | 3,915 |
| South African Workforce Fund | 84,526 | 80,322 |
| Other consolidated entities | 6,029 | 6,145 |
| Total | \$ 561,990 | \$ 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 ended March 31, 2011 and 2010:

| (in thousands) | For the three months ended March 31, | |
|---|--------------------------------------|-------|
| | 2011 | 2010 |
| Employees' Stock-based Compensation plan | \$ 16 | \$ 13 |
| Non-employee Directors' Stock-based Compensation plan | 50 | 50 |
| Total | \$ 66 | \$ 63 |

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 March 31, 2011. The Employees' Stock-Based Compensation Plan

authorizes grants of a broad variety of awards; however, the Company has outstanding only two types of awards, non-qualified common stock options and deferred share awards.

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 three months ended March 31, 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 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 March 31, 2011 | 1,145.0 | 7.01 | 8.0 | - | 132 |
| Options Exercisable at: | | | | | |
| March 31, 2011 | 695.0 | \$11.39 | 7.3 | \$- | |

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, 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 March 31, 2011 and December 31, 2010.

The following table summarizes deferred share activity under the Employees' Stock-Based Compensation Plan:

| (in thousands) | Number of Shares |
|-------------------------------------|------------------|
| Unvested shares at January 1, 2011 | 1.9 |
| Granted | - |
| Forfeited | - |
| Rescinded | - |
| Vested | (1.9) |
| Unvested shares at March 31, 2011 | - |
| Shares vested and expected to vest: | |
| March 31, 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 1,819,389 shares were available to be issued under the Non-employee Directors' Stock-based Compensation Plan at March 31, 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 | (15.0) | – | | |
| Outstanding at March 31, 2011 (1) | 44.0 | 24.56 | 1.7 | – |
| Options Exercisable at: | | | | |
| March 31, 2011 | 44.0 | \$ 24.56 | 1.7 | \$ – |

(1) Includes options vested and expected to vest.

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 three months ended March 31, 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 Price | Deferred Share Grants | Weighted-average Grant Date Share Price | Directors' Fees Expense |
|---------------------------------------|-------------------------|---|-----------------------|---|-------------------------|
| March 31, 2011 | 53,419 | \$ 0.12 | 160,256 | \$ 0.12 | \$ 50 |
| March 31, 2010 | – | – | 115,741 | 0.22 | 50 |

For the three months ended March 31, 2011 and 2010, the Company recognized \$50,000 in director fees expense, of which \$25,000 was paid in cash. 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 three months ended March 31, 2011 and 2010, there were three such property management contracts between the Company and Shelter Group for which fees paid by the properties under these contracts approximated \$0.1 million for each three month period. The Company's carrying value of the tax-exempt bond secured by property owned by Shelter Group was \$8.8 million and \$8.9 million at March 31, 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")

Mr. Joseph has direct and indirect ownership interests in SCA, which holds directly or indirectly 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 SCA and the properties it owns are not consolidated. The Company's carrying value of the tax-exempt bonds secured by properties owned by SCA was \$87.5 million and \$87.2 million at March 31, 2011 and December 31, 2010, respectively.

NOTE 16—DISCONTINUED OPERATIONS

Business Sales

The Company sold the following business segments prior to 2010: the TCE business, the Agency Lending business and the Renewable Ventures business (except for a biomass project that was sold in April 2010). 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) income 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. Although there have not been any new dispositions that would qualify as discontinued operations since April 2010, 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.

| (in thousands) | For the three months ended March 31, | |
|--|--------------------------------------|--------|
| | 2011 | 2010 |
| Operations: | | |
| Sublease income | \$ 369 | \$ 359 |
| Other income | 83 | 294 |
| Rent expense | (369) | (596) |
| Other expenses | (202) | (233) |
| Other gains | – | 240 |
| Equity in earnings from Lower Tier Property Partnerships | 9 | – |
| (Loss) income from operations | (110) | 64 |
| Disposal: | | |
| Net loss on discontinued operations | – | (35) |
| Net loss on sale | | |