MUNICIPAL MORTGAGE & EQUITY LLC
Form 10-K
April 29, 2009

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 001-11981

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

Delaware	**52-1449733**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
621 East Pratt Street, Suite 300 Baltimore, Maryland	**21202-3140**
(Address of principal executive offices)	*(Zip Code)*

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares	None

Securities registered pursuant to Section 12(g) of the Act:
Common Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of our common shares held by non-affiliates was $112,130,694 based on the last sale price as reported in the over the counter market on June 30, 2008.

Number of shares of Common Shares outstanding as of December 31, 2008: 39,382,641.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents have been incorporated by reference into this Form 10-K as indicated: None.

Municipal Mortgage & Equity, LLC

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This 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. Forward-looking statements often include words such as may, will, should, anticipate, estimate, expect, pro intend, plan, believe, seek, would, could, and similar words or are made in connection with discussions of fut 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 Item 1A. Risk Factors.

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 Item 1A. Risk Factors in evaluating these forward-looking statements. We have not undertaken to update any forward-looking statements.

EXPLANATORY NOTE

The 2004 and 2005 consolidated financial statements included in this Annual Report (**Report**) on Form 10-K have been restated from the consolidated financial statements for those years included in our Report on Form 10-K for the year ended December 31, 2005. Further, the 2004 consolidated financial statements have been restated from the 2004 consolidated financial statements included in our Report on Form 10-K for the year ended December 31, 2004.

The consolidated financial statements included in this Report, including the restated 2004 and 2005 consolidated financial statements, were audited by KPMG LLP **(KPMG).** The 2004 and 2005 consolidated financial statements included in our Report on Form 10-K for the year ended December 31, 2005 were audited by PricewaterhouseCoopers, LLP **(PwC**).

The principal changes resulting from the restatement of our 2004 and 2005 consolidated financial statements, include the following (see Notes to Consolidated Financial Statements-Note 2, Restatement of Previously Issued Financial Statements for more information):

Changes in our application of Financial Accounting Standards Board s Financial Interpretations No. FIN 46(R), *Consolidation of Variable Interest Entities-An Interpretation of ARB No. 51* ***(FIN 46R)*** and other similar accounting pronouncements resulting in the inclusion in our consolidated financial statements of the assets, liabilities and non-controlling interests as well as income and expense of over 200 additional entities, in which we have little or no ownership interest, but as to which under applicable accounting pronouncements, we are deemed to be the primary beneficiary or to have control, and thus require consolidation.

Changes to the accounting for our Tax Credit Equity business including changes to the timing of recognition of organization and acquisition costs, changes in the measurement of capitalized interest, as well as changes in the recognition of syndication fees.

Changes related to bond accounting including changes in the way we value our bond portfolio.

Changes related to loan accounting including the way we account for certain loan fees and deferred origination costs, changes in the identification of non-accrual loans, and changes related to the specific and unallocated allowance for loan losses.

Other changes in accounting relating to equity method investments, derivatives and mortgage servicing rights (**MSRs**).

As a result of the restatement, we substantially increased our deferred tax assets, primarily due to the significant deferral of income related to the Tax Credit Equity accounting changes. Furthermore, we

concluded that it was more likely than not that the deferred tax assets would not be realized resulting in the need for a valuation allowance against substantially all of our deferred tax assets.

Item 6. Selected Financial Data included in this Report presents consolidated income statement data for years ended December 31, 2006, 2005 and 2004 and consolidated balance sheet data at December 31, 2006, 2005, 2004, and 2003. Preparing restated standalone consolidated income statement data for years ended December 31, 2002 and 2003 (as well as consolidated balance sheet data at December 2002) would have been very costly and would have significantly delayed the filing of this Report. Because it has been more than five years since December 31, 2003, we believe that restated financial data related to 2003 and years prior would be only marginally beneficial and would not have justified either the cost or the delay that would have been required to prepare it. Accordingly, we did not deem it practical to include selected financial data for those years; however, as part of the restatement, we have properly reflected the cumulative effect of the restatement in our beginning balance of shareholders equity at December 31, 2003.

This Report does not contain quarterly information for years ended December 31, 2006 and 2005 nor do we plan to provide this information through subsequent Securities and Exchange Commission (**SEC**) filings. Preparing and providing this information would be costly, would be only marginally beneficial to our investors and would serve only to delay the filing of this Report as well as future filings which will provide our 2007 and 2008 financial position and results of operations.

Item 9A. Controls and Procedures includes our Management s Report on Internal Control Over Financial Reporting. SEC rules require that management evaluate the effectiveness, as of the end of each fiscal year, of the Company s internal control over financial reporting on a suitable, recognized framework that is established by a body or group that has followed due process procedures, including broad distribution of the framework for public comments. Our management began its evaluation based on such a framework, but when, at a relatively early stage of the evaluation, it became clear that there were material weaknesses in our internal control over financial reporting at December 31, 2006 (which are described in Item 9A. Controls and Procedures) that made them not effective at that date, we terminated the process without completing the evaluation and focused our time and attention on the restatement effort. This allowed us the ability to more fully devote our accounting resources to restating our 2005 and 2004 financial statements and preparing our 2006 financial statements. However, as a result, our management did not complete its assessment of the effectiveness of our internal control over financial reporting at December 31, 2006 and our independent registered public accounting firm has not been able to render an opinion on the effectiveness of our internal control over financial reporting.

Although this Report relates to the year ended December 31, 2006, certain information is presented as of the time this Report is being filed, rather than as of December 31, 2006. In particular, except as expressly stated, the information in Item 1. Business, Item 1A. Risk Factors, Item 2. Properties and Item 3. Litigation, as well as information about prices of our common shares and dividends in Item 5. Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities, is presented as of the time this Report is being filed or as close to the time this Report is filed as is practical. Our business and financial condition at the date this Report is being filed are very different from what they were at December 31, 2006.

PART I

Item 1. BUSINESS

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

Although this Report is for the year ended December 31, 2006, unless otherwise noted, the description below is of our business as it exists on the date of this Report.

Overview

We were organized in 1996 as a Delaware limited liability company and are classified as a partnership for federal income tax purposes. We have essentially the same limited liability, governance and management structures as a corporation, but we are treated as a pass-through entity for federal income tax purposes. Thus, our shareholders include their distributive shares of our income, deductions and credits on their tax returns. Among other things, this allows us to pass-through tax-exempt interest income to our shareholders. Many of our subsidiaries also are pass-through entities, and our taxable income, deductions and credits that are reflected on our shareholders tax returns include the income, deductions and credits of those subsidiaries. However, other of our subsidiaries are corporations that pay taxes on their own taxable income. Our income, deductions and credits that are reflected on our shareholders tax returns do not include the income of those subsidiaries, but include any taxable dividends or other taxable distributions we receive from them. Tax information is provided to our shareholders on Schedule K-1 rather than on Form 1099.

We have been severely affected by market conditions since late 2007. Because of these market conditions, many of the entities that in the past have been principal investors in funds we form were not interested in investing in 2008 (and continue not to be interested in investing in early 2009). That forced us to curtail many of our activities. It also deprived us of access to funds we had expected would be used to meet investment commitments we had made. Our access to funds was also reduced when markets for securitized financial assets essentially shut down beginning in the fall of 2007. Then, because of a sharp decline in the market value of both our tax-exempt debt securities and our interest rate hedges in February 2008 and subsequent months, we were required to post substantial amounts of additional collateral, including cash, to meet our collateral requirements. The combination of these factors led us to have serious liquidity problems during most of the second, third and fourth quarters of 2008, which continues into 2009. That, in turn, led us to curtail many of our operations, to engage in the sale of certain of our business segments and to sell assets at distressed prices, in many instances, for less than the amounts of the borrowings they secured. Because of our failure to provide consolidated financial statements to our lenders when required by applicable loan documents or to make periodic filings with the SEC when they are due, many of our lenders have the right to exercise default remedies which would allow them to demand repayment of our indebtedness or that we post additional collateral. We have little or no available funds or assets to post as collateral or with which to repay borrowings. These circumstances have led our independent registered public accounting firm to include in its February 11, 2009 auditors report, an explanatory paragraph stating that there is substantial doubt relating to our ability to continue as a going concern. Although we have been selling assets in order to meet our liquidity needs, (see Recent and Proposed Transactions and Termination of a Business and Notes to Consolidated Financial Statements-Note 21, Liquidity and Going Concern Uncertainty), we continue to have liquidity problems. The description of our business in this Report must be read with that in mind.

Our business consists primarily of activities involving investments and financings secured by, or otherwise related to, multifamily or commercial real estate, the majority of which generates tax-exempt income, tax credits or other tax benefits for investors. We have also been engaged in the financing of renewable energy generation projects, which also generates tax credits and other tax benefits for investors. In addition, we have, until very recently, provided investment management services to a limited number of institutional investors. Generally we invest for our own account by acquiring tax-exempt bonds secured by low income housing projects, in which we may have a very small equity investment through funds we sponsor and manage on

behalf of institutional investors (**Low Income Housing Tax Credit Equity Funds** or **LIHTC Funds**). We also originate loans for our own account and for sale to others. The majority of our loan business is related to construction loans on multifamily projects that we hold until construction completion and then we provide permanent financing on these projects. Generally these permanent loans are sold to government sponsored enterprises (**GSEs**), primarily Federal National Mortgage Association (**Fannie Mae**) and Federal Home Loan Mortgage Corporation (**Freddie Mac**), or are insured by the U.S. Department of Housing and Urban Development (**HUD**) and sold to investors as securitized mortgage backed securities after they are guaranteed by the government agency Government National Mortgage Association (**Ginnie Mae**). After the sale we continue to service these loans, earning loan servicing fees over the life of the loan. At December 31, 2008 total loans that we serviced related to these GSEs and agencies was $6.9 billion. We also distribute and place commercial real estate loans into funds we manage for institutional investors, although we may hold these loans for short periods of time until they are placed in a fund. At December 31, 2008 we had approximately $2.5 billion in investments we directly owned, although some of these were to be held by us only for a short period of time until they were placed into a fund or sold. However, most of our activities have involved investments by funds we sponsor and manage. These funds are normally limited partnerships of which one of our subsidiaries is the general partner or limited liability companies of which one of our subsidiaries is the managing member. At December 31, 2008, funds or other entities we managed owned investment assets with unpaid principal balances and outstanding equity totaling $10.8 billion, the majority of which is related to the LIHTC Funds. Normally, we have taken small ownership interests in funds we manage and we have received fees for forming and managing the funds, as well as for finding, arranging and servicing investments for the funds. Typically, a small number of financial institutions or large companies have invested in funds we formed. However, in some instances a single investor has acquired the entire interest in a fund, other than our small interest as the general partner or manager. In addition, we have been managing investment pools for a number of pension funds and insurance companies. However, outside of our LIHTC Funds, most of our arrangements to manage assets for unrelated institutional investors have been, or are in the process of being, terminated.

There is a significant difference between the assets and liabilities reflected on our consolidated balance sheet prepared under U.S. generally accepted accounting principals (**GAAP**) and those assets that we view as legally owned by us or liabilities we are directly obligated on. Our December 31, 2006 consolidated balance sheet reflected consolidated total assets of $8.5 billion and consolidated shareholders equity of $667.9 million. However, our December 31, 2006 consolidated balance sheet included $4.9 billion of assets and $2.0 billion of liabilities of over 200 funds and partnerships in which we (MuniMae and its majority owned subsidiaries) had little or no ownership interest, but the assets and liabilities of which are required to be consolidated primarily due to FIN 46(R). Although it would not be in accordance with GAAP to exclude the impact of these consolidated funds and ventures from our consolidated financial statements, information that excludes these funds and ventures helps our management, and we believe will help investors, to understand which assets MuniMae has a direct or indirect economic interest in, and the liabilities that MuniMae or entities it owns could be required to pay. Without the assets and liabilities of these consolidated funds and ventures, (but including assets that were eliminated as part of the consolidation) MuniMae and its owned subsidiaries had at December 31, 2006, total assets of $3.9 billion and $3.2 billion in total liabilities, including perpetual preferred stock of a subsidiary. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Summary of GAAP-adjusted Results.

The consolidation of these entities also affects our reported revenues, because certain fees and other payments received from such consolidated entities are not reflected as revenues but are reflected as income allocated to us in the consolidated statement of operations. We must also record losses related to these entities even though the Company itself has no expectation to fund those losses, other than possible losses related to the actual investments we may already have in those entities. We have recorded cumulative pre-tax losses related to these entities totaling approximately $90.0 million through December 31, 2006. The majority of these losses would be reversed upon a qualifying sale of our interests that would allow us to deconsolidate these entities. However, that may not occur for a substantial period of time, if at all, because some of the interests are held to protect tax-exempt bonds we hold or to

protect the LIHTC Funds investments in these entities, and, indirectly, our guarantee of the yields of some LIHTC Funds.

Our principal offices are located at 621 E. Pratt Street, Suite 300, Baltimore, MD 21202. Our telephone number at those offices is (443) 263-2900. Our corporate website is located at *http://www.munimae.com,* and our filings under the Securities Exchange Act of 1934 are available through that site, as well as on the SEC s website *http://www.sec.gov.* The information contained on our corporate website is not a part of this Report.

Effect of Current Market Conditions on Us

Beginning early in 2008, there was a major deterioration in the market for low income housing tax credits, tax-exempt bonds and other assets that are a major part of our business. This, combined with the factors that have affected credit markets and financial institutions throughout the nation, had a severe effect upon us during 2008, causing us to have to curtail significant aspects of our business and to sell assets at substantial losses to obtain funds to meet our commitments or to satisfy lenders. The values at which our assets are reflected in the financial statements at December 31, 2006 and prior years does not reflect these losses or reductions in the market values of those assets due to the deterioration in credit markets and other changes in market conditions in late 2007 and 2008. As a result of these on-going market conditions, we anticipate that our 2007 and 2008 financial statements will include substantial losses related to the deterioration in the market value of our bond portfolio and impairments to the value of loans and other assets, including goodwill and other intangibles related to acquisitions of businesses in prior years. The 2007 and 2008 financial statements will also include the impact of reduced revenues due to market conditions in 2007 and 2008, and additional costs related to the development and application of our accounting policies, the preparation and audit of our financial statements and on-going maintenance of our accounting and finance functions. Therefore there will be a substantial reduction in our net worth from what is presented in our December 31, 2006 consolidated balance sheet.

Some of the specific ways in which we were affected by conditions in credit markets generally and in our businesses specifically were as follows:

There was a major reduction in the willingness of the institutions that in the past had been investors in the funds we manage or lenders to those funds to invest in new investment funds or to provide financing to new investment funds.

We, like many companies, encountered increasing efforts by banks and other lenders to reduce their outstanding loans and loan commitments. Among other things, we were required to pay down or replace several short-term warehouse lines we used to accumulate certain types of assets until we could securitize or otherwise sell them, resulting in a net contraction in our warehouse borrowing capacity. As a result of the contraction of the warehouse borrowing capacity related to our Tax Credit Equity segment, during 2008 we had to sell assets into unfavorable markets, resulting in significant realized and expected losses.

Since the fall of 2007, there have been very few buyers of newly securitized tax-exempt bonds, and what buyers there are have required yields that make it unprofitable for us to securitize bonds. Therefore, we stopped using securitization as a source of financing. In substantial part because of that, we ceased originating tax-exempt bonds.

Due to a market anomaly that had led to a significant decline in the value both of our portfolio of state housing agency tax-exempt bonds and the interest rate swaps we had bought to hedge against such a decline, we were required to post $41.9 million of cash margin collateral between January 1, 2008 and early March 2008 (in addition to $13.0 million we had previously posted). In addition, we entered into collateral pledge arrangements in March 2008 whereby, we pledged our 100% common stock ownership interest in TE Bond Sub, a wholly owned subsidiary holding the majority of our tax-exempt bonds, to Merrill Lynch Capital Services, Inc. (**Merrill Lynch**), our principal margin lender, to reduce our margin call risk by providing Merrill Lynch with additional margin call collateral for a portion of our portfolio and for other obligations related to

our Tax Credit Equity business segment and our Merchant Banking business segment. Since March 2008, we have been liquidating assets and hedges that were the primary reasons for the collateral postings. At December 31, 2008 we did not have any liquid margin collateral posted for our portfolio of state housing agency tax-exempt bonds and related interest rate swaps; however, we still had our TE Bond Sub stock pledged to them. Merrill

Lynch is able to exercise their discretion in determining the value of TE Bond Sub s common stock as collateral, which may result in valuations that could require additional collateral pledges.

During 2008, in an effort to reduce our exposure to future margin calls and in an effort to recoup some or all of the cash margin collateral we had posted, we sold approximately $412.5 million of our state housing agency tax-exempt bonds for approximately $45.1 million less than we had paid for them and we lost another $12.3 million in liquidating hedging transactions that were designed to hedge our exposure to declines in value of the tax-exempt bonds. These losses consumed most of the cash margin collateral we had posted in and before early March 2008.

The overall credit risk on our tax-exempt bond portfolio has improved between December 31, 2007 and December 31, 2008 as we have made strategic sales of some of our underperforming bonds. The underlying collateral of the bond portfolio, which is primarily affordable housing properties, continues to perform well even in light of this difficult economic environment. Our overall December 31, 2008 credit risk on our loan portfolio reflects deterioration from December 31, 2007. As a result, we have had and probably will continue to have increases in our loan loss reserves and impairment charges related to this loan portfolio, of which, the unpaid principal balance was approximately $577.3 million at December 31, 2008.

We have encountered a significant need for cash so that we could fund construction loan commitments we had made, meet our lenders need for us to reduce our exposure to them, and meet operating expenses, including the costs of developing and applying our accounting policies and preparing and auditing our financial statements for 2006 and our restated financial statements for 2005 and 2004. In order to satisfy our cash needs, we have had to sell assets, including both tax-exempt bonds and segments of our businesses, into very unfavorable markets.

Currently, we are facing a significant shortage of liquid assets. The risks caused by this shortage are described under Item 1A. Risk Factors We have been forced to sell assets to raise funds we need to meet our cash needs and Risk Factors If we were forced to sell all our pledged assets, the total sales price might not be sufficient to enable us to repay all our borrowings. In addition, the fact that we do not have financial statements for any periods after December 31, 2006 is a default under many of our borrowing facilities and, in the absence of forbearance agreements, gives the lenders the right to require us to repay the sums we have borrowed, and if all of these loan amounts were currently declared due and payable, we would not have available resources sufficient to satisfy all of such loan amounts. This led our registered public accounting firm, KPMG, to include in its February 11, 2009 opinion regarding our financial statements an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern.

The Evolution of Our Business

When we became a public company in 1996, we were primarily engaged in originating, investing in and servicing tax-exempt mortgage revenue bonds issued by state and local government authorities to finance affordable multifamily housing developments. Since becoming a public company, the following acquisitions have significantly expanded our business; however, in 2008, due to current market conditions, we began contracting our business (see Recent and Proposed Transactions and Termination of a Business for further details):

In October 1999, we acquired Midland Financial Holdings, Inc., primarily a delegated underwriter and servicer for Fannie Mae, a tax credit syndicator and an asset manager, in a strategic acquisition that diversified our operations.

In July 2003, we acquired the Housing and Community Investment business (**HCI**) of Lend Lease Real Estate Investments, Inc., formerly the tax credit equity syndication division of Boston Financial Group, in a strategic acquisition that established us as a market leader in the tax credit equity syndication business.

In February 2005, we acquired MONY Realty Capital, Inc. (**MONY**) from AXA Financial, Inc., (**AXA**) formerly the investment manager for several of MONY Life Insurance Company s

commercial real estate funds, in an acquisition that expanded our fund management business and brought us into the commercial real estate market with access to institutional investors.

In July 2005, we acquired Glaser Financial Group, Inc., (**Glaser**) a commercial mortgage lender for market rate multifamily and senior housing, in an acquisition that increased our access to lending transactions, geographically expanded our operations and further diversified our activities not related to affordable housing.

Beginning in December 2005, we reorganized our operations into an affordable housing business unit and a real estate finance business unit to:

- better align our internal structure with our customer base;
- expand our business opportunities and capital relationships; and
- further consolidate our infrastructure to realize operational synergies and efficiencies to better support our strategic initiatives.

In May 2006, we acquired Reventures Management Company, LLC, a company that arranges financing for, and which develops, owns and operates renewable energy (e.g., solar energy, wind power and biomass) projects. This brought us into the renewable energy finance and development area.

In 2007, we acquired several new lines of business including the George Elkins Mortgage Banking brokerage business and the Sustainable Land Fund, a company that was formed to structure and manage investments in land with environmental attributes such as wetlands, as well as making additional investments in an international housing joint venture.

Historically, a significant portion of our income distributed to our shareholders has been tax-exempt. That is because we and many of our subsidiaries are treated as pass-through entities for federal income tax purposes, and therefore, our shareholders include their distributive shares of our income, deductions and credits, including our tax-exempt interest income and our tax credits, on their tax returns. However, certain aspects of our business are intended to generate taxable income through corporations that are themselves taxpayers, so only proceeds of dividends and interest we receive from them are taxable to our shareholders. During recent years, our business had increasingly involved activities that generated taxable income, and therefore the percentage of the distributions we made that was taxable to our shareholders was increasing. Then, in 2008, we incurred (and we passed onto our shareholders) capital losses for tax purposes due to bond sales and closing-out many of our derivative positions, income from tax-exempt interest and some taxable interest income. In May 2008, we suspended our long practice of paying quarterly dividends. However, despite the fact that we have suspended paying dividends, to the extent the activities we conduct through entities that are pass-through entities for federal income tax purposes generate taxable income, our shareholders will have to pay taxes on the portions of that taxable income that are allocable to their shareholdings. However, based on the share price paid by each investor, certain investors may have capital gains allocated to them.

Recent and Proposed Transactions and Termination of a Business

Agreement to sell Agency loan origination and servicing business

In December 2008, we agreed to sell our business of originating loans for sale to GSEs and servicing those loans to a newly formed subsidiary of Mud Duck Equities, LLC (**Mud Duck**). At the same time, we borrowed $10.0 million from the Mud Duck subsidiary for one year, at an interest rate of 20% per annum. In February 2009, we amended the transaction terms, and increased the sum we borrowed to $15.0 million. The total sale price will be $70.5 million, of

which $23.5 million will be paid partly by return of the note evidencing the $15.0 million loan and the balance in cash, and the remaining $47.0 million will be treated as a contribution to the purchaser in exchange for which we will receive $15.0 million of Series A Preferred units, which will entitle us to cumulative quarterly cash distributions at the rate of 17.5% per year, $15.0 million of Series B Preferred units, which will entitle us to cumulative quarterly cash distributions at the rate of 14.5% per year, and $17.0 million of Series C Preferred units, which will entitle us to cumulative quarterly cash distributions at the rate of 11.5% per year. All three series of Preferred units are redeemable at the option of the purchaser (but not

at our option) for their liquidation preference plus any unpaid distributions. We have agreed to reimburse the purchaser, up to a maximum of $30.0 million, for payments the purchaser may be required to make under loss sharing arrangements with Fannie Mae and other government sponsored enterprises or agencies with regard to loans we sold them. During the first four years after the closing, this reimbursement obligation (and some other possible indemnifications) will be satisfied by cancellation of Series C Preferred units and then Series B Preferred units. We will have the right to sell or pledge the Preferred units, but for four years any sale of the Series B or Series C Preferred units will be subject to the possibility that they will be cancelled to satisfy our reimbursement obligations. The transaction is subject to, among other things, approval by the government sponsored enterprises or agencies to which we sell loans we originate or which insure loans we originate.

Sale of renewable energy business

On April 1, 2009, we sold substantially all the assets of our Renewable Energy business to a subsidiary of Fotowatio S.L. for $19.7 million (subject to possible adjustment), of which $1.5 million was paid when the Purchase Agreement was signed, $13.6 million was paid at the April 1, 2009 closing, and the remainder, net of a reduction because we elected to retain a biomass facility was paid at a second closing on April 15, 2009. The sale did not include our interests in two solar energy investment funds we had sponsored.

Possible sale of tax credit equity business

We have engaged in discussions with a possible purchaser of our tax credit equity business. However, no transaction has been agreed upon.

Sale of recently acquired businesses

We disposed of our Sustainable Land Fund and our George Elkins Mortgage Banking businesses in late 2008 for essentially no consideration.

Termination of asset management business

In late 2008 and early 2009, we terminated substantially all of our Real Estate division s business of providing asset management services to institutional investors.

What will remain

If we complete the sales of our Agency Lending business and our Tax Credit Equity business, our only significant remaining activities will be owning and managing portfolios of tax-exempt and market rate bonds and loans. This will enable us to reduce significantly the number of people we employ (in addition to the personnel of the businesses we sell who become employees of the buyers or whose services are no longer required because we do not operate those businesses).

Our Business

As described under Recent and Proposed Transactions, we are in the process of selling two, and possibly three, aspects of our Business. If those transactions all take place, they will significantly alter the nature of our Business and substantially reduce both our assets and our revenues. The description below is of our business as it exists in April 2009, without giving effect to those transactions.

Until 2008, we and our subsidiaries were primarily involved in arranging and providing debt and equity financing for developers and owners of multifamily and commercial real estate and clean energy projects. Prior to 2008, we would find what we believed were attractive investment opportunities and investors (including ourselves) who were interested in those opportunities. During 2008 and the first part of 2009, we have been unable to form new funds, and in good part our business activities have been limited to providing multifamily loans in our business of originating mortgage loans for sale to, and servicing loans for, government sponsored enterprises and agencies, and new solar projects in our renewable ventures business (although even this aspect of our business was substantially reduced during 2008). We also have provided

investment management and advisory services for institutional investors, but this activity is in the process of being discontinued.

We generate income primarily through returns on financing we provide, and through fees and distributions from funds and other investment entities we manage.

We operate through three primary divisions. They are:

Our affordable housing division, which conducts activities related to affordable housing. Our affordable housing division is further subdivided into three reportable segments:

Tax Credit Equity, which creates investment funds, and finds investors for such funds, that receive tax credits for investing in affordable housing partnerships (referred to as syndication of low income housing tax credits) we are actively seeking a buyer of this business, but do not have an agreement to sell it;

Affordable Bonds, which originates, and invests in, tax-exempt bonds secured by affordable housing; and

Affordable Debt, which originates and invests in loans secured by affordable housing.

Our real estate division conducts real estate finance activities. We manage the activities of this division through two reportable segments:

Agency Lending, which originates both market rate and affordable housing multifamily loans with the intention of selling them to GSEs, including Fannie Mae and Freddie Mac, or through programs created by them, or sells the permanent loans to third party investors as securitized mortgage backed securities guaranteed by Ginnie Mae and insured by HUD. In December 2008, we signed a contract to sell this aspect of our business; and

Merchant Banking, which provides loan and bond originations and loan servicing and has been providing asset management, investment advisory and other services to institutional investors that finance or invest in various commercial real estate projects. In some cases we have originated commercial real estate loans for our own investment purposes. In late 2008 and early 2009 we ceased providing investment advisory services to institutional investors.

Our renewable ventures division, which finances, owns and operates renewable energy and energy efficiency projects. It is managed as a reportable segment of its own. On February 26, 2009, we signed a contract to sell substantially all of this business.

Beginning at the end of 2007, there was a major reduction in the willingness of the institutions that in the past had been investors in the funds we manage or lenders to those funds to invest in new investment funds or to provide financing to new investment funds. In addition, we, like many companies, were encountering increasing efforts by banks and other credit providers to reduce their outstanding loans, loan commitments and credit exposure to us. Further, since the fall of 2007, there have been fewer and fewer buyers of newly securitized bonds, and what buyers there are have been requiring yields that made it unprofitable for us to securitize the bonds we originate. Therefore, we have had to stop using securitization as a source of financing. Then, beginning early in 2008, there was a major deterioration in the market for tax-exempt bonds and other instruments that are a major part of our assets.

In response to these conditions, during the first quarter of 2008, we substantially reduced all our new business activities other than origination of mortgage loans for sale to Fannie Mae and Freddie Mac or to purchasers of

government guaranteed loans, activities related to renewable energy generation and the start up of an international housing fund. Subsequently, we reduced the rate at which we were investing in renewable energy projects, partly because of the lack of adequate capital to invest and partly because of a delay by Congress in finalizing legislation extending various energy related tax credits that were scheduled to reduce at the end of 2008 (but were finally extended late in 2008). In addition, as the market prices of the bonds we owned and hedges we held against certain bonds declined, our creditors began to require us to post additional collateral.

The effects of current market conditions on us and the steps we have taken or have been forced to take as a result of them is discussed in greater detail under the caption Effects of Current Market Conditions on Us.

Affordable Housing Division

Affordable housing typically refers to multifamily apartment developments with below market rents that are intended to be affordable to lower income families (typically families earning 60% or less of the area median income). In most instances, the owners of the affordable housing projects are entitled to special federal income tax benefits, and in some instances state and local tax benefits, to help defray development and operating costs and therefore make possible below market rents. In order to qualify for special federal income tax benefits, at least a specified portion of the units in a project must be set aside to be rented to lower income families. While most of our affordable housing related activities involve investments that entitle the holders to special tax benefits, we also are involved with some investments in affordable housing that do not provide special tax benefits. A significant portion of our revenues from our affordable housing division comes from interest on debt instruments we hold (including interests in tax-exempt bonds) or proceeds of sales of debt instruments or of equity interests in affordable housing related entities. However, a large portion of our revenues related to affordable housing projects comes from fees, including:

- origination fees;
- construction administration fees;
- servicing fees;
- syndication fees;
- asset management fees, and
- guarantee fees

Asset management and guarantee fees paid by funds that are consolidated are eliminated in consolidation, as they represent an expense to the LIHTC Funds, and revenue to us. However, these amounts are included as a component of the GAAP net income (loss) that results from the consolidation of these funds.

Tax Credit Equity Segment

Normally, the developer of an affordable housing development prefers to sell the tax credits related to the development rather than using them itself. To make this possible, the developer usually forms a limited partnership (**Lower Tier Property Partnership**) to develop or hold and operate the affordable housing project and then sells the limited partnership interests in the Lower Tier Property Partnership to investors who want to benefit from the partnership s low income housing tax credits. We syndicate tax credits by forming LIHTC Funds that purchase directly or indirectly the limited partnership interests in multiple Lower Tier Property Partnerships. We attract capital from institutional investors which will comprise virtually all of the equity of the LIHTC Funds, and the LIHTC Funds use this capital, and sometimes interim debt financing (that we provided in some cases), to purchase the limited partner interests in the Lower Tier Property Partnerships. Because both the Lower Tier Property Partnerships and the LIHTC Funds (as well as any intermediate entities) are pass-through entities for federal income tax purposes, the equity owners of the LIHTC Funds receive the tax benefit of the credits generated by the Lower Tier Property Partnerships. We are the general partner of, and manage, the LIHTC Funds, and usually have an interest of between 0.01% and 1.0% in each of them. Investors in the LIHTC Funds typically have been large financial institutions, including certain GSEs, as well as banks and insurance companies. At December 31, 2008, we were managing 129 LIHTC Funds that

held limited partner interests in 1,673 Lower Tier Property Partnerships.

In almost all instances, when a Lower Tier Property Partnership is formed, the developer is the general partner of the limited partnership. However, in some instances in which the Lower Tier Property Partnership is suffering from financial or operating challenges, we form a subsidiary which takes over the general partner role (**GP Take Backs**). Generally, when this occurs we consolidate these entities under FIN 46(R).

Within the Tax Credit Equity segment, we provided two general types of guarantees: (1) either single investor or multi-investor LIHTC Fund level guarantees where MuniMae, directly and indirectly, guaranteed the investor s return on investment (**guaranteed funds**); and (2) individual indemnifications to specific investors in non-guaranteed LIHTC Funds related to the performance of specific Lower Tier Property Partnerships.

In late 2007 and early 2008, several of the entities that historically had been the principal investors in the LIHTC Funds we form indicated that during all or most of 2008, they would not be making investments in order to obtain the benefit of low income housing tax credits. This made it impracticable for us to try to form new LIHTC Funds, and therefore early in 2008 we suspended our efforts to form new LIHTC Funds or to invest in Lower Tier Property Partnerships for LIHTC Funds until we see an improvement in this market. In addition, because we frequently committed to purchase equity interests in Lower Tier Property Partnerships so those interests would be available for new LIHTC Funds we expected to form, the inability to form LIHTC Funds left us with equity purchase commitments we had to fund ourselves. We have had difficulty obtaining the capital needed to meet those commitments, and in some instances have not been timely in meeting them, which could put us in breach of our commitments.

In late 2008, we began to actively seek a purchaser of our Tax Credit Equity business.

Affordable Bond Segment

We originate and purchase private placement tax-exempt bonds issued by agencies of state or local governments to finance affordable housing projects. Typically, these bonds are secured by mortgages on the real estate to which they relate, but are not supported by governmental taxing power.

Until the fall of 2007, we financed our investments in these bonds by selling them individually or as portfolios into securitization trusts from which senior and junior interests were issued. The senior interests were sold to investors, and we retained the junior interests. To increase the creditworthiness of the interests in these trusts, we, in most instances, caused the bonds held in the trusts to be guaranteed by entities with very high credit ratings, including, in some instances, the GSEs. The junior interests we retained entitle us to the residual payments after all fees and expenses, and all principal and interest due with regard to the senior interests, have been paid. Since the fall of 2007, the market for interests in these types of bond pools has dried up and therefore, we have been unable to finance our investments in this manner. Early in 2008, we suspended until markets return to normal acquiring bonds of this type or entering into new funding commitments.

In April 2006, we began investing in highly rated state housing agency tax-exempt bonds. Due to a decrease in demand as a result of adverse capital market conditions, we stopped all acquisition activity related to these types of bonds in the fall of 2007 and during 2008 we liquidated nearly all of our positions in them, usually at a loss and frequently for less than the amounts we had borrowed to acquire the bonds.

Affordable Debt Segment

We provide construction and permanent financing to developers of affordable housing projects. We convert our construction loans into permanent mortgage loans, which we either retain or sell. Frequently we arrange for Fannie Mae or Freddie Mac to purchase the permanent debt financing.

As of December 31, 2008, we had an outstanding balance of loans to developers of affordable housing totaling $143.0 million.

Real Estate Division

We have originated mortgage loans secured by market rate multifamily apartment properties and other commercial properties built by a wide variety of developers. A small portion of these loans have been in the form of purchases of tax-exempt debt instruments issued by state or local government agencies to finance infrastructure or other projects. However, in most instances, we have made taxable mortgage loans to entities formed by developers of conventional multifamily or commercial properties, which have been secured by the real estate and sometimes, but not always, were guaranteed by the developers. Usually, we have retained construction period loans until projects are completed, at which time we have arranged funds to provide the

permanent financing or we originate and sell the permanent loans to GSEs (i.e., Fannie Mae and Freddie Mac) or programs created by them. At December 31, 2008, we owned market rate commercial mortgage loans with an unpaid principal balance of approximately $383.3 million, of which approximately 75.5% were senior mortgage loans and approximately 24.5% were subordinated mortgage loans.

The sources of our revenues from real estate finance not involving affordable housing are:

- net interest income on loans we own;
- proceeds of sales of loans to GSEs and other institutional investors;
- origination fees;
- asset management fees;
- servicing fees; and
- fees for miscellaneous services.

A more detailed description of our market rate commercial real estate finance activities is as follows:

Agency Lending Segment

We originate multifamily housing loans with the intention of selling them to GSEs. We are an approved seller and servicer of Ginnie Mae mortgage-backed securities, an approved seller and servicer of Fannie Mae Delegated Underwriting and Servicing (**DUS**) Loans, and an approved seller and servicer of Freddie Mac mortgage loans. We are also a Federal Housing Administration (**FHA**)/HUD Multifamily Accelerated Processing approved lender, and a FHA Traditional Application Processing Lender.

Loans we originate in connection with these programs must be underwritten and structured in accordance with financial requirements established by the GSEs to which we expect to sell particular loans or the government agencies which we expect will credit enhance the loans. In addition, we are required to maintain minimum net worth, liquidity and insurance coverage. Because the GSEs are secondary market purchasers, we cannot sell loans to the GSEs until we have held them for a period of time. Typically, we hold loans for less than 60 days before selling them to the GSEs. In addition Fannie Mae requires us to bear up to 20% (and in some instances an even higher percentage) of the losses on loans we sell to it, based on various loss sharing formulae. We also have loss sharing arrangements with Freddie Mac. When we sell loans to the GSEs, we retain the right to service them, for which we receive fees.

Although we curtailed many of our activities during 2008, we did not curtail this aspect of our businesses. However, in December 2008, due to liquidity needs, we agreed to sell this aspect of our business, and we expect to complete that sale during the second quarter of 2009. See Item 1. Business Recent and Proposed Transactions.

Merchant Banking Segment

Prior to 2008, we made construction, interim and permanent loans to developers of multifamily and commercial real estate projects that do not entitle holders to any special tax benefits. The loans were typically secured by mortgages on the properties to which they relate and sometimes were guaranteed by the developers. Sometimes we retained these loans as investments and sometimes we securitized them or we sold them to investment funds we sponsored and managed. When we retain loans, we typically borrow most of the funds we loan to the developers, and make most of

our profit from the amount by which the interest on our loans to the developers exceeds the interest we pay for the sums we borrow.

We also have provided loan origination, asset management, investment advisory, loan servicing and other services to institutional investors and funds that we do not originate. In particular,

We have provided advisory and management services with regard to direct and pooled investments in real estate assets for a number of pension funds that invest in (1) limited partnership interests in

partnerships we originate to acquire commercial real estate; or (2) real estate-backed debt investments that we originate.

We have provided advisory and other services for several funds we did not create that hold investments in a broad range of property types, including office and industrial properties, apartments, retail properties, hotels, condominiums, and student housing, including investments in loans we originated.

We have originated loans for institutional investors including pension funds.

During December 2008, we notified some of the investors we were advising that we intended to stop providing investment advisory services to institutional investors, and other of our investment advisory clients notified us that they were changing advisors.

We have in the past invested in tax-exempt bonds issued by community development districts to finance the development of community infrastructure in areas of commercial or single family home development. These bonds are secured by pledges of specific payments or assessments by the local improvement districts that issue the bonds. They are without recourse to the general taxing power of any government agencies. Because of liquidity needs and other factors resulting from current market conditions, we sold many of these bonds during 2008 and we are no longer acquiring any new bonds.

In addition, we have invested in debt secured by student housing or assisted living developments. Early in 2008, we substantially curtailed this aspect of our business until market conditions return to normal and we are able to securitize or otherwise finance loans we originate or purchase.

Renewable Energy and Other Developing Businesses Division

Renewable Energy Related Investments

We entered the field of financing and developing renewable energy projects (i.e., solar power, wind power, bio-power and similar energy sources) in May 2006, by acquiring Reventures Management Company, LLC, for cash and stock, and renaming it MMA Renewable Ventures (**ReVen**). By December 31, 2008, we had formed four funds through which we and institutional investors had made equity commitments of $249.4 million primarily related to 26 solar projects that have a total capacity to produce approximately 35 megawatts of electric power per year. This production was sold to customers under long-term power supply contracts of varying terms. At December 31, 2008, the funds investments in these projects totaled $193.9 million.

In April 2009, we sold our renewable energy finance and development business, but we kept our interests in two of the funds we had formed and an interest in a biomass facility. See Item 1. Business Recent and Proposed Transactions.

While we operated the renewable energy finance and development business, we received fees for arranging investments in funds we organized, for developing power generation projects, for arranging financing for construction of facilities in connection with projects, and for guaranteeing obligations to third party investors. We also receive fees for managing the projects and funds. In most cases, we retained a general partnership or managing member interest in each fund we sponsored and normally we were entitled to an increased distribution of income (**promote income**) after investors received specified returns on their investments.

We had remained actively engaged through the first quarter of 2008 in our renewable energy finance and development activities. However, beginning in the second quarter of 2008, we reduced the pace at which we were investing in

renewable energy projects, partly because of a slowdown in our ability to obtain funds for investments, and partly because of investor uncertainty caused by Congress delay in finalizing legislation extending tax credits that were scheduled to reduce significantly at the end of 2008 (but now have been extended).

Developing Businesses

Through a joint venture in which we had a 49% economic interest, and in which we now have an 85% economic interest, we have invested in South Africa Workforce Housing Fund, LP, (**SA Fund**) a fund that invests in moderately priced workforce housing in South Africa. We have committed to make an investment in the SA Fund equal to 2.82% of the total equity capital raised for investment in the fund. A portion of the funding of SA Fund is participating debt provided by the United States Overseas Private Investment Corporation, a federal government entity, and the remainder is equity invested by institutional and large private investors. We are currently trying to sell our interest in this venture.

In February 2007, we acquired a mortgage brokerage business known as George Elkins Mortgage Banking for $10.2 million. In September 2007, we acquired Sustainable Land Fund, a company that was formed to structure and manage investments in land with environmental attributes such as wetlands, for $0.8 million. We disposed of both of these businesses in late 2008 for essentially no consideration.

For financial accounting purposes, we treated renewable ventures and other developing businesses as a single reportable segment in 2006.

Federal Income Tax Considerations

Treatment as a Partnership

We own interests in various entities, some of which are subject to federal and state income taxes and other entities that are pass-through entities for tax purposes (meaning the partners or owners of the partnership interests are allocated the taxable income). We are a publicly traded partnership (**PTP**) and as such, all of our pass-through entity income is allocated to our common shareholders. Therefore, we do not have a liability for federal and state income taxes related to the PTP income. As a publicly traded partnership, we will be taxed as a corporation for any taxable year in which less than 90% of our gross income consists of qualifying income. Qualifying income includes interest, dividends, real property rents, gains from the sale or other disposition of real property or other capital assets held for the production of interest or dividends, and certain other items. Our outside counsel has advised us that, although the issue is not free from doubt, tax-exempt interest income constitutes qualifying income for this purpose.

If, for any reason, we were treated as a corporation for federal income tax purposes, our income, deductions, credits and other tax items would not pass-through to shareholders, and shareholders would be treated as shareholders in a corporation for federal income tax purposes. If that occurred, we would be required to pay federal income tax at regular corporate rates on our net income, except to the extent we would benefit from receiving tax-exempt income on our bond investments. In addition, any distributions we make to our shareholders would constitute dividend income that is taxable to our shareholders to the extent of our earnings and profits, without regard to the fact that we receive tax-exempt income. Under current law, dividends paid to our shareholders from income on which we paid taxes would likely be taxable at the 15% rate applicable to qualifying dividends.

Tax-exempt Status of Bonds We Hold

On the date of initial issuance of any tax-exempt bond that we hold or have held, bond counsel or special tax counsel has rendered its opinion to the effect that interest on the bond is excludable from gross income for federal income tax purposes. These opinions are subject to customary exceptions, including an exception for any tax-exempt bond during any period when it is held by a substantial user of the property to which it relates or a person related to a substantial user (unless the proceeds of the bond are loaned to a charitable organization described in Section 501(c)(3) of the Internal Revenue Code (**the Code**)).

In order to exercise remedies with regard to defaulted bonds without becoming a substantial user of the properties securing the bonds, our predecessor, SCA Tax-Exempt Fund Limited Partnership (**predecessor**) sometimes arranged for partnerships controlled by Mark K. Joseph, the Chairman of our Board of Directors, and other of our predecessor s officers to acquire the properties and become the borrowers on the bonds. At December 31, 2006, a partnership controlled by Mr. Joseph was the sole limited partner of the borrower on

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13 bonds that we owned, and on December 31, 2008 it was the sole limited partner of the borrower on 7 bonds that we owned.

Similarly, MuniMae Foundation, Inc., (**Foundation**) a charitable entity of the type described in Section 501(c)(3) of the Code, or entities owned by it, are the owners of the properties securing three defaulted bonds we own that would not be tax-exempt unless the properties securing them were owned by 501(c)(3) organizations. The Foundation applies net revenues from the respective properties to pay interest and principal on the bonds we hold until such, if any, time as the bonds are paid in full.

We have received legal advice that, based on certain assumptions, ownership or control of borrowers by the partnership Mr. Joseph controls or ownership by the Foundation of properties securing bonds we own, would not cause us to be a person related to a substantial user of the underlying properties, and therefore would not adversely effect the tax-exempt status of the bonds.

The Code establishes certain requirements which must be met subsequent to the issuance of a tax-exempt bond for interest on that bond to continue to be excluded from gross income for federal income tax purposes. Each issuer of the bonds we hold, as well as each of the underlying borrowers, has covenanted to comply with these continuing requirements. Failure to comply with any of the continuing requirements of the Code could cause the interest on a bond to be includable in our shareholders gross income for federal income tax purposes and such inclusion could be retroactive.

Certain events subsequent to the issuance of a bond may be treated for federal income tax purposes as a reissuance of the bond, which could adversely affect the tax-exempt status of the bond. From time to time tax-exempt mortgage bonds we hold go into default. We exercise what we believe to be prudent business practices to enforce our creditor s rights with regard to defaulted bonds, including in some instances initiating foreclosure proceedings. It is possible that the Internal Revenue Service (**IRS**) may treat our actions to exercise or not to exercise rights with regard to defaulted mortgage bonds as constituting significant modifications and, therefore, conclude that for federal income tax purposes, the bonds were reissued. If the IRS were successful in maintaining this position, interest on the bonds probably would be taxable for federal income tax purposes. We consult counsel and take other steps to try to ensure that our actions (or failures to act) with regard to defaulted bonds will not constitute reissuance of the bonds. In addition, tax-exempt bonds we hold may need to be restructured and remarketed. We could recognize taxable income, gain or loss upon a restructuring and remarketing of tax-exempt bonds we hold even though the restructuring does not result in any cash proceeds to us. In addition, unless various conditions are met, the restructuring and remarketing of tax-exempt bonds could cause the interest on the bonds to lose their tax-exempt status. Sometimes we enter into interest rate swaps or other transactions in order to hedge exposures with regard to tax-exempt bonds we hold. These investments may produce income that is subject to federal income tax.

Tax Matters relating to Securitizations

Many of the senior interests in our securitization programs are held by tax-exempt money market funds. Tax-exempt money market funds generally have required that these securitization trusts, which are structured as partnerships for federal income tax purposes, make an election under Section 761 of the Code to opt out of the provisions of subchapter K of the Code. As a result, each holder of an interest in these securitization partnerships separately reports its share of income and deductions of the partnership using the holder s own accounting method and tax year rather than its distributive share of income and deductions calculated at the partnership level.

In 2002 and 2003 the IRS issued a series of revenue procedures which stated, among other things, that partnerships, such as the ones used to securitize our bonds, do not meet the requirements of Section 761 of the Code. However, the IRS will not challenge a partnership s or a partner s tax treatment for partnerships with start-up dates prior to January 1,

2004 that made Section 761 elections (**Pre-2004 Partnerships**) if that treatment has been consistent with the Section 761 election and certain other requirements are met. We have been advised by counsel that each Pre-2004 Partnership in which we own an interest has met the requirements set forth in the IRS guidance and none of those Pre-2004 Partnerships has acquired any new assets that would cause it no longer to be eligible for the grandfathering rule described above.

If any of the Pre-2004 Partnerships failed to meet any of the requirements of the IRS guidance described above, and therefore were required to comply with the requirements of subchapter K of the Code, it is likely that all of the tax-exempt money market funds which hold senior interests in those securitizations and have tender options would tender their positions and the remarketing agent would have to sell the tendered interests to purchasers which are not tax-exempt money market funds. This would probably result in an increase in the distributions that have to be made to the holders of the senior interests, which would reduce, dollar for dollar, the distributions on the residual interests in the Pre-2004 Partnerships that we own. The senior interest holders have tender option rights with regard to all of the floating rate securitization trusts into which we have deposited bonds.

Beginning in January 1, 2004, we have complied with the revenue procedures described above in creating securitization partnerships.

Tax Effects on our Shareholders Resulting from our Taxable Income and Deductions

Although we were formed in a way that enables us to pass-through the benefit of tax-exempt income to our shareholders, currently, we have investments and operations that generate income that is not exempt from federal income tax. Among other things, our fees related to the Tax Credit Equity segment, our fees related to servicing and administering the bonds in our Affordable Bond segment, and our fees and interest income related to the Affordable Agency, Agency Lending, Real Estate and the Renewable Energy segments are earned through subsidiaries that are taxable corporations, and distributions by those subsidiaries generate income to us that is taxable to our shareholders. In addition, sales of our assets may result in gains that are taxable to our shareholders. Similarly, our shareholders are entitled to deduct their respective portions of our interest expense that is incurred in connection with our investment and operating activities. They are not, however, entitled to deduct interest on indebtedness we incur to purchase or carry tax-exempt bonds. In 2008, we incurred (and we passed on to our shareholders) capital losses due to bond sales and closing out of derivative positions, income from tax-exempt interest and some taxable interest income. However, based on the share price paid by each investor, certain investors may have capital gains allocated to them.

Further, as described above, the IRS could seek to recharacterize the income on one or more of our tax-exempt bonds as taxable income. We may also have taxable income, such as income from market discounts that does not generate cash for us. Therefore, it is possible that shareholders could at times be treated as receiving taxable income in excess of the amounts we distribute to them.

We use various tax accounting and reporting conventions to determine each shareholder s allocable share of our ordinary income, gain, loss and deductions. These allocations are respected for federal income tax purposes only if they are considered to have substantial economic effect or are in accordance with each shareholder s interest in the partnership. Because we allocate our tax attributes to our shareholders on the basis of the respective numbers of shares they own, we believe that if our allocation were ever challenged, they would be upheld. However, there is no assurance that would be the case. There can be no assurance that we will continue to be a pass-through entity for income tax purposes. In addition to the reasons discussed above by which we might involuntarily become subject to tax as a corporation, we have the right to voluntarily elect such status.

Risk Management

The Board of Directors delegates authority for investment risk management to the Company s Real Estate Investment Committee and balance sheet risk management to the Capital Committee.

Investment Risk Management Real Estate Investment Committee (***REIC*** *).* The REIC is chaired by the Company s Chief Credit Officer and membership includes the Chief Executive Officer and other senior managers. Except for specific transaction types, the REIC delegates authority to investment committees within each business group to

review and approve investments by that business group. The Company s Chief Credit Officer is responsible for administration and compliance of the REIC and the business group investment committees. Each business group investment committee has formal policies and procedures, and a majority of its members are from the management staff and include the head of credit for the applicable business group,

the business group head and other senior business group staff. In some business groups, there is a single investment committee that reviews and approves both new investments as well as restructurings and workouts while in other business groups there are separate committees for new investments and restructurings and workouts. In addition to approval by the business group investment committee, restructurings and workouts that involve balance sheet assets must be approved by REIC.

The Company s Affordable Housing Division **(MMA Financial)**, has three investment committees: (1) The Developer Loan Committee, which approves predevelopment and bridge loans; (2) The Investment Committee which approves all new investments and loans (except those approved by the Developer Loan Committee); and (3) the Sale, Refinancing and Workout Committee which approves all material post-investment transactions including workouts, restructurings, refinancing, dispositions and sales. The Company s Real Estate Division, (**MMA Realty Capital** or **MRC**), has a single investment committee, the MRC Committee, which approves all new investments and loans as well as restructurings and workouts. The Renewable Ventures group has a single investment committee, the Energy Project Investment Committee, for approving both new investments as well as restructurings and workouts.

Each business group has formal roles, policies and procedures for managing potential conflicts of interest arising between the business group and its clients or between multiple clients involved in the same transaction. The interests of the Company s clients are represented internally by relationship managers or in some cases by independent directors (i.e. directors not related to the Company) for certain entities who are responsible for ensuring that the Company satisfies its fiduciary duties and are involved throughout the decision making process regarding transactions affecting their clients and have the ultimate authority to approve or disapprove of such transactions. Within MMA Financial, this process is managed within the Sale, Refinancing and Workout Committee. Within MMA Realty Capital, a subcommittee of the MRC Committee, the Allocation, Conflicts and Compliance Committee, is responsible for administering the business group s allocation policy, compliance and suitability issues, conflicts of interest and principal transactions. In addition to the relationship managers, internal or external legal counsel is involved in transactions where conflicts of interest may be present.

*Balance Sheet Risk Management Capital Committee (**CC**).* The CC is chaired by the Company s Chief Credit Officer and membership includes the Chief Executive Officer and other senior managers. The CC exists to review and approve transactions that have a material impact on the Company s balance sheet, excluding transactions approved by REIC and its subcommittees. Transactions requiring CC review and approval include new (or modifications to existing) indebtedness, guarantees, indemnifications, and contingent liabilities; capital for new programs and initiatives and the use of derivatives. The CC delegates authority for a limited number of transaction types to business groups or corporate departments (for example, Corporate Treasury has been delegated the authority for approving certain ordinary course cash management transactions). All CC transactions go through a formal review and approval process which includes sign-offs by key functions including accounting, tax, legal, treasury, compliance, servicing, and asset management. The CC operates within annual capacity limits for different types of transactions established by the Board of Directors.

Day to Day Risk Management. In addition to its formal committee structure, the Company views risk management as a key on-going process which is staffed both corporately (within the office of the Chief Credit Officer) and within the business groups. Within the business groups, the Company has policies and procedures related to its risk management activities including credit policy, underwriting, asset management, servicing and workouts. Additionally, each business group has a head of credit and risk management who reports to both the business group head and the Chief Credit Officer. Corporately, the Chief Credit Officer reports to the Chief Executive Officer and is a member of the Company s Senior Staff committee.

Competition

In seeking attractive tax credit, clean energy, multifamily and other housing and commercial property related investment opportunities, we have competed directly against a large number of syndicators, direct investors and lenders, including banks, finance companies and other financial intermediaries and providers of related services (such as portfolio loan servicing). While we historically were able to compete effectively against

these competitors on the basis of service, access to investor capital, longstanding relationships with developers and a broad array of product offerings, many of our competitors benefited from substantial economies of scale in their businesses and a lower cost of capital.

We competed directly with other syndicators in raising investor capital for tax credit investments. While we historically were able to compete effectively against those competitors on the basis of service, track record, and access to high-quality investments, several of our competitors benefited from the ability to (1) warehouse credit more efficiently; (2) use large amounts of tax credits themselves; and (3) more effectively guarantee tax credit investments because of their credit ratings.

Employees

As of December 31, 2008, we had approximately 435 employees, none of whom were parties to any collective bargaining agreements. This was a reduction from the approximately 575 employees we had at December 31, 2007. In addition, at December 31, 2008, we were engaging approximately 70 people provided by outside financial and accounting firms on a substantially full time basis to supplement the employees in our finance and accounting departments in connection with the development and application of our accounting policies, the restatement of our 2004 and 2005 financial statements and preparation of our 2006 financial statements. At March 31, 2009, we had approximately 333 employees.

Item 1A. RISK FACTORS

Holding our shares involves various risks and uncertainties. The risks described in this section are among those that have had or could in the future have a material adverse effect on our business, financial condition or results of operations, as well as the value of our common shares.

Risks Related to Current Market Conditions

We have been directly and indirectly affected by the recent disruptions in credit markets.

Many aspects of our businesses have been affected by the recent disruptions in the credit markets, in some cases significantly. Some of these have been direct effects on us or our assets, and some have been effects on financial institutions and other entities with which we deal that have affected their ability or willingness to participate or continue to participate in our activities as equity investors, lenders or otherwise. The principal effects of the credit market disruption on us are described in Item 1. Business Effects of Current Market Conditions on Us.

We have been severely affected by deterioration in the market for tax-exempt bonds and other instruments of the type we own.

Beginning early in 2008, there was a major deterioration in the market for tax-exempt bonds and other instruments that are a major part of our assets. This, combined with the factors that have affected credit markets and financial institutions throughout the nation, had a severe effect upon us during 2008, causing us to have to curtail significant aspects of our business and to sell assets at substantial losses to obtain funds we needed to meet our commitments or to satisfy lenders.

We have been forced to sell assets and business segments in order to raise funds we need to meet our cash needs.

Currently, we are facing a significant shortage of liquid assets. During 2008, we sold investment assets to generate cash or to minimize our obligation related to future funding requirements and in most instances we sold these assets

for less than the amounts for which we had purchased them. In some instances the sales prices were less than the borrowings secured by the assets we sold, so that, instead of generating cash, the sales consumed additional cash or collateral we had posted with the lenders (we carried out the sales anyway in order to reduce our market risk). In order to raise cash, we have sold or agreed to sell two segments of our

business and are attempting to sell a third segment. If we complete all those transactions, our only significant remaining activities will be owning and managing portfolios of tax-exempt bonds and market rate loans.

As a result of reductions in revenues and substantial realized and unrealized losses in the carrying value of our municipal bonds and other investments due to severely adverse current market conditions, and to the high costs of preparing and auditing our financial statements, we are incurring significant operating losses.

We were billed approximately $142 million in third party consulting costs and costs related to our audit as well as the audits of certain wholly-owned subsidiaries between January 1, 2007 and December 31, 2008. These costs were primarily related to the review and finalization of our accounting policies for all aspects of our business, the development and execution of procedures for the measurement of our transactions under these polices, the preparation of the financial statements that appear in this Report, the audit of these financial statements (including costs related to separate wholly-owned subsidiary company audits, some of which are performed by a firm other than KPMG), internal audit related costs and income tax advice and preparation costs. These costs do not include audit costs incurred related to the funds that we manage, a portion which are allocated and paid for by the funds and a portion of which we bear.

While we have not completed our 2007 and 2008 financial statements, it is clear that the impacts of reductions in revenues in multiple business lines and in the value of municipal bonds and other investments we hold or have sold, and the costs of developing and applying our accounting policies and preparing and auditing our 2006 and restated 2005 and 2004 financial statements, when added to our 2007 and 2008 on-going operating expenses, resulted in significant operating losses in both 2007 and 2008.

Most of our lenders have the right to require us to repay what we have borrowed or could require us to post additional collateral.

Although we are current with respect to our contractual interest payments, many of our debt agreements require us to provide timely GAAP basis financial statements and as a result most of our lenders have the right (absent forbearance agreements) to require us to repay what we have borrowed from them (our lenders have not done that to date and many of them have entered into short term forbearance agreements). This, along with our need to sell assets and in some cases business segments, has led our independent registered public accounting firm to include in its auditor s report an explanatory paragraph regarding substantial doubt as to our ability to continue as a going concern, Also, we are subject to the constant possibility that one or more of our lenders will assert that the current market value of the assets that secure their loans (which in most instances our lenders determine) has fallen below required levels and that we must either post additional collateral or reduce the amount of our borrowings. We have little or no available funds to post as additional collateral or with which to repay borrowings.

If we were forced to sell all our pledged assets, the total sales price might not be sufficient to enable us to repay all our borrowings.

We believe that under normal market conditions, we could in at least most instances sell the assets that secure our borrowings for more than the amounts of the borrowings they secure. However, there is a significant possibility that if our lenders forced us to sell those assets into the current inactive market, the total sale proceeds would not equal our total borrowings.

We are facing defaults and delinquencies with respect to many of the debt instruments we hold.

We hold various types of debt instruments. Our largest holding is of tax-exempt bonds relating to affordable housing developments, as well as other types of tax-exempt bonds. The delinquency rate at December 31, 2008, with regard to

those bonds is lower than it historically has been. However, the delinquency rate with regard to most of the other types of debt instruments we hold increased significantly during 2008. Even in instances in which developers guaranteed loans secured by projects they developed, many of the developers appear to be having financial problems that cast doubt on their ability to fulfill their guarantees if they are called upon to do so.

General Risks Related to Our Business

Economic conditions adversely affecting the real estate market have had a material adverse effect on us.

Because we, the funds we manage and the investors we have advised, own and finance investments directly or indirectly secured by multifamily residential properties and other commercial real estate, the value of our and the funds and investors investments are subject to being (and recently have been) materially adversely affected by macroeconomic conditions or other factors that adversely affect the real estate market generally, or the market for multifamily real estate in particular, either nationally or in regions in which we, the funds we manage or our other clients have significant investments. These possible negative factors (many of which have recently occurred) include, among others:

high levels of unemployment and other adverse economic conditions, regionally or nationally;

decreased occupancy and rent levels due to supply and demand imbalances;

changes in interest rates that affect the value of the debt instruments or the value of the real estate that secures the debt instruments that we, the funds we manage or the investors we advise own, or that affect the availability of attractive investment opportunities;

lack of mortgage financing and reduced availability of mortgage financing, each of which can affect the prices for which real estate can be sold or even the ability to sell real estate at any acceptable price; and

changes in local or national laws or regulatory conditions that affect significant segments of the multifamily housing market, including environmental and other laws and regulations that affect the types of buildings that can be built or building materials that can be used, or that otherwise increase construction costs or limit land usage.

We might not be able to meet our funding commitments.

Due to market conditions and their effect on our business and liquidity we might not be able to meet funding commitments. The failure to meet such commitments could put us in breach of those commitments.

We are exposed to the normal risks that affect construction lenders which could adversely affect our or our funds return on investment.

Some of the investments owned by us or by funds we manage, and from which we or the funds derive interest income, are mortgage loans secured by multifamily residential rental housing properties or renewable energy projects that are still under construction or are undergoing substantial rehabilitation, and we make construction loans with regard to commercial real estate. Thus, we often provide construction financing and take other construction period risks with the expectation of being repaid, or converting our construction loans into permanent mortgage loans, when the developments or projects are completed. During the construction phase of a development or project for which we are a lender, which often lasts 12 to 24 months, our investment is subject to all the risks that normally apply to construction projects, including the possibility of:

underestimated construction or rehabilitation costs;

delays;

failure to obtain or maintain governmental approvals; and

adverse weather and other unpredictable contingencies beyond the control of the developer.

If a developer cannot complete the development that is collateral for a construction loan we made, we may have to arrange and finance the completion of the project in order to protect our ability to recover the construction loan.

In addition, some of our investments and those of the funds we manage are secured by mortgages on properties that are in a lease-up phase. Developers failures to complete lease-up of these properties on

schedule or at anticipated rent levels could adversely affect the ability of the developers to make mortgage payments on schedule and therefore could adversely affect the return on the investment we or the funds we manage have made.

We are exposed to risks specific to real estate.

Because many of our assets are secured by real estate, or consist of investments in entities that own real estate, the value of our assets is subject to the risks associated with investments in real estate. Among other things, real estate may decline in value because of market conditions, an inability to obtain key permits, a change in, or failure to obtain a change in, zoning, environmental problems, casualty losses for which insurance proceeds are not sufficient to cover the loss, and condemnation proceedings. We conduct extensive due diligence prior to making investments but problems may arise subsequent to our investment. Negative changes in the value of our assets could have a material adverse effect on us.

We are sometimes subject to collateral calls and if we cannot meet the calls we may be deemed in default.

Many of our borrowings and other financial obligations are secured by loans or bonds we own. If the value of the loans or bonds securing particular obligations falls below specified percentages of the obligations, we must either reduce the amount of the obligations or provide additional collateral. Under current market conditions, we may have difficulty doing either of those things and if we cannot do either of them, we may be deemed to have defaulted on the borrowings or other financial obligations, and our creditors may have the right to liquidate our collateral to satisfy their claims.

The market value, availability or cost of our investments and investment opportunities could be adversely affected by changes in prevailing interest rates.

Most of the investments we hold, or that are made by funds or entities we created and manage, are debt instruments or similar to debt instruments. The value of those investments can be severely affected by changes in prevailing interest rates. In particular, a significant increase in prevailing interest rates for taxable or tax-exempt debt instruments substantially reduces the market value of investments we hold. In addition, it could reduce the availability of new investment opportunities and increase the competition for those investments.

We do not, and cannot, fully hedge against interest rate risks.

Significant portions of the money we and our funds use to make investments are borrowed under credit lines that bear interest at floating rates. Therefore, an increase in prevailing interest rates could make it substantially more expensive for us or our funds to continue to hold investments, while at the same time reducing the prices at which we could dispose of those investments. We do not fully hedge our exposure to changes in interest rates and so we are exposed to the risks of unfavorable changes in interest rates beyond our hedging activities.

We hedge our exposure to interest rate changes in a variety of ways. However, our hedges normally have significantly shorter lives than the interest rate sensitive instruments in which we invest. Further, we do not, and frequently cannot, hedge against all the interest rate risks that may affect us. Also, hedges do not always work as we expect them to. See Item 1. Business Effects of Current Market Conditions Upon Us. Therefore, we are to an extent exposed to risks that changes in interest rates will negatively affect the value of our assets.

We can lose money on the transactions we undertake to hedge against losses due to interest rate movements.

Sometimes we hedge against interest rate movements by purchasing options, but in many instances, we have hedged against increases in interest rates, which generally cause declines in the value of our debt instruments, by entering into

transactions that are expected to increase in value as interest rates rise. The risk of a loss in value if interest rates fall is the cost of the protection we receive by entering into these transactions. Further, as is described under Item 1. Business Effect of Current Market Conditions on Us, there was a period in early 2008 when, due to a market anomaly, the value of swaps we had purchased to hedge against a decline in

the value of a portfolio of tax-exempt bonds we held, fell at the same time the value of the tax-exempt bonds declined. While this was a very unusual situation, it reflects the fact that many hedges involve a degree of risk themselves.

Our ability to find investors or make tax-exempt investments could be adversely affected by changes in government tax incentive programs.

A significant aspect of our business has consisted of selling to investors securities or interests that enable them to realize tax benefits the government provides as incentives to make certain types of investments. We did this primarily by creating entities through which investors could obtain tax credits for investing in affordable housing or in renewable source power generation facilities. We also purchased tax-exempt bonds issued to fund affordable housing and other types of projects. There is no guarantee that the government will continue to provide the types of tax credits that have been available or that it will not change current tax-exempt bond legislation. If the federal government were to reduce, eliminate or not renew the tax credits for investments in affordable housing or renewable energy, or were to change the tax-exempt bond legislation, our ability to find investors for the funds we create or to make tax-exempt bond investments could, even in times of normal market conditions, be materially impaired. Even uncertainty as to a possible imminent reduction or elimination of tax benefits can make investors reluctant to invest in the types of investments we market. Further, the government could make other changes in the tax laws that, while not directly affecting tax credits or tax-exempt bond legislation could make them less valuable to investors. A discussion of U.S. federal tax considerations that affect us and our shareholders appears in Item 1. Business Federal Income Tax Considerations.

Substantial reduction or increased costs in the activities of GSEs that provide liquidity to the market for real estate related investments could adversely affect our business.

Fannie Mae and Freddie Mac are important to many aspects of our business. They have historically been among the largest corporate buyers of low income housing related tax credits of the type we syndicate. We also have generated substantial revenues by originating loans and selling them to Fannie Mae and Freddie Mac. In addition, Fannie Mae and Freddie Mac have provided credit enhancement that we used in connection with sales or securitizations of some of our assets, as well as credit enhancement for some of the tax-exempt bonds that we originated. We are in the process of selling both the aspect of our business that syndicates low income housing related tax credits and the aspect of our business that originates loans for sale to Fannie Mae and Freddie Mac and other government sponsored agencies.

In 2008, Fannie Mae and Freddie Mac were placed under government conservatorship, and according to news reports each of them suffered major losses during 2008. There have been numerous proposals that would significantly change their activities. To date, we have not experienced a significant change in the operations or strategies of Fannie Mae or Freddie Mac that affect us. However, it is possible that, as a result of the conservatorship or in reaction to the losses, there will be changes in the way one or both of them operate, or in their funding that will adversely affect our on-going business.

Most of our assets are pledged as collateral for borrowings that could go into default causing us to suffer significant losses.

All of our businesses require significant access to borrowed funds and as such we have almost no assets that are unencumbered at December 31, 2008. Because we were not able to deliver financial statements in a timely manner, most of our debt that is not part of a bond securitization transaction was in default, and most of our lenders could have required us to repay the indebtedness. If our lenders had required us to repay the indebtedness and we had been unable to do so (which, in view of current market conditions, probably would have been the case with regard to many of our borrowings), the lenders would have been able to liquidate the assets that secure the indebtedness. If lenders liquidated

our assets under current market conditions, we would suffer significant losses of value.

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We must be careful not to become subject to the Investment Company Act of 1940 because if we were subject to that Act, we could be required to sell substantial portions of our assets at a time when we might not otherwise want to do so, and we could incur significant losses as a result.

We continuously monitor our activities to be sure we do not become subject to regulation as an investment company under the Investment Company Act of 1940, as amended. We are exempt from the Investment Company Act because of an exemption for companies that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. If we were regulated as an investment company under the Investment Company Act, we would be subject to extensive regulation and restrictions relating to capital structure, dividends and a number of other matters. Among other things, we would not be able to borrow money. Therefore, if due to a change in our assets or in the value of particular assets, we were to become subject to the Investment Company Act, either we would have to restructure our assets so we would not be subject to that Act or we would have to change materially the way we do business. Either of those changes could require us to sell substantial portions of our assets at a time when we might not otherwise want to do so, and we could incur significant losses of value as a result.

Risks Related to Our Financial Reporting

There have been material weaknesses in our internal controls over financial reporting that have required us on three occasions to restate our financial statements with the assistance of outside accounting consultants, and until we have sufficient internal resources we may need continued substantial assistance from outside accounting consultants at considerable cost.

For the last several years, there have been (and there continue to be) material weaknesses in our internal control over financial reporting. Because of this, we have on three occasions had to restate our financial statements. The first restatement was to adjust our unaudited financial statements for the first and second quarters of 2004 to record deferred compensation expense related to one employment contract. Then, in the spring of 2006, we restated our audited financial statements for 2004 and prior years. Subsequently, in September 2006, we determined that we had to restate our audited 2005 financial statements and further restate our audited restated financial statements for 2004 and prior years. The need for the restatements resulted primarily from the factors discussed in Item 9A. Controls and Procedures.

The problems caused by these deficiencies delayed the filing of this Report until two years after it was due and will cause us to be late in making SEC filings relating to 2007, 2008 and at least some subsequent periods. While we have completed our 2006 financial statements and the restated 2005 and 2004 financial statements that appear in this Report, we were able to do that only by using a large number of outside consultants to supplement our own accounting personnel and systems. During 2007, we brought in a new chief financial officer, a new business unit financial officer, a new head of internal audit, and other new senior accounting and financial reporting personnel. However, we still do not have sufficient internal resources to enable us to generate reliable financial statements without substantial assistance from outside accounting consultants at considerable cost.

The material weaknesses in our internal control over financial reporting substantially increase the cost of ensuring that there will not be misstatements in our financial statements.

A material weakness in internal control over financial reporting means that there are deficiencies that present a more than remote possibility (or, under a 2007 revision to the standard, a reasonable possibility) that a material misstatement of a company s annual or interim financial statements will not be prevented or detected on a timely basis. Because there have been, and continue to be, material weaknesses in our internal control over financial reporting, we have had to use means other than reliance on our internal control over financial reporting to ensure that there are not

material misstatements in our financial statements. These alternative means have been very labor intensive and have contributed significantly to the high costs we have incurred in preparing our financial statements. Further, while we believe these alternative means have been effective in allowing us to prepare the GAAP compliant financial statements contained in this Report, going forward there continues to be a risk that there may be a material misstatement in our financial statements.

We will continue to incur major costs in the preparation and audit of our financial statements, which could adversely affect our financial results.

We are trying to develop sufficient accounting and finance capability and systems to be able to prepare our financial statements and do a significant portion of our tax return preparation work ourselves instead of using outside consultants. However, we are likely to incur unusually high financial statement preparation and audit costs at least during 2009 and possibly 2010. The high financial statement preparation and audit costs have materially adversely affected our financial results and are likely to continue to do so at least through 2009 and possibly longer.

Our 2007 and 2008 financial statements will not be filed with the SEC or provided to lenders when they are due, which means we will not meet a requirement of many of our loan agreements and unless we obtain waivers or forbearances, our lenders could terminate our lending agreements and require us to repay the sums we have borrowed, and if all of these loan amounts were currently declared due and payable, we would not have available resources sufficient to satisfy all of such loan amounts.

Because of the delay in completing our 2006 annual financial statements and the continuing material weaknesses in our financial reporting and accounting systems, our 2007 and 2008 annual financial statements will not be filed with the SEC until at least many months after they are due.

Most of our loan agreements require that we provide timely financial statements or file reports with the SEC when they are due and give the lenders copies of those reports. Most of our lenders waived, or otherwise did not enforce, these requirements in 2007 and 2008. While we will continue to seek waivers or forbearances with regard to these financial reporting requirements, most of our lenders could, if they wished to do so, use our inability to provide financial statements when they are due as a basis for terminating their lending arrangements with us and requiring us to repay the sums we have borrowed from them. Under current market conditions, if all of these loan amounts were currently declared due and payable, we would not have available resources sufficient to satisfy all of such loan amounts.

The SEC Staff has inquired into the reasons for our restatements and if they decide to take any substantial action against us it could adversely affect our business.

After we announced in September 2006, that we would be restating our financial statements for 2005 and prior years, the Philadelphia regional office of the SEC informed us that it was conducting an informal inquiry concerning us and requested the voluntary production of documents and information concerning, among other things, the reasons for that restatement and for our prior restatement. We provided the requested documents and information and are cooperating fully with the informal inquiry. The SEC staff has been monitoring the progress of the restatement and the preparation of our 2006 financial statements. We do not know what, if anything, the SEC staff may do now that the restatement and the preparation of our 2006 financial statements have been completed. Any substantial action against us by the SEC could adversely affect our business.

The book value of our assets is not necessarily the amount for which they could be sold at any point in time, and if we currently were forced to sell significant assets, we probably would not realize their full book value.

Our assets include a variety of bonds, loans and other debt instruments. Under GAAP, in some instances these bonds, loans and other debt instruments are recorded at their fair value on each balance sheet date. In other instances, they are carried at amortized cost (i.e., unpaid principal balances less any deferred costs or fees) unless we determine that they are impaired or there has been an other-than-temporary impairment in the value of particular assets, in which case the book values of those assets are reserved against or written down to their estimated fair values. The estimated fair values of the assets are determined using quoted market prices, if available, or with discounted cash flow models

considering expected cash flows and market yields. The prices for which we can sell particular bonds, loans or other debt instruments at a point in time are affected by current market conditions at that time. As is discussed under Item 1A. Risk Factors Risks Related to Current Market Conditions, under current market conditions, the prices for which we can sell the bonds,

loans and other debt investments we own are significantly lower than the prices for which they could be sold under normal market conditions.

Risk Related to our Affordable Housing Division

Affordable housing partnerships may not be able to repay their borrowings from us and that could adversely affect the return on the investment to us or to the funds we manage.

We advance substantial funds as loans (including our investments in bonds) to partnerships engaged in the development of affordable housing projects. While these projects are under construction, they are subject to the normal risks that affect construction lenders, as discussed above under the caption General Risks Related to our Business We are exposed to the normal risks that affect construction lenders that could adversely affect our or our funds return on investment. Because substantially all the units in most of those projects are rented to individuals or families with incomes no greater than 60% of area median incomes, there is a risk that tenants will not be able to pay their rent, and therefore the partnerships that own the projects will not be able to make required payments on the mortgage debt we hold and that could adversely affect the return on the investment to us or to the funds we manage.

As a sponsor of tax credit equity funds, we have exposure to risk of loss if we are unable to place partnership interests at sufficiently high prices.

In connection with our sponsorship of tax credit equity funds as described in Item 1. Business Our Tax Credit Equity Segment, we have often advanced funds by acquiring interests in partnerships or other entities that own affordable housing projects with the intention of selling those interests to tax credit equity funds we sponsor. At any point in time, the amount of these advances can be material. Generally, we have recovered our advances by selling the interests to tax credit equity funds we have sponsored. At December 31, 2008 we were holding interests for which we had paid $30.5 million, and were committed to pay an additional $82.1 million to purchase interests, which we expected to sell to tax credit equity funds. However, currently we are not able to form new tax credit equity funds, and therefore we can only sell partnership interests we are holding or are committed to purchase to existing LIHTC Funds, and only to the extent those funds have access to capital with which to make additional investments, or to third party purchasers. Further, the yield investors in tax equity funds are requiring has risen to a level that has caused us to lose money on many of the sales we do make. In 2008, we expect to recognize significant losses from selling interests we had acquired in tax credit generating partnerships.

Economic conditions have substantially reduced demand for investments that generate tax credits, and therefore we have curtailed our efforts to identify investments that generate tax credits or to form LIHTC Funds.

Late in 2007 and early in 2008, several of the entities that historically had been the principal investors in LIHTC finds we sponsor indicated that during all or most of 2008, they would not be making investments in order to benefit from low income tax credits. Those entities have announced significant net losses from their own activities, and therefore, may not have taxable income for a substantial period. If they do not have taxable income, they probably will have no need for tax credits. As a result of this, during 2008, we suspended our efforts to form new LIHTC Funds or to identify potential investments for new LIHTC Funds. We are currently attempting to sell our Tax Credit Equity business.

Substantially all of our investments are illiquid, which could prevent us from consummating sales on favorable terms and makes it difficult for us accurately to value our investment portfolio.

There is no regular trading market for most of the tax-exempt and taxable real estate related debt and equity interests in which we and the funds we manage have invested. This results in a serious lack of liquidity, particularly during

weak markets, such as those that have prevailed since the summer of 2007 and are discussed in the portion of this Risk Factors section captioned Risks Related to Current Credit Market

Conditions and General Risks Related to Our Business. The lack of liquidity could seriously adversely affect the price for which we, or the funds we manage, could sell debt or equity securities if necessary.

In addition, the absence of liquid markets for the interests we hold makes them difficult to value, and could require us to write down the carrying value of the interests because of market conditions that do not actually affect the performance of assets that support the securities that we hold.

We have provided guarantees with respect to certain of the tax credit equity funds that we sponsored, and if we were to become obligated to perform on those guarantees our financial condition and results of operation could suffer.

We have guaranteed availability of tax benefits and minimum returns on investment to investors in some of the tax credit equity funds that we sponsored. We could be required to make substantial payments with regard to these guarantees. If we were to become obligated to perform on those guarantees our financial condition and results of operation could suffer.

Noncompliance with various legal requirements by the affordable housing partnerships could impair our investors right to low income housing tax credits and have a negative impact on our business.

The ability of investors in tax credit equity funds we sponsor to benefit from low income housing tax credits requires that the partnerships in which those funds invest operate affordable housing projects in compliance with a number of requirements in the Code and the Regulations under it. Failure to comply continuously with these requirements throughout a 15-year recapture period could result in loss of the right to those low income housing tax credits, including recapture of credits that were already taken. While we are not legally required to assure availability of tax credits (except in limited instances in which we have guaranteed availability of tax benefits and minimum returns to fund investors), in order to maintain relationships with investors, we might decide to cure delinquent mortgage payments or do other things to protect investors access to low income housing tax credits. These events could have a negative impact on our business.

A significant portion of our interests in tax-exempt bonds and our residual interests in securitized asset pools have been pledged as collateral to support securitization programs.

A significant group of our assets are residual interests in securitization vehicles to which we sold tax-exempt bonds. Those residual interests are only entitled to interest after all senior interests have received specified interest payments and generally are not entitled to principal payments until all senior interests have been paid in full. In addition, we pledged investments as collateral with respect to these securitization programs. Among other things, in a typical securitization facility, the payment of the interest and principal on senior floating rate interests is guaranteed by a third-party credit enhancement provider, we are required to reimburse the credit enhancer for any payments it may be required to make as a result of its guarantee and we have pledged assets to secure that reimbursement obligation. If the credit enhancer is required to repay the senior floating rate certificates, both the securities in the securitization pool and the additional assets we have pledged may be sold to reimburse the credit enhancer for the sums it had to pay. This may result in our incurring significant losses.

In addition, if the value of the tax-exempt bonds we have securitized or pledged as collateral for a securitization program decreases significantly, we may be required to post cash or additional investments as additional collateral for the program. If we do not post the additional collateral, the securitization program may be terminated and the securitized bonds and additional collateral we pledged may be liquidated to satisfy the obligations to the holders of the securitization program certificates. This could result in the sale of the collateral at an inopportune time (such as the current time) on unfavorable terms.

Risks Related to Our Real Estate Division

Substantially all of our investments are illiquid, which could prevent us from consummating sales on favorable terms and makes it difficult for us accurately to value our investment portfolio.

There is no regular trading market for most of the market rate commercial real estate related debt and equity interests in which we and funds we manage have invested. This could result in a serious lack of liquidity, particularly during weak markets, such as those that have prevailed since the summer of 2007 and are discussed in the portion of this Risk Factors section captioned Risks Related to Current Credit Market Conditions and General Risks Related to Our Business. The lack of liquidity could seriously adversely affect the price for which we, or the funds we manage, could sell debt or equity securities if necessary.

The assets in which we invest may not realize the value forecasted at acquisition.

Although market conditions are a substantial factor in our ability to sell assets in which we have invested, the underlying value of those assets affects both our ability to sell them and their value to us as long-term investments. We have devoted substantial attention to analyzing investments before we make them. However, these analyses were made at a time when real estate markets were significantly different from those that currently prevail. Because of that, several market rate commercial loans we made are in arrears and there may be defaults with regard to other loans we have made.

A portion of our market rate investments are subordinated bonds or are junior in right of payment to other obligations and if the borrowers are unable to make all required payments, we may suffer losses.

When we hold junior or subordinated debt instruments or bond interests, if the borrower is unable or fails to make all of its required payments, we will not be paid until all the senior securities or senior bond interests have been paid in full. Further, in most instances we cannot, without the consent of the senior holders, take actions that might protect our interests. That can further reduce the likelihood of our receiving the full sum due to us if a borrower becomes insolvent. At December 31, 2008, we had market rate bond and loan investments in our Real Estate division totaling $78.2 million and $94.1 million, respectively, which were subordinate to more senior interests.

As a delegated underwriter and servicer in the Fannie Mae DUS program and Freddie Mac Program Plus program, we have agreed to share losses (up to specified levels) on loans that we underwrite and sell to Fannie Mae and Freddie Mac.

As discussed in Item 1. Business, we participate in the Fannie Mae DUS and Freddie Mac Program Plus programs. The terms of our participation require that we assume responsibility for a portion of any loss that may result from borrower defaults including foreclosure, based on Fannie Mae s and Freddie Mac s loss sharing formulas. Under the Fannie Mae DUS program, we are generally responsible for the first 5% of the unpaid principal balance and 25% of any additional losses with a maximum cap of 20% of the original principal balance. Certain loans have a maximum cap of 30% and 40% and different loss sharing percentages. Under the Freddie Mac Program Plus program, we are generally responsible for the first 8% of the unpaid principal balance. Although our losses to date under these guarantees have been minimal, that may not always be the case and a material increase in these losses could have a negative impact on our financial condition or results of operations.

We have agreed to sell the business that participates in these programs. The agreement entitles the purchaser to reduce the liquidation preference of preferred shares received as compensation for the sale by up to $30.0 million for losses under these programs.

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Our agency loan origination business is particularly dependent on maintaining our relationships with the GSEs that participate in the multifamily housing market and adverse changes to those relationships could cause our business and results of operations to suffer.

We have agreed to sell the portion of our business that participates in the DUS program and in Freddie Mac s Program Plus and other programs. Completion of that transaction is conditioned upon the purchaser being licensed to participate in those programs. We expect the transaction to be completed during the second quarter of 2009. If the transaction is not completed, we would continue to be subject to risks related to our relationships with GSEs.

The maintenance of our DUS license with Fannie Mae and our participation in Freddie Mac s Program Plus and other programs have been important to the continued productivity of our debt sector operations. As a DUS lender, we have been subject to periodic reviews by Fannie Mae, and we have had to comply with a variety of underwriting and servicing guidelines imposed by Fannie Mae. Fannie Mae and Freddie Mac could revoke our program licenses if we did not comply with the program guidelines.

Also, the value of our DUS license could be adversely impacted if Fannie Mae were to change the delegated authority of its DUS lenders or otherwise make it more costly or difficult for DUS lenders to underwrite and service loans on Fannie Mae s behalf.

If Fannie Mae or Freddie Mac were to admit more financial services firms into their programs, our competitive advantage would decline. We have no control over whether Fannie Mae or Freddie Mac expands the size of its programs. The value of our DUS license and our participation in Freddie Mac s Program Plus could be adversely impacted if either of those GSEs were to invite a significant number of new participants into its program. If more financial services firms compete for business in this marketplace, the profit margins on our debt business would likely decline and our results of operations could suffer.

Risks Relating to Ownership of Our Shares

Our Board can issue an unlimited number of common or preferred shares, which could reduce our book value per common share and earnings per common share and the cash or other assets available for distribution per common share upon liquidation or otherwise.

Under our Operating Agreement, our Board of Directors can authorize, without any requirement of shareholder approval, the issuance of an unlimited number of common shares. Although New York Stock Exchange (**NYSE**) rules imposed some limitations on our ability to issue shares without shareholder approval, our shares are not currently listed on the NYSE. Issuances of common shares could dilute the book value or the net income per common share or the cash per share available for distribution to common shareholders. Our Board can also authorize, without any requirement of shareholder approval, the issuance of an unlimited number of shares with preferences over the common shares as to dividends, distributions on liquidation and other matters, other than voting. This could reduce the book value and net earnings that would be allocable to our common shares and the cash or other assets that are available for distribution to our common shareholders either periodically or upon our liquidation.

We have stopped paying dividends and it is unlikely we will resume paying them in the near future.

Prior to the fourth quarter of 2007, we paid increasing dividends to our shareholders for 43 consecutive quarters. In January 2008 in response to deteriorating market conditions and our increasing costs, our Board reduced the dividend for the fourth quarter of 2007 by 37% from what we had paid for the prior quarter. The following quarter, our Board did not declare any dividend and our Board has not declared any dividend since then. Our Board considers a number of factors in deciding whether we should pay a dividend for a quarter. However, in view of the difficulty we are

having generating the cash we need for our operations and to satisfy our lenders, it is unlikely that we will pay a dividend in the near future.

Our shareholders may be taxed on their respective shares of our taxable income, even if we do not make distributions to them.

We are a limited liability company, not a corporation, and we have elected to be taxed as though we were a partnership. Because of that, our taxable income and loss, and our other tax attributes (including the tax-exempt nature of some of the interest we receive) are treated, at least for U.S. federal income tax purposes, as the taxable income or loss and other tax attributes, of our shareholders. That avoids the double tax to which corporations and their shareholders usually are subject, and enables our shareholders to benefit from the fact that a portion of our income is exempt from federal income tax. However, if we have taxable income in excess of the sums we are able to distribute to our shareholders, our shareholders will be taxed on sums they do not receive, since under the rules of partnership taxation our shareholders are taxed based on taxable income and not on our distributions. In addition, much of our tax-exempt income is subject to the alternative minimum tax (**AMT**) for federal income tax purposes and shareholders who are subject to the AMT could be subject to tax on such income even if we do not distribute it. In 2008, although we had substantial losses for financial accounting purposes and we passed through to our shareholders for tax purposes capital losses due to bond sales and closing out of derivative positions, we also passed through to our shareholders tax-exempt interest income and some taxable interest income. Some shareholders may have capital gains as a result of the share price they paid for our common shares.

We could have additional federal income tax obligations which would reduce the sums available for distribution to shareholders.

Because we and a number of our subsidiaries are taxed as though we were partnerships, we and those subsidiaries do not have to pay federal income taxes on a significant portion of our income. As is discussed in Item 1. Business Material U.S. Federal Tax Considerations, it is possible that because of changes in the tax laws or changes in the way the tax laws are applied, or by our own election, we may at some time become subject to federal income tax, which would reduce the sums we would have available to distribute to our shareholders. Also, it is possible that the dividends we pay, including the portions derived from our tax-exempt income, could become fully taxable to our shareholders in the same manner, and at the same rates, as dividends paid by taxable corporations.

One of our shareholders has the right to designate one, and in some circumstances two, of our directors, which is a right that is not available to any other of our shareholders.

Under our organizational documents (since our inception), Shelter Development Holdings, Inc., which is controlled by Mark Joseph, the Chairman of our Board, or its successor has the right to appoint one of our directors, or, if we have more than ten directors, it has the right to appoint two of our directors. This right is not available to any other of our shareholders.

Provisions of our Operating Agreement may discourage attempts to acquire us.

Our Operating Agreement contains at least three groups of provisions that could have the effect of discouraging people from trying to acquire control of us. Those provisions are:

> If any person or group, other than Shelter Development Holdings, Inc., SCA Tax-Exempt Fund, MME I Corporation, MME II Corporation or their affiliates, acquires 10% or more of our shares, that person or group cannot, with a very limited exception, (1) engage in a business combination with us (including an acquisition from us of more than 10% of our assets or more than 5% of our shares) within five years after the person or group acquires the 10% or greater interest, unless our Board of Directors approved the business combination or approved the acquisition of a 10% or greater interest in us before it took place, or the business combination is approved by two-thirds of the members of our Board and holders of two-thirds of the shares that are not owned

by the person or group that owns the 10% or greater interest; or (2) engage in a business combination with us until more than five years after the person or group acquires the 10% or greater interest, unless the business combination is recommended by our

Board of Directors and approved by holders of 80% of our shares or of two-thirds of the shares that are not owned by the person or group that owns the 10% or greater interest.

If any person or group makes an acquisition of our shares that causes the person or group to be able to exercise between one-fifth and one-third of all voting power of our shares, between one-third and a majority of all voting power of our shares, or a majority or more of all voting power of our shares, the acquired shares will lose their voting power, except to the extent approved at a meeting by the vote of two-thirds of the shares not owned by the person or group, and we will have the right to redeem, for their fair market value, any of the acquired shares for which the shareholders do not approve voting rights.

One third of our directors (except one, or in some circumstances two, directors designated by Shelter Development Holdings, Inc) are elected each year to three year terms. That could delay the time when somebody who acquires voting control of us could elect a majority of our directors.

The above provisions could deprive our shareholders of opportunities that might be attractive to many of them.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We do not own any of the real property where we conduct our business. Our corporate headquarters is located in Baltimore, Maryland, where we lease approximately 35,000 sq. feet of office space pursuant to a lease that expires in 2014. Our two other principal offices are located in Tampa, Florida (where we lease approximately 35,000 sq. feet of office space pursuant to a lease that expires in 2016) and Boston, Massachusetts (where we lease approximately 55,000 sq. feet of office space pursuant to a lease that expires in 2015).

Our debt, structured finance and fund management segments predominantly use the Baltimore and Tampa offices. Our tax credit equity sector primarily uses our Boston office.

As of the date of this Report, we also lease office space for regional offices in the following locations: Chicago, Illinois; Grapevine, Texas; Detroit, Michigan; Atlanta, Georgia; Roswell, Georgia; San Diego, California; San Francisco, California; Irvine, California; St. Paul, Minnesota; Denver, Colorado; New York, New York; and El Segundo, California. We will be disposing of some of these offices as we sell aspects of our business and we expect to close others due to current market conditions. We believe our facilities are suitable for our requirements and are adequate for our current and contemplated future operations.

Item 3. LEGAL PROCEEDINGS

Except as described below, we are not a party to any material litigation or other legal proceedings, or to the best of our knowledge, any threatened litigation or legal proceedings, which, in the opinion of management, individually or in the aggregate, would be likely to have a material adverse effect on our results of operations or financial condition.

In September 2006, we were named as a nominal defendant in a suit in the Delaware Chancery Court entitled Paddy Wood v. Charles C. Baum, et.al, C.A. No. 2404-VCL, a derivative suit in which the plaintiff sought recovery on our behalf for damages we allegedly suffered because, among other things, we allegedly failed to record impairments to various assets as required by GAAP. The action was dismissed in November 2007 because the plaintiff had failed to ask our Board to investigate the allegations. The plaintiff appealed and in June 2008 the Delaware Supreme Court

affirmed the dismissal.

After we announced in September 2006, that we would be restating our financial statements for 2005 and prior years, the Philadelphia regional office of the SEC informed us that it was conducting an informal inquiry concerning us and requested the voluntary production of documents and information concerning, among other things, the reasons for that and a prior restatement. We provided the requested documents and information and are cooperating fully with the informal inquiry. The SEC staff has been advised by us on the progress of the

restatement and the preparation of our 2006 financial statements. We do not know what, if anything, the SEC staff may do now that the restatement and our 2006 financial statements are filed.

In the first half of 2008, we were named as a defendant in eleven (subsequently reduced to ten) purported class action lawsuits and five derivative suits. In each of these class action lawsuits, the plaintiff purports to represent a class of investors in the Company s shares who allegedly were injured by claimed misstatements in press releases issued and SEC filings made 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. The derivative cases have also been consolidated before the United States District Court for the District of Maryland. Both cases will proceed under the name In Re Municipal Mortgage & Equity, LLC Securities and Derivative Litigation, Case No. 80-MDL-1961. By Court order, a single consolidated amended complaint was filed in the class actions on December 5, 2008. Similarly, a single consolidated amended complaint was filed in the derivative cases on December 12, 2008. 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 their duties. A derivative suit is a lawsuit brought by a holder of shares or other equity interests in a company, not on the holder s own behalf, but on behalf of the company, and against the parties who allegedly caused harm to the company. Any proceeds of a successful derivative action are awarded to the company, except to the extent they are used to pay fees to the plaintiffs counsel and other costs. On March 12, 2009, we filed a motion to dismiss the class action. We and the plaintiffs agreed not to take any further action regarding the derivative cases at least until the motion to dismiss the class actions is decided. 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.

In October 2008, Navigant Consulting, Inc. (**Navigant**) filed suit against the Company for $7.8 million in consulting fees billed to the Company related to Navigant s services in connection with the restatement, development of accounting policies and business unit services. The Company disputes the claims and expects to defend the case vigorously. The Company has filed an answer and counterclaims. Because the case is at an early stage, the Company cannot reasonably predict the outcome at this time.

In July 2007, we received a letter from the U.S. Securities and Exchange Commission (SEC) informing us of a routine examination of our subsidiary that is registered under the Investment Advisers Act of 1940 and bringing matters to our attention for consideration and corrective action related to record keeping and other matters. We designated a new chief compliance officer of the subsidiary and remediated most of the issues identified in the letter, and we informed the SEC staff of the steps we had taken to do that. While we have taken steps to correct all the deficiencies that were identified, it is possible that the SEC could seek to penalize us because of our prior failures to meet applicable requirements; however, because we no longer provide investment management services to institutional investors, our subsidiary is no longer registered under the Investment Advisors Act.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Until February 5, 2008, our common stock was listed on the New York Stock Exchange under the symbol MMA. Since then, it has been traded in the over the counter market under the symbol MMAB.PK. The following table shows the high and low sales prices for our common stock during the periods of 2008, 2007 and 2006 indicated in consolidated trading reported by the NYSE for 2006 and 2007, and the over the counter market known as the pink sheets for 2008, and the cash dividends we declared per share:

Fiscal Quarter	Common Shares High/Low Prices 2008	2007	2006	Cash Dividends per Share 2008	2007	2006
First	$ 17.50-4.20	$ 32.20-25.64	$ 27.50-25.85	33.00¢	51.25¢	49.25¢
Second	5.85-2.47	28.92-23.65	28.24-25.61	0.00	51.75	49.75
Third	3.03-0.37	26.07-16.77	28.99-26.75	0.00	52.25	50.25
Fourth	0.97-0.12	23.06-13.01	32.40-27.28	0.00	52.50	50.75

Prior to the fourth quarter of 2007, we paid increasing dividends to our shareholders for 43 consecutive quarters. In January 2008 in response to deteriorating market conditions and our increasing costs, our Board reduced the dividend for the fourth quarter of 2007 by 37% from what we had paid for the prior quarter. Nonetheless, the total dividends for 2007 exceeded the operating cash we generated in that year. In May 2008, our Board did not declare any dividend and our Board has not declared any dividend since then. Our Board considers a number of factors in deciding whether we should pay a dividend for a quarter. However, in view of the difficulty we are having generating the cash we need for our operations and to satisfy our lenders, it is unlikely that we will pay a dividend in the near future.

On December 31, 2008, the last sale price of our common shares reported in the over the counter market was $0.27. On that day, there were approximately 2,157 holders of record of our common shares. We issued Schedule K-1s to approximately 45,844 persons who were beneficial owners of our shares during 2008. However, those persons were not necessarily all beneficial owners at the same time.

Performance Graph

The following table compares total shareholder return for MuniMae at December 31, 2008 to the Standard and Poor s 500 Index, the FTSE National Association of Real Estate Investment Trusts (**NAREIT**) Equity Index, and a peer group (**Peer Group**) Index consisting of American Home Mortgage Investment Corp., Annaly Capital Management Inc., Capital Trust Inc., Capitalsource Inc., Charter Mac (now known as Centerline Holding Co.), Fieldstone Investment Corporation, Impac Mortgage Holdings Inc., Istar Financial Inc., MFA Mortgage Investments, Inc. (now known as MFA Financial Inc.), Mortgage IT Holdings, Inc., Northstar realty Finance Corp., Novastar Financial Inc., Rait Financial Trust, and Redwood Trust Inc., assuming a $100 investment made on December 31, 2001 and assuming reinvestment of all dividends. MuniMae selected the NAREIT index because the NAREIT index consists of real estate investment trusts which, like MuniMae, pass-through the majority of their income to their shareholders, albeit not tax-exempt income. MuniMae selected the Peer Group companies because those companies operate within the same general industry as MuniMae.

COMPARISON OF 7 YEAR CUMULATIVE TOTAL RETURN*
Among Municipal Mortgage And Equity, LLC, The S&P 500 Index,
The FTSE NAREIT Equity Index And A Peer Group

* $100 invested on 12/31/01 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.
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Comparative Total Return Analysis

	MMA	S&P 500	FTSE NAREIT Equity	Peer Group
2001	100.00	100.00	100.00	100.00
2002	109.10	77.90	103.82	115.80
2003	113.90	100.24	142.37	162.13
2004	134.89	111.15	187.33	189.80
2005	138.06	116.61	210.12	138.91
2006	185.17	135.03	283.78	174.46
2007	92.89	142.45	239.25	101.80
2008	1.77	89.75	148.99	57.40

Unregistered Sales of Equity Securities

During the years ended December 31, 2006 and 2005, we issued equity securities in two transactions that were not registered under the Securities Act of 1933, as amended. In July 2005, we entered into a stock purchase agreement to acquire all outstanding capital stock of Glaser Financial Group, Inc. for an initial cash purchase price of $50.0 million plus deferred payments of approximately $12.0 million over the three year period subsequent to the closing along with contingent consideration to be paid if certain specified levels of operating performance were achieved. Deferred payments were made to the sellers in 2006 and 2007 in the form of common shares. In May 2006, we acquired Renewable Ventures LLC, a third-party financer and operator of renewable energy generation facilities for approximately $3.0 million, including approximately $0.6 million of common shares. We issued shares in these transactions without registration in reliance on the exemption in Section 4(2) of the Securities Act for transactions by an issuer not involving any public offering.

Issuer Purchases of Equity Securities

None.

Item 6. SELECTED FINANCIAL DATA

The following table contains selected financial data that are derived from our audited consolidated financial statements included in this Report and should be read in conjunction with those financial statements. The 2004 and 2005 consolidated financial statements included in this Report on Form 10-K have been restated from the consolidated financial statements for those years included in our Report on Form 10-K for the year ended December 31, 2005. Further, the 2004 consolidated financial statements have been restated from the 2004 consolidated financial statements included in our Report on Form 10-K for the year ended December 31, 2004. See Notes to Consolidated Financial Statements-Note 2, Restatement of Previously Reported Results included in this Report for additional detail on the accounting corrections.

The selected financial data included in this Report relate only to the years ended December 31, 2006, 2005 and 2004. Preparing restated standalone financial data regarding the years ended December 31, 2002 and 2003 would have been very costly and would have significantly delayed the filing of this Report. Because it has been more than five years since December 31, 2003, we believe that restated financial data related to the years ended December 31, 2003 and 2002 would only be marginally beneficial and would not have justified either the cost or the delay that would have been required to prepare it. Accordingly, we did not deem it practical to include selected financial data for those years; however, as part of the restatement, we have reflected the cumulative effect of the restatement in our beginning balance of shareholders equity at December 31, 2003.

(in thousands, except per share data)	**2006**	**As Restated 2005** [3]	**As Restated 2004**
CONSOLIDATED INCOME STATEMENT DATA:			
Interest, fee and other income	$ 261,653	$ 202,181	$ 172,118
Revenue from consolidated funds and ventures [1]	88,914	82,577	59,644
Total revenue	350,567	284,758	231,762
Interest expense and other expenses	(274,488)	(238,089)	(177,048)
Expenses from consolidated funds and ventures [1]	(150,764)	(137,552)	(125,662)
Total expenses	(425,252)	(375,641)	(302,710)
Net gains on asset sales and derivatives	33,050	23,270	933
Net gains on sale of real estate from consolidated funds and ventures	52,479	19,655	5,805
Equity in earnings of unconsolidated ventures	5,216	26,346	403
Equity in losses from unconsolidated Lower Tier Property Partnerships held by consolidated funds and ventures [1]	(319,511)	(281,162)	(238,674)
Loss before income taxes, (income) loss allocable to non-controlling interests and discontinued operations	(303,451)	(302,774)	(302,481)
Income tax expense	3,323	2,929	2,923
(Income) loss allocable to non-controlling interests:			
Distributions declared to perpetual preferred shareholders of subsidiary	(9,208)	(4,962)	(755)

Net losses allocable to non-controlling interests from consolidated funds and ventures [2]		360,011		327,761		294,840
Income (loss) before discontinued operations		44,029		17,096		(11,319)
Discontinued operations		9,618		7,575		8,043
Net income (loss)	$	53,647	$	24,671	$	(3,276)
EARNINGS PER SHARE:						
Common shares (basic earnings (loss) from continuing operations)	$	1.14	$	0.45	$	(0.32)
Basic earnings (loss) per common share		1.39		0.65		(0.09)
Common shares (diluted earnings (loss) from continuing operations)		1.12		0.45		(0.32)
Diluted earnings (loss) per common share		1.37		0.65		(0.09)
DISTRIBUTIONS PER SHARE:						
Common shares	$	2.00	$	1.92	$	1.84

(in thousands, except per share data)	2006	As Restated 2005 [3]	As Restated 2004	As Restated 2003 [4]
CONSOLIDATED BALANCE SHEET DATA:				
Bonds [5]	$ 1,770,113	$ 1,392,934	$ 1,276,055	$ 1,055,840
Other assets [6]	1,828,944	1,575,582	1,097,409	995,010
Assets of consolidated funds and ventures [7]	4,884,757	4,600,400	3,817,889	3,203,827
Total assets	8,483,814	7,568,916	6,191,353	5,254,677
Debt (excluding mandatorily redeemable preferred shares) [8]	2,219,130	1,651,485	1,348,325	1,207,346
Mandatorily redeemable preferred shares	162,168	162,150	162,133	162,117
Other liabilities	581,018	453,184	228,424	194,096
Liabilities of consolidated funds and ventures [7]	2,045,148	1,875,629	1,600,766	1,165,906
Total liabilities	5,007,464	4,142,448	3,339,648	2,729,465
Non-controlling interests in consolidated funds and ventures [7]	2,639,749	2,593,197	2,166,475	1,893,389
Perpetual preferred shares	168,686	168,686	71,031	
Total shareholders equity	667,915	664,585	614,199	631,823

(1) *These amounts represent revenues and expenses of our consolidated funds and ventures.*

(2) *These amounts primarily represent the losses related to the LIHTC Funds that are consolidated under FIN 46(R). Virtually all of the losses are allocated to the limited partners in the LIHTC Funds. This allocation is included in the Net losses allocable to non-controlling interest in consolidated funds and ventures. See Notes to Consolidated Financial Statements-Note 20, Consolidated Funds and Ventures included in this Report.*

(3) *2005 includes approximately ten months of income and expense from MONY, a subsidiary of AXA, which was acquired February 18, 2005, and six months of income and expense from Glaser, which was acquired July 1, 2005.*

(4) *The 2003 column includes HCI, which was acquired July 1, 2003.*

(5) *See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation Results of Operations for additional information on the increase of the bond portfolio.*

(6) *In 2005, we acquired additional MSRs and loans held for sale through the Glaser acquisition. Our investments in unconsolidated Lower Tier Property Partnerships, which are part of the Tax Credit Equity business, also expanded. Both of these activities contributed to the increase of the other assets balance between 2004 and 2005.*

(7) *The assets, liabilities and non-controlling interests in consolidated funds and ventures increased over the 2003 to 2006 time period given the growth in our LIHTC Funds and the increases related to our GP Take Backs.*

(8) *We relied on our funding sources to finance investments in our business as it continued to expand and grow. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation Liquidity and Capital Resources and Notes to Consolidated Financial Statements-Note 11, Debt included in this Report for more information.*

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except as otherwise noted, this Management s Discussion and Analysis of Financial Condition and Results of Operations describes us as we existed on December 31, 2006 and the factors that affected our operating results during 2006, 2005 and 2004. It does not take account of things that have happened since December 31, 2006, which have materially changed us and our businesses. See Item 1. Business.

General Overview

Our business activities consist primarily of making, providing and arranging investments and financing secured by, or otherwise related to, multifamily or commercial real estate, the majority of which generates tax-exempt income, tax credits or other tax benefits for investors. We have also been engaged in the financing of renewable energy projects, which also generates tax credits and other tax benefits for investors. In addition, we have provided investment management services to a limited number of institutional investors.

MuniMae was organized in 1996 as a Delaware limited liability company and became a public company in 1996. We are classified as a partnership for federal income tax purposes. We have the same limited liability, governance and management structures as a corporation, but we are treated as a pass-through entity for federal income tax purposes. Thus, our shareholders include their distributive shares of our income, deductions and credits on their tax returns. Among other things, this allows us to pass-through tax-exempt interest income to our shareholders.

Many of our subsidiaries also are pass-through entities, and our taxable income, deductions and credits that are reflected on our shareholders tax returns include the income, deductions and credits of those subsidiaries. However, other of our subsidiaries are corporations that pay taxes on their own taxable income. Our income, deductions and credits that are reflected on our shareholders tax returns do not include the income of those subsidiaries, but include any taxable dividends or other taxable payments we receive from them. Tax information is provided to our shareholders on Schedule K-1 rather than on Form 1099.

We generate income primarily through returns on financing we provide, and through fees and distributions from funds and other investment entities we manage.

We operate through three primary divisions as described below:

The Affordable Housing Division conducts activities related to affordable housing and is further subdivided into three reportable segments, including:

Tax Credit Equity which creates investment funds and finds investors for such funds that receive tax credits for investing in affordable housing partnerships;

Affordable Bonds which originates and invests primarily in tax-exempt bonds secured by affordable housing; and

Affordable Debt which originates and invests in loans secured by affordable housing.

The Real Estate Division conducts real estate finance activities and is further subdivided into two reportable segments:

Agency Lending which originates both market rate and affordable housing multifamily loans with the intention of selling them to government sponsored entities (i.e., Fannie Mae and Freddie Mac) or through programs created by them, or sells the permanent loans to third party investors, for which the loans are guaranteed by Ginnie Mae and insured by HUD; and

Merchant Banking which provides loan and bond originations, loan servicing, asset management, investment advisory and other services to institutional investors that finance or invest in various commercial real estate projects. In some cases, we originate loans and bonds for our own investment purposes.

The Renewable Ventures Division finances, owns and operates renewable energy and energy efficiency projects. This division, in its entirety, is considered a reportable segment.

There is a significant difference between the assets and liabilities reflected on our consolidated balance sheet prepared under GAAP and those assets that are legally owned by us or liabilities we are directly obligated on. Our December 31, 2006 consolidated balance sheet reflected consolidated total assets of $8.5 billion and consolidated shareholders equity of $667.9 million. However, our December 31, 2006 consolidated balance sheet included $4.9 billion of assets and $2.0 billion of liabilities of over 200 funds and partnerships in which we (MuniMae and its majority owned subsidiaries) had little or no ownership interest, but the assets and liabilities of which are required to be consolidated primarily due to FIN 46(R). Although it would not be in accordance with GAAP to exclude the impact of these consolidated funds and ventures from our consolidated financial statements, we believe that explaining the effect of including these entities helps the public to understand which assets MuniMae has a direct or indirect economic interest in, and the liabilities that MuniMae or entities it owns could be required to pay. Without the assets and liabilities of these consolidated funds and ventures (but including assets that were eliminated as part of the consolidation) MuniMae had at December 31, 2006, total assets of $3.9 billion and $3.2 billion in total liabilities, including perpetual preferred stock of a subsidiary.

The consolidation of these entities also affects our reported revenues because certain fees and other payments received from the consolidated entities are not reflected as revenues but are reflected as income allocated to us in the consolidated statement of operations. We must also record losses related to these entities even though MuniMae itself has no expectation to fund those losses, other than possible losses related to the investments we actually have in those entities. We have recorded cumulative pre-tax losses related to these entities totaling approximately $90.0 million through December 31, 2006. The majority of these losses would be reversed upon a qualifying sale of our interest or other event that would allow us to deconsolidate these entities.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements is based on the selection and application of GAAP, which requires us to make certain estimates and assumptions that affect the reported amounts and classification of the amounts in our consolidated financial statements. These estimates and assumptions require us to make difficult, complex and subjective judgments involving matters that are inherently uncertain. We base our accounting estimates and assumptions on historical experience and on judgments that are believed to be reasonable under the circumstances available to us at the time. Actual results could materially differ from these estimates. We applied our critical accounting policies and estimation methods consistently in all material respects and for all periods presented, and have discussed those policies with our Audit Committee.

We believe the following accounting policies involve a higher degree of judgment and complexity and represent the critical accounting policies and estimates used in the preparation of our consolidated financial statements.

Consolidated Funds and Ventures

We are associated with numerous investments in partnerships and other entities that primarily hold or develop real estate, although some of these investments are related to the development of renewable energy projects. In most cases our direct or indirect legal interest is minimal in these entities; however, we apply Accounting Research Bulletin No. 51, *Consolidated Financial Statements* (***ARB 51***), FIN 46(R) or Emerging Issues Task Force Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners have Certain Rights* (***EITF 04-5***) in order to determine if we need to consolidate any of these entities. There is considerable judgment in assessing whether to consolidate an

entity under these accounting principles. Some of the criteria we are required to consider include:

the determination as to whether an entity is a variable interest entity (**VIE**).

if the entity is considered a VIE, then the determination of whether we are the primary beneficiary of the VIE is needed and requires us to make judgments regarding: (1) the measurement of expected losses and returns related to the VIE and which party absorbs the most variability from those expectations, as well as (2) the existence of related party relationships between us and other investors in the entity, the relationship of the VIE to the various investors in the entity, and the design of the VIE.

if the entity is required to be consolidated, then upon initial consolidation, we record the assets, liabilities and non-controlling interests at fair value. Substantially all of our consolidated entities are investment entities that own real estate or real estate related investments and as such there are judgments related to the forecasted cash flows to be generated from the investments such as rental revenue and operating expenses, vacancy, replacement reserves and tax benefits (if any). In addition, the determination of investor discount rates and capitalization rates is needed.

We or funds we manage have investments in over 2,000 entities, the majority of which are considered to be VIEs and therefore are subject to the application of FIN 46(R). Based on the application of FIN 46(R) or similar accounting pronouncements, we have consolidated over 200 of these entities, which resulted in assets of $4.9 billion being added to our balance sheet at December 31, 2006. In addition, we recorded cumulative pre-tax losses related to these entities totaling approximately $90.0 million through December 31, 2006. The majority of these losses would be reversed upon a qualifying sale of our interest or other event that would allow us to deconsolidate these entities.

Valuation of Bonds and Retained Interests in Securitized Bonds

Bonds available-for-sale include mortgage revenue bonds, other municipal bonds and retained interests in securitized bonds. We account for investments in bonds as available-for-sale debt securities under the provisions of Statement of Financial Accounting Standards (**FASB**) No. 115, *Accounting for Certain Investments in Debt and Equity Securities (**SFAS 115**).*

Accordingly, these investments in bonds are carried at fair value with changes in fair value (excluding other-than-temporary impairments) recognized in other comprehensive income. We estimate the fair value of our bonds using quoted prices, where available; however, most of our bonds do not have observable market quotes. For these bonds, we estimate the fair value of the bonds by discounting the cash flows that we expect to receive using current estimates of appropriate discount rates. For non-performing bonds, given that we have the right to foreclose on the underlying real estate property which is the collateral for the bonds, we estimate the fair value by discounting the underlying properties expected cash flows using estimated discount and capitalization rates less estimated selling costs. There are significant judgments and estimates associated with forecasting the estimated cash flows related to the bonds or the underlying collateral for defaulted bonds, including macroeconomic conditions, interest rates, local and regional real estate market conditions and individual property performance. In addition, the discount rates applied to these cash flow forecasts involves significant judgments as to current credit spreads and investor return expectations. We had $100.9 million of net unrealized gains reflected in our bond portfolio reported at a fair value of $1.8 billion at December 31, 2006. Given the size of our portfolio, different judgments as to credit spreads and investor return expectations could result in materially different valuations.

In addition, we have to make a determination as to whether there is an other-than-temporary impairment in bonds in our bond portfolio. As such, we follow the guidance in FASB Staff Position FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (**FSP FAS 115-1/124-1**).* Retained interests in securitized bonds are periodically reviewed for potential impairment in accordance with Emerging Issues Task Force Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets*

(EITF 99-20).

We evaluate our bond portfolio for other-than-temporary impairment throughout the year. Each bond with an estimated fair value less than amortized cost is reviewed on a quarterly basis by management. At a minimum,

management considers the following factors that, either individually or in combination, could indicate that the decline is other-than-temporary:

the length of time and the extent to which the fair value has been less than amortized cost;

the financial condition of the underlying collateral (including our intent and ability to foreclose on the property) and whether we expect to recover all amounts due on a net present value basis; and

the intent and ability to retain our investment in the bond for a period of time sufficient to allow for any anticipated recovery in fair value.

Among the other factors that are considered in determining intent and ability is a review of our capital adequacy, interest rate risk profile and liquidity position. Declines in the fair value of the bonds below their amortized cost that are deemed to be other-than-temporary are recognized in earnings as Impairment on bonds. The fair value of an other-than-temporarily impaired bond becomes the new cost basis of the bond and it is not adjusted for subsequent recoveries in fair value. We have recorded cumulative impairment of $43.0 million on bonds that we owned at December 31, 2006.

Allowance for Loan Losses

The allowance for loan losses represents management s best estimate of probable incurred losses attributable to loans held for investment. The allowance for loan losses is composed of two different components, including a loan-specific allowance based on the provisions of Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan, an amendment of FASB Statements No. 5 and 15* ***(SFAS 114)*** and an unallocated allowance attributable to the remaining portfolio based on the provisions of Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* ***(SFAS 5).***

We perform systematic reviews of our loan portfolio throughout the year to identify credit risk and to assess overall collectability. The Company s credit risk rating process (see Item 7A. Quantitative and Qualitative Disclosures about Market Risk Credit and Liquidity Risk) is inherently subjective and is based on judgments related to the borrower s past performance, the current status of the loan, the performance of the underlying collateral and the current condition of the loan as compared to our original underwriting. The credit risk rating process is integral to our determination of which loans are considered impaired and it also has a significant impact on the determination of our unallocated loan loss as we apply our loss experience based on our credit ratings.

For impaired loans, we determine if a specific loan loss is required. Specific impairment losses are measured based upon:

the borrower s overall financial condition and historical payment record;

the prospects for support from any financially responsible guarantors; and

the net realizable value of any collateral, if appropriate.

This measurement process is judgmental and in most cases the impairment measure is based on the fair value of the underlying collateral, which is primarily real estate related assets. Real estate valuations require significant estimates and assumptions such as rental or lease revenue, operating expenses, vacancy considerations and investor discount and capitalization rates. In addition, many of our properties are low income housing apartment projects that have tax credits associated with them that we value for purposes of determining impairment. The values of these tax credits is

based on the performance and compliance of the property with guidelines established to qualify for the tax credits. Future non-compliance can impact the tax credit value through loss of credits or tax credit recapture.

Valuation of Mortgage Servicing Rights

We account for purchased MSRs initially at fair value. MSRs that are retained from the sale of loans are initially recorded through an allocation of the cost of the loan between the loan sold and the retained MSR, based on their relative fair value.

As observable market prices for commercial multifamily MSRs are not available, we estimate the fair value of mortgage servicing rights by utilizing an internally developed discounted cash flow model to calculate the present value of expected future cash flows associated with servicing the loans when mortgage servicing rights are initially recorded and at each balance sheet date. This calculation uses a number of inputs and assumptions that are based on historical experience as well as external market information such as industry surveys and published market data. The assumptions used in the valuation model include borrower prepayment speeds, discount rates that are commensurate with the risk profile of the serviced assets, servicing costs, allowable fees, ancillary income, foreclosure rate, float earnings rate, escrow earning rate, and tax and insurance inflation rate.

Models used to value mortgage servicing rights are highly sensitive to changes in certain assumptions such as prepayment speeds and discount rates. Loan level prepayment curves are created for each loan to project expected prepayment behavior. Loan prepayment speeds are determined by both voluntary and involuntary factors, adjusted for market conditions. Voluntary prepayments are influenced by the call protection period, lockout period, yield maintenance, prepayment penalties and the interest rate environment. Involuntary prepayment (defaults) rates are estimated based on loan type and loan age. The discount rate represents the required rate of return that investors would expect for an asset with similar risk. The discount rates are calculated incrementally, and include a risk free rate, a base market pricing spread and additional risk premiums depending on mortgage servicing characteristics.

Impairment on Equity Method Investments and Impairment on Real Estate in Lower Tier Property Partnerships

Equity Method Investments

Our consolidated LIHTC Funds hold investments in unconsolidated Lower Tier Property Partnerships. In addition, we directly hold investments in unconsolidated Lower Tier Property Partnerships prior to placing these partnerships into LIHTC Funds. We also hold investments in other unconsolidated real estate. These investments are accounted for under the equity method and we assess our equity method investments for other-than-temporary impairment in accordance with Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* (***APB 18***) and Emerging Issues Task Force Issue No. 94-1, *Accounting for Tax Benefits Resulting from Investments in Affordable Housing Projects* (***EITF 94-1***). Depending on whether these investments are in affordable housing projects, the pertinent accounting literature will differ.

Equity method investments in affordable housing projects

In accordance with EITF 94-1, we use an undiscounted cash flow approach to identify other-than-temporary impairment related to our equity method investments in affordable housing projects. The undiscounted cash flow projections provide an estimate of:

- tax benefits associated with future federal and state tax credits;
- tax benefits associated with future net operating losses (primarily depreciation taken on the real estate asset);
- cash flows used by and generated from the multifamily housing projects; as well as

any net cash generated from a sale or disposal of the property at the end of the investment period.

If the cash flow projection provides an estimate that is less than the carrying value of the equity investment, then the investment is written down through a current period reduction to net income, a majority of which is allocated to non-controlling interest holders.

Equity method investments that are not affordable housing projects

In accordance with APB 18, we use an undiscounted cash flow approach to identify other-than-temporary impairment. The undiscounted cash flow projection provides an estimate of the cash flows associated with the long-lived asset held by the unconsolidated real estate entity. If our equity share of the total undiscounted cash flows is less than the carrying value of the equity investment, then our investment is written down through a current period reduction to net income. However, the impairment charge is based on our equity share of the fair value of the unconsolidated entity based on discounted cash flows.

Real Estate in Lower Tier Property Partnerships

In some cases we hold real estate because we have consolidated certain Lower Tier Property Partnerships in light of the fact that we have taken back the general partner interest in such partnerships. In other cases (but more infrequent), we hold real estate through a foreclosure or deed-in-lieu of foreclosure. Generally, the real estate is low income housing assets financed with tax credit equity or tax-exempt bonds. We assess the appropriateness of the carrying value of the real estate based on the identification of triggering events as prescribed by Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (***SFAS 144***). The Company uses an undiscounted cash flow approach to assess recoverability of the asset and where undiscounted cash flows are less than the carrying value of property, we measure impairment based on the fair value of the property.

In addition, with regard to the Lower Tier Property Partnerships in which we hold an equity investment, as discussed above, we also apply SFAS 144 in order to assess impairment of the real estate asset held by these entities. Given that we are recording a share of income or loss through our equity investment in these entities, we assess whether the impairment taken by the Lower Tier Property Partnership is adequate and adjust our equity in losses from these entities as needed.

The application of our accounting policies related to impairment on equity method investments and impairment on real estate in Lower Tier Property Partnerships requires judgments and estimates that are primarily related to forecasting cash flows associated with the real estate asset(s) held by these entities. In addition, fair valuing these assets is dependent on key assumptions related to discount rates and capitalization rates.

Income taxes

Municipal Mortgage & Equity, LLC is the parent entity that owns interests in various entities, some of which are corporations subject to federal and state income taxes (**C corporations**) and others of which are pass-through entities for tax purposes (meaning the owners of the partnership or other equity interests are allocated the taxable income). Municipal Mortgage & Equity, LLC is itself a pass-through entity, and therefore, all the income (and loss) of our pass-through entity subsidiaries is allocated to our common shareholders. We do not have a liability for federal and state income taxes related to our income. However, we do have several business segments that operate their business through taxable C corporations; and as such a portion of our income is subject to federal and state income taxes.

Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (***SFAS 109***), establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current period and deferred tax assets and

liabilities for future tax consequences of events that have been recognized in an entity s financial statements or tax returns. Significant judgment is required in determining and evaluating income tax positions, including assessing the relative merits and risks of various tax treatments considering statutory, judicial and regulatory guidance available regarding the tax position. We establish additional

provisions for income taxes when there are certain tax positions that could be challenged and that may not be sustained upon review by taxing authorities.

Judgment is also required in assessing the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns as well as the recoverability of our deferred tax assets. In assessing the realizability of our deferred tax assets we consider information such as forecasted earnings, future taxable income and tax planning strategies in measuring the required valuation allowance.

Restatement Changes

In September 2006, we determined that we had to restate our financial statements for 2005 and 2004. The restatement results changed our previous accounting results across many areas of our activities. However, it has not resulted in any significant adjustments to our corporate cash accounts.

The following table provides the cumulative impact of the restatement on shareholders equity at December 31, 2005. Management has classified the accounting changes, which have all been determined to be corrections of errors, into broad categories as out lined below. The manner in which the restatement impact is attributed to the ten categories is subjective and certain changes may relate to more than one category. While such classifications are not required under GAAP, management believes these classifications may assist users in understanding the nature and impact of the changes made as part of the restatement. See Notes to Consolidated Financial Statements-Note 2, Restatement of Previously Reported Results included in this Report for a more detailed discussion of the accounting corrections.

(in thousands)		
Shareholders Equity as previously reported at December 31, 2005	$	768,319
Cumulative impact of restatement adjustments:		
Accounting related to consolidated funds and ventures		(100,826)
Tax credit equity accounting		(41,272)
Bond accounting		61,194
Other restatement adjustments		(17,524)
Total pre-tax adjustments		(98,428)
Tax valuation allowance		(41,338)
Tax effects of restatement adjustments		36,032
Cumulative impact of restatement adjustments		(103,734)
Restated Shareholders Equity at December 31, 2005	$	664,585

Consolidation of Funds and Ventures

As part of the restatement process, we re-evaluated our direct or indirect relationship with over 2,000 potential variable interest entities in which we have little or no ownership interest, but for which we may be deemed to be the primary beneficiary or to have control. Our re-evaluation of the application of FIN 46(R), EITF 04-5 and ARB 51 resulted in the consolidation of funds and ventures that were previously not consolidated or were consolidated incorrectly. As a result, upon restatement, we have consolidated all assets, liabilities and non-controlling interests, as well as income and expenses of over 200 additional entities.

The following summarizes the re-evaluation considerations related to our different funds and ventures.

LIHTC Funds

There are two primary changes related to the consolidation of the LIHTC Funds:

Non-guaranteed LIHTC Funds Our prior FIN 46(R) analysis did not fully take into consideration the de facto agency relationship that existed between the general partner (i.e., the Company) and the limited partners of the LIHTC Funds. The de facto agency relationship requires us to evaluate which party is most closely associated with the LIHTC Funds. In all instances, we concluded that we were the party most closely associated with these LIHTC Funds and therefore we were the primary beneficiary and should have consolidated these funds.

Guaranteed LIHTC Funds The guaranteed LIHTC Funds were previously accounted for under the provisions of Statement of Financial Accounting Standards No. 66, *Accounting for Sales of Real Estate* (***SFAS 66***), resulting in the leasing method of accounting for these funds. We concluded we should have consolidated these funds in accordance with the provisions of FIN 46(R), rather than applying the leasing method under SFAS 66.

Historically, we ceased recognizing losses when our general partner capital accounts in LIHTC Funds reached zero. Because we are the general partner, we should have continued to record our general partner portion of a LIHTC Fund s losses, even if our capital account was reduced below zero. In addition, as the general partner, we should have recorded losses attributable to the limited partners when the limited partners capital accounts in the LIHTC Funds reached zero. As part of the restatement, we recorded the losses of LIHTC Funds in excess of our general partner capital accounts and the losses of LIHTC Funds related to the limited partners capital accounts after their capital accounts reached zero. In addition, we have extended loan and bond financing to certain unconsolidated Lower Tier Property Partnerships. In consolidation, these are considered additional interests that should absorb losses of the unconsolidated Lower Tier Property Partnerships. These losses are generally non-cash losses caused by depreciation and thus we generally do not expect to advance cash related to these losses. The cumulative impact on shareholders equity related to these items was a decrease of $23.5 million (before income taxes) at December 31, 2005.

Consolidated Lower Tier Property Partnerships

The Consolidated Lower Tier Property Partnerships primarily represent the consolidation of partnerships as to which we took over the general partner interest because of issues with the property or developers (GP Take Backs). Generally, at the time of a GP Take Back transaction the developer general partner has little or no equity in the project, and in many cases there is no third party limited partner equity to absorb losses. As a result, as the new general partner, we must record for financial reporting purposes all of the losses (which are primarily due to non-cash depreciation) in those cases where the limited partners capital accounts have reached zero. Sale of our general partner interest or of the property that results in the deconsolidation of the Lower Tier Property Partnerships will result in us reversing the previously recorded losses into income. The cumulative impact on shareholders equity related to these items was a decrease of $77.3 million (before income taxes) at December 31, 2005.

Tax Credit Equity Accounting

We restated several items related to the accounting for our Tax Credit Equity segment. Previously, we deferred certain organizational costs, did not properly capitalize acquisition costs in Lower Tier Property Partnerships and did not consider the portion of the investment funded by us in the measurement of capitalized interest.

We also historically applied the lease accounting approach under SFAS 66 to guaranteed funds, which resulted in us recording the total limited partners invested capital in the fund as a guarantee liability. This guarantee liability was being relieved and recognized as income over the life of the fund on a straight-line basis. In addition, we recorded all of the net losses associated with these funds (as there was no non-controlling interest to which to allocate these losses). As part of the restatement, we are no longer applying lease accounting to these entities. We are consolidating the guaranteed LIHTC Funds consistent with the consolidation accounting for the non-guaranteed funds. The guarantee obligation is eliminated in consolidation and is measured as a possible cost that is considered for purposes of syndication fee revenue recognition.

We corrected the calculation for determining the portion of syndication income to recognize when the LIHTC Funds invested in Lower Tier Property Partnerships. In addition, we changed the way we measure and reduce income by our future expected costs and losses associated with the syndication of new funds. Lastly, our recognition of asset management fees had been based on whether the amounts were determinable and collection was reasonably assured

within one year, but did not consider the Funds ability to pay in subsequent periods.

The cumulative impact to shareholders equity resulting from Tax Credit Equity restatement adjustments was a decrease of $41.3 million (before income taxes) at December 31, 2005. In addition, historically we did not

record a liability for unfunded equity commitments while interests in Lower Tier Property Partnerships were warehoused, nor did we record a liability for unfunded equity commitments once these investments were syndicated and placed into LIHTC Funds. As part of the restatement we recorded a $903.8 million increase in our Investments in unconsolidated Lower Tier Property Partnerships and a $232.4 million increase in our Investments in unconsolidated ventures with a corresponding increase of $903.8 million in Unfunded equity commitments to unconsolidated Lower Tier Property Partnerships and a $232.4 million increase in Unfunded equity commitments to investments in unconsolidated ventures at December 31, 2005, in the consolidated balance sheets.

Bond Accounting

As part of the restatement, our bond portfolio was valued higher by $61.0 million at December 31, 2005. We had been reporting bond values based on informal quotes from a broker, which were not supported by independently observable market inputs or cash flow models. In the restatement, we created an internal discounted cash flow model using market-based assumptions. These amounts do not include the impact of consolidation, which eliminated a portion of these changes in the consolidation process.

Tax Valuation Allowance

As a result of the restatement, we substantially increased our deferred tax assets, primarily due to the significant deferral of income related to the Tax Credit Equity accounting changes. As part of the restatement, we re-evaluated the realizability of our deferred tax assets. After considering all available evidence, both positive and negative, we concluded that it was more likely than not that the deferred tax assets would not be realized. As a result, we concluded that a valuation allowance was required against our deferred tax assets. At December 31, 2005, the cumulative impact of providing a valuation allowance related to our deferred tax assets was $41.3 million.

Other Restatement Adjustments

The restatement also resulted in various changes to our loan accounting, equity investment accounting, derivative accounting, MSR accounting, as well as other changes, as more fully described in Notes to Consolidated Financial Statements-Note 2, Restatement of Previously Reported Results included in this Report.

Results of Operations

We are now consolidating all of our LIHTC Funds and certain Lower Tier Property Partnerships in situations where we have assumed the general partner role through a transfer of the general partner interest or where we have acquired the property through foreclosure. One effect of consolidating these entities is the elimination of the revenues we receive when these entities pay us fees and the recording of net losses in those cases where the limited partnership capital account has reached zero (although this revenue is allocated to us through Net losses allocable to non-controlling interests from consolidated funds and ventures). See Notes to Consolidated Financial Statements-Note 20, Consolidated Funds and Ventures. Consolidating these entities makes the year over year comparisons difficult and the net impact is not necessarily reflective of the economics to us based on our true legal ownership or contractual interest in these entities. Although it is not in accordance with GAAP to exclude the impact of these consolidated funds and ventures from our financial statements, information that excludes these funds and ventures helps our management, and we believe will help investors, to understand the revenue and expenses (and gains and losses) that more directly depicts MuniMae s activities and economics without the activities and economics associated with the non-controlling interest holders of these consolidated funds and ventures.

Therefore, the following results of operations discussion is provided in two sections: Section I Summary of Consolidated Results which provides a results of operations discussion that is reflective of our GAAP consolidated

income statement, and Section II Summary of GAAP-adjusted Results which provides a results of operations discussion that excludes certain revenues/gains and expenses/losses related to our legal

interests in these entities and presents differently certain income and expense components related to our contractual interests in these entities. Management also provides segment results on a segment adjusted earnings basis, which can be found in Notes to Consolidated Financial Statements-Note 18, Segment Information. This metric includes all adjustments made to arrive at our GAAP-adjusted results and also incorporates further adjustments to remove the impact of additional significant non-cash items (See Notes to Consolidated Financial Statements-Note 18, Segment Information for more details).

Section I. Summary of Consolidated Results

The table below summarizes our consolidated financial performance for the years ended December 31, 2006, 2005 and 2004:

(in thousands)	**2006**	**Consolidated As Restated 2005** *(1)*	**As Restated 2004** *(1)*
Revenue:			
Total interest income	$ 188,653	$ 146,982	$ 123,280
Total fee and other income	73,000	55,199	48,838
Total revenue from consolidated funds and ventures *(2)*	88,914	82,577	59,644
Total revenue	350,567	284,758	231,762
Expenses:			
Interest expense	120,592	89,672	67,931
Operating expenses	139,233	130,280	103,452
Impairment and provision for credit losses	14,663	18,137	5,665
Total expenses from consolidated funds and ventures *(2)*	150,764	137,552	125,662
Total expenses	425,252	375,641	302,710
Net gains on asset sales and derivatives	33,050	23,270	933
Net gains on sale of real estate from consolidated funds and ventures	52,479	19,655	5,805
Equity in earnings from unconsolidated ventures	5,216	26,346	403
Equity in losses from unconsolidated Lower Tier Property Partnerships held by consolidated funds and ventures *(2)*	(319,511)	(281,162)	(238,674)
Loss before income taxes, (income) loss allocable to non-controlling interests and discontinued operations	(303,451)	(302,774)	(302,481)
Income tax expense	3,323	2,929	2,923
(Income) loss allocable to non-controlling interests:			
Distributions declared to perpetual preferred shareholders of subsidiary	(9,208)	(4,962)	(755)
Net losses allocable to non-controlling interests from consolidated funds and ventures *(2)*	360,011	327,761	294,840
Income (loss) before discontinued operations	44,029	17,096	(11,319)

Discontinued operations	9,618	7,575	8,043
Net income (loss)	$ 53,647	$ 24,671	$ (3,276)

[(1)] *See Notes to Consolidated Financial Statements-Note 2, Restatement of Previously Issued Financial Statements.*

[(2)] *These items relate to balances associated with MuniMae s consolidated funds and ventures where MuniMae generally has a nominal ownership interest, but has consolidated these entities (primarily due to FIN 46(R)).*

Interest Income

The following table summarizes our interest income for the years ended December 31, 2006, 2005 and 2004:

		Consolidated	
		As	As
		Restated	Restated
	2006	2005	2004
(in thousands)			
Interest on bonds	$ 100,059	$ 88,470	$ 79,301
Interest on loans	82,958	54,356	41,990
Interest on short-term investments	5,636	4,156	1,989
Total interest income	$ 188,653	$ 146,982	$ 123,280

Interest income is our primary source of revenue and is affected by changes in the interest rate environment as well as the size of the underlying bond and loan portfolios.

Year Ended 2006 Compared to Year Ended 2005

Total Interest income increased 28.4% or $41.7 million for the year ended December 31, 2006 as compared to 2005 and is due to the following:

Interest on bonds increased 13.1% or $11.6 million for the year ended December 31, 2006 as compared to 2005 primarily due to the growth of the bond portfolio, partially offset by declines due to lower interest rates. The weighted average bond portfolio increased by $201.8 million in 2006 to approximately $1.5 billion compared to $1.3 billion at year end 2005. This increase was primarily driven by new investments in our mortgage revenue bonds and other municipal bonds as we strategically continued to expand our bond portfolio given the positive pricing spreads we were achieving through our securitizations, partially offset by sale and redemption activity. Consistent with the interest rate environment, new bonds were issued during 2006 at lower interest rates, which resulted in a 16 basis point (**bp**) reduction to the average interest rate earned on the bond portfolio during 2006.

Interest income on loans increased 52.6% or $28.6 million for the year ended December 31, 2006 as compared to 2005. The primary driver of the increase was the expansion of the weighted average loan portfolio from $725.8 million for 2005 to $986.4 million for 2006. This expansion of the loan portfolio was driven primarily by increased investments in bridge loans as a result of the acquisition of MONY in February 2005. Our bridge loan balance was $136.9 million at year end December 31, 2005 and increased to $458.6 million at year end December 31, 2006. This increase was partially offset by transfers of loans from our balance sheet to MRC Mortgage Investment Trust (a non-consolidated investment company we manage).

Interest on short-term investments increased $1.5 million for the year ended December 31, 2006 as compared to 2005. This increase is due mainly to the acquisition of Glaser in July 2005. The Glaser acquisition significantly expanded the Fannie Mae and Freddie Mac servicing portfolio in 2006, which required us to maintain short-term investments as a collateral requirement related to our Fannie Mae servicing status.

Year Ended 2005 Compared to Year Ended 2004

Interest income increased 19.2% or $23.7 million for the year ended December 31, 2005 as compared to 2004 and is due to the following:

Interest on bonds increased 11.6% for the year ended December 31, 2006 as compared to 2005 primarily due to the growth of the bond portfolio, partially offset by declines in the average interest rate on the bond portfolio. The weighted average bond portfolio increased approximately $165.4 million to $1.3 billion in 2005 from $1.1 billion in 2004 mainly due to increased investments in our mortgage revenue bonds and other municipal bonds, partially offset by sale and redemption activity. Due to the competitive nature of the marketplace and consistent with the interest rate environment, new bonds were issued during 2005 at lower interest rates, which resulted in a 21 bp reduction in the average interest rate earned on the bond portfolio.

Interest income on loans increased 29.4% or $12.4 million for the year ended December 31, 2005 as compared to 2004 primarily due to an increase in the average interest rate earned on the loan portfolio and an increase in the loan portfolio. The average interest rate earned on the loan portfolio increased by 66 basis points (**bps**) during 2005 primarily a result of higher interest rates charged on existing construction loans (the prime rate, which is the base rate for these loans, continued to increase in 2005). The average loan portfolio grew by $115.4 million, or 18.9% during 2005 due to new investments in construction loans, primarily as the result of our acquisition of Glaser in July 2005.

Interest on short-term investments increased $2.2 million for the year ended December 31, 2005 as compared to 2004. This increase is mainly due to the Fannie Mae collateral requirement as a result of the Glaser acquisition in July 2005.

Fee and Other Income

The following table summarizes our fee and other income for the years ended December 31, 2006, 2005 and 2004:

(in thousands)	**2006**	**Consolidated As Restated 2005**	**As Restated 2004**
Syndication fees	$ 45,318	$ 32,131	$ 32,715
Asset management and advisory fees	4,878	6,520	3,083
Debt placement fees	2,106	5,355	2,926
Guarantee fees	577	1,150	3,133
Servicing fees	7,403	4,296	3,518
Other	12,718	5,747	3,463
Total fee and other income	$ 73,000	$ 55,199	$ 48,838

Year Ended 2006 Compared to Year Ended 2005

Total fee and other income increased 32.2% or $17.8 million for the year ended December 31, 2006 as compared to 2005 due mainly to an increase in syndication fees and promote income, partially offset by declines in other income components as outlined below.

Syndication fees increased $13.2 million or 41.0% for the year ended December 31, 2006 as compared to 2005 mainly due to an increase in capital contributed from the LIHTC Funds to the Lower Tier Property Partnerships, partially offset by a decline in the average syndication fee rate. We generally receive our syndication fee revenue at or near the time a LIHTC Fund is syndicated; however, syndication fees are recognized ratably in our consolidated statements of operations as capital contributions are made by the LIHTC Funds to the Lower Tier Property Partnerships. Capital contributed to the Lower Tier Property Partnerships increased $325.0 million in 2006 as compared to 2005. The average net syndication fee rate (net syndication fees generated for fund syndication as a percentage of fund capital) for funds syndicated in 2006 decreased by 101 bps.

Asset management and advisory fees are earned based on specific percentages of invested or committed capital in funds for which we provide asset management, advisory and portfolio management services. Asset management and advisory fees decreased $1.6 million for the year ended December 31, 2006 as compared to 2005 primarily due to the

sale of our general partner interest in the Transwestern Mezzanine Realty Partners II, LLC fund (**Mezz II**) in March 2006. Beginning in April 2006, the new general partner was entitled to the asset management fees and therefore we only received three months of asset management fees in 2006 as compared to approximately eleven months of fees on the $300 million of committed capital in 2005. Additionally, advisory fees related to our Transwestern Mezzanine Realty Partners, LP fund (**Mezz I**) decreased due to a return of capital to its investors as a result of loan sales and loan maturities.

We earn debt placement fees for providing services in relation to assets originated and placed with our advisory clients. Debt placement fees decreased by $3.2 million for the year ended December 31, 2006 as compared to 2005. This decrease was due to several items including: (1) the sale of our general partner interest in the Mezz II fund in March 2006, removing the opportunity for us to source additional assets for this fund throughout 2006; (2) the decline in loan originations in the B-Note Value Fund L.P. (**B-Note Value Fund**) in 2006; and (3) in 2005, we served as a conduit and broker for four deals in which we earned debt placement fees in 2005, but this activity was not repeated in 2006.

Guarantee fees decreased $0.6 million for the year ended December 31, 2006 as compared to 2005 mainly due to the expiration of certain guarantees that we assumed through the 2003 acquisition of the HCI business of Lend Lease Real Estate Investments, Inc.

Servicing fees are earned for performing mortgage servicing activities, including collection of payments from individual borrowers, distribution of these payments to investors, maintenance of escrow funds and other administrative duties. The majority of these fees are associated with mortgage loans that we owned and then sold to investors, retaining the related mortgage servicing rights. We also earn fees for servicing activities performed for institutional investors. Our fees are generally based on a percentage of the unpaid principal balance of the mortgage being serviced. During the years 2004, 2005, and 2006, the weighted average servicing fee on the portfolio ranged between 29 bps and 38 bps. Our servicing fee income is offset by the amortization of the mortgage servicing rights that are established when we sell loans with servicing retained and the amortization of purchased mortgage servicing rights (purchased primarily from business combinations). Servicing fee income increased $3.1 million for the year ended December 31, 2006 as compared to 2005 mainly due to a $2.1 billion increase in the average serviced portfolio as a result of the full year impact of the Glaser acquisition in 2005, partially offset by declines in the average servicing fee rate of 31 bps in 2005 to 29 bps in 2006. Cash payments received for servicing activities increased $8.2 million to $19.3 million in 2006 as compared to $11.1 million in 2005. Amortization of mortgage servicing rights also increased by $5.1 million to $11.9 million for the year ended December 31, 2006 as compared to $6.8 million for 2005.

Other fees are composed of promote income, revenue from the sale/transfer of general partner interests in certain of our managed funds, collateral fees, and other miscellaneous fess such as extension fees, late fees, application fees, disposition fees, cancellation fees and administrative servicing fees. Other fees increased $7.0 million for the year ended December 31, 2006 as compared to 2005 mainly due to an increase in promote income. We receive promote income under arrangements where the investors in funds we manage achieve a targeted return and then we are entitled to share in the income above that targeted return. In 2006, we earned $5.5 million of promote income from Mezz I. The other significant driver of the increase in other fees in 2006 over 2005 was $2.0 million of income from the sale of the Mezz II general partner interest to Transwestern Investment Company, LLC in March 2006.

Year Ended 2005 Compared to Year Ended 2004

Total fee and other income increased $6.4 million for the year ended December 31, 2005 as compared to the year ended December 31, 2004 due mainly to increases in asset management fees and debt placement fees, partially offset by a decline in guarantee fees as discussed below.

Syndication fee revenue remained flat between the years ended December 31, 2005 and 2004. Capital contributed by the LIHTC Funds into the Lower Tier Property Partnerships increased $101.3 million in 2005 as compared to the year ended December 31, 2004; however, syndication fees did not increase due to a 24 bp decline in the average net syndication fee rate for the funds syndicated in 2005.

Asset management and advisory fees increased $3.4 million for the year ended December 31, 2005 as compared to 2004 and Debt placement fees increased $2.4 million for the year ended December 31, 2005 as compared to 2004,

both of these increases were mainly due to the MONY acquisition in February 2005.

Guarantee fees decreased $2.0 million for the year ended December 31, 2005 as compared to 2004 due primarily to the recognition of $1.8 million in fees in 2004 on a yield guarantee that expired in 2004.

Servicing fee income increased $0.8 million for the year ended December 31, 2005 as compared to 2004 mainly due to a $1.9 billion increase in the average servicing portfolio as a result of the 2005 Glaser acquisition, offset by declines in the average servicing fee rate from 38 bps in 2004 to 31 bps in 2005. Cash payments received for servicing activities increased $6.1 million to $11.1 million in 2005 as compared to $5.0 million in 2004. Servicing fees are reduced by the amortization of mortgage servicing rights which increased by $5.3 million to $6.8 million for the year ended December 31, 2005 as compared to $1.5 million for 2004.

Other fees increased $2.3 million for the year ended December 31, 2005 as compared to 2004 due mainly to increases in disposition fee income and miscellaneous fee income. We are entitled to disposition fee income when we are involved in brokering the sale of assets to a third party. We typically have minimal involvement in these transactions and only participate at the request of an investor. In 2004, we brokered no transactions of this type but were involved in two transactions in 2005 that resulted in disposition fee income of approximately $1.4 million. The increase in miscellaneous fee income was due to the expansion of our loan portfolio in 2005, which provides us the opportunity to earn loan fees related to extensions, cancellations and other loan activities. As the servicing portfolio expanded in 2005 we earned additional fees of this nature.

Revenue from Consolidated Funds and Ventures

The following table summarizes our revenue from consolidated funds and ventures for the years ended December 31, 2006, 2005 and 2004:

		Consolidated	
	2006	**As Restated 2005**	**As Restated 2004**
(in thousands)			
Rental and other income from real estate	$ 50,246	$ 54,812	$ 48,568
Interest and other income	38,668	27,765	11,076
Total revenue from consolidate funds and ventures	$ 88,914	$ 82,577	$ 59,644

Revenue from consolidated funds and ventures is comprised of rental income from consolidated Lower Tier Property Partnerships as well as interest income from LIHTC Funds and the B-Note Value Fund.

Year Ended 2006 Compared to Year Ended 2005

Revenue from consolidated funds and ventures increased $6.3 million for the year ended December 31, 2006 as compared to 2005 due to increases in interest and other income, partially offset by declines in rental income as described below.

Revenue from rental and other income from real estate decreased $4.6 million for the year ended December 31, 2006 as compared to 2005 primarily due to a decline in the number of income producing real estate properties during 2006 from 2005.

Interest and other income increased $10.9 million for the year ended December 31, 2006 as compared to 2005 due almost entirely to an increase in interest income on loans held by the B-Note Value Fund. Interest income for 2006

was higher than 2005 as the general partner interest in the B-Note Value Fund was acquired in February 2005 and held for all of 2006.

Year Ended 2005 Compared to Year Ended 2004

Revenue from consolidated funds and ventures increased $22.9 million for the year ended December 31, 2005 as compared to 2004 due mainly to increases in interest and other income and also due to increases in rental income as outlined below.

Revenue from rental and other income from real estate increased $6.2 million for the year ended December 31, 2005 as compared to 2004 due primarily to the increase in the number of income producing real estate properties during 2005 from 2004.

Interest and other income increased $16.7 million for the year ended December 31, 2005 as compared to 2004 due mainly to interest income from the B-Note Value Fund acquired in early 2005. The LIHTC Funds and Lower Tier Property Partnerships also reported net increases in interest and other income of $5.1 million during 2005 primarily attributable to increases in interest income on short-term investment accounts.

Interest Expense

The following table summarizes our interest expense for the years ended December 31, 2006, 2005 and 2004:

	Consolidated		
		As Restated	**As Restated**
(in thousands)	**2006**	**2005**	**2004**
Interest expense	$ 120,592	$ 89,672	$ 67,931

Year Ended 2006 Compared to Year Ended 2005

Interest expense increased $30.9 million for the year ended December 31, 2006 as compared to 2005. This increase can be attributed to three main factors: (1) the weighted average debt balance associated with senior interest in securitization trusts related to our bond business increased from $661.7 million in 2005 to $927.5 million in 2006. This volume increase combined with a 43 bp increase in the average interest rate on theses trusts accounted for close to half of the of the year-over-year increase in interest expense; (2) our average notes payable and other debt balances increased $85.5 million between 2006 and 2005. This volume increase also coupled with a 120 bp increase in the average interest rate on these debt instruments accounted for $9.9 million of the year-over-year increase in interest expense; and (3) in 2006, we entered into a new repurchase facility resulting in an $80.5 million increase in the average debt balance which contributed $4.9 million of interest expense during 2006 that was not incurred in 2005. The overall increase in our debt balances can be attributed to the expansion of our business as a result of the continued favorable pricing spreads in the bond securitization markets and due to our expansion through business acquisitions.

Year Ended 2005 Compared to Year Ended 2004

Interest expense increased $21.7 million for the year ended December 31, 2005 as compared to 2004. This increase was primarily due to the issuance of $91.5 million of subordinate debentures in 2005. This contributed an additional $8.1 million of interest expense as compared to 2004 and accounted for 37.1% of the year-over-year increase. Other drivers of the increase in interest expense from 2004 to 2005 were increases in the senior interest of securitization trusts and an increase in interest rates on our lines of credit used to fund loans held for investment. The average debt balance for senior interest of securitization trusts increased $101.5 million to $661.7 million in 2005 from $560.2 million in 2004. Also, the average interest rate on these trusts increased 43 bps between 2005 and 2004. The average debt balance for our line of credit facilities remained flat, but the average interest rate on the facilities increased 153 bps in 2005 to 4.71% from 3.18% in 2004.

Operating Expenses

The following table summarizes our operating expenses for the years ended December 31, 2006, 2005 and 2004:

(in thousands)	2006	Consolidated As Restated 2005	As Restated 2004
Salaries and benefits	$ 78,187	$ 79,970	$ 62,933
General and administrative	32,191	30,817	24,753
Professional fees	15,710	12,089	9,279
Depreciation and amortization	7,200	6,305	4,996
Other	5,945	1,099	1,491
Total operating expenses	$ 139,233	$ 130,280	$ 103,452

Year Ended 2006 Compared to Year Ended 2005

Total operating expenses increased $9.0 million for the year ended December 31, 2006 as compared to 2005 due mainly to an increase in professional fees and miscellaneous expenses as discussed below.

Salary and benefit expenses decreased $1.8 million for the year ended December 31, 2006 as compared to 2005. In 2005, we executed a business unit restructuring effort resulting in $4.8 million of severance costs in 2005. This one time cost in 2005 resulted in the decline of Salaries and benefits costs between 2005 and 2006, but was partially offset by an increase in Salaries and benefits expenses related to the remaining work force. Salary and benefits growth, absent the severance costs incurred in 2005, was approximately 3.8%.

General and administrative costs increased $1.4 million the year ended December 31, 2006 as compared to 2005. Our general and administrative expenses have two primary components: (1) specific expenses that are incurred during LIHTC Fund formation and in some cases, LIHTC Fund liquidations and (2) non-fund specific costs that are related to our normal operations. In 2006, non-fund specific costs increased $3.6 million. These non-fund specific costs increased primarily due to the Glaser and MONY acquisitions in 2005 which increased our general and administration spending, especially in rent, travel and technology. The increase in general and administrative expenses was partially offset by declines in our LIHTC Fund formation specific expenses during the year ended December 31, 2006 as compared to the year ended December 31, 2005. In 2006, fund specific costs were $11.7 million, down from $13.9 million in 2005. This decrease is attributable to a decrease in broker fees. In 2005, broker fees were paid by us; however, in 2006 broker fees were paid out of investor capital contributions based on changes in the partnership agreements.

Professional fees which include accounting fees, consulting fees and legal fees increased $3.6 million for the year ended December 31, 2006 as compared to 2005 mainly due to increases in consulting fees. Consulting fees increased $2.3 million in 2006 over 2005 due to increased expenses related to the development and application of accounting policies, and finance function process and financial reporting improvement efforts. These two initiatives added approximately $0.9 million and $1.3 million to our consulting fees in 2006, respectively.

Depreciation and amortization increased $0.9 million for the year ended December 31, 2006 as compared to 2005 due mainly to increases in standard depreciable items, such as furniture and fixtures, office equipment, computer hardware and software, as well as leasehold improvements. In 2005, we relocated one of our offices and we expanded one of our offices. These office changes resulted in increased purchases of the standard depreciable items outlined above which had a significant impact on depreciation and amortization, increasing the costs by approximately $0.6 million. Most of these purchases were made in 2005 but the full year impact of these additions was not realized until 2006.

Other expenses increased $4.8 million for the year ended December 31, 2006 as compared to 2005. The primary driver of the year-over-year increase was due to remediation interest of $6.0 million paid to the

LIHTC Funds in 2007 of which $2.5 million was recognized in 2006 (see Notes to Consolidated Financial Statements-Note 14 Commitments and Contingencies for further details).

Year Ended 2005 Compared to Year Ended 2004

Total operating expenses increased $26.8 million for the year ended December 31, 2005 as compared to 2004 primarily as a result of higher salary and benefit expenses as well as higher general and administrative costs as discussed below.

Salaries and benefits expenses increased $17.0 million for the year ended December 31, 2005 as compared to the year ended December 31, 2006. We executed a business unit restructuring effort resulting in the addition of approximately $4.8 million in severance costs in 2005. The remainder of the increase was predominantly due to the increase in employees (and related costs) due to the Glaser and MONY acquisitions that occurred in 2005.

General and administrative costs increased $6.1 million for the year ended December 31, 2005 as compared to 2004 primarily due to an increase in non-fund specific costs of $4.0 million. These non-fund specific costs increased due to the Glaser and MONY acquisitions in 2005 which increased our spending levels in the areas of rent, travel, technology and office supplies. In addition, fund specific costs increased $2.0 million to $13.9 million for the year ended December 31, 2005 as compared to $11.9 million in 2004. This increase in fund specific costs was due to higher acquisition costs for Lower Tier Property Partnerships placed into LIHTC Funds during 2005.

Professional fees increased $2.8 million for the year ended December 31, 2005 as compared to 2004 due to an increase in consulting fees of $1.6 million as well as an increase in legal expenses of $0.6 million. Higher consulting fees were attributable to increased internal audit spending and costs related to Sarbanes-Oxley projects. The increase in legal costs was driven by additional legal services required due to the expansion of our business.

Depreciation and amortization increased $1.3 million for the year ended December 31, 2005 as compared to 2004 due to an increase in office related purchases of equipment and depreciable assets as we continued to grow our business through acquisitions and internal growth.

Impairment on Bonds and Provision for Credit Losses

The following table summarizes our bond impairment and our provision for credit losses for the years ended December 31, 2006, 2005 and 2004:

(in thousands)	**2006**	**Consolidated As Restated 2005**	**As Restated 2004**
Impairment on bonds	$ 2,106	$ 13,020	$ 684
Provision for credit losses	12,557	5,117	4,981
Total impairments and valuation allowances related to investments	$ 14,663	$ 18,137	$ 5,665

Year Ended 2006 Compared to Year Ended 2005

Total bond impairments and provision for credit losses decreased $3.5 million for year ended December 31, 2006 as compared to 2005.

Impairment on bonds decreased $10.9 million for the year ended December 31, 2006 as compared to 2005. During 2005, we recorded impairments of $12.7 million on four bonds based on broker prices obtained on anticipated sales of these bonds. During 2006, there were three bonds impaired based on discounted cash flows of the underlying property and no individual impairment exceeded $1.0 million.

The provision for credit losses includes provisions related to estimated losses for individual loans deemed to be impaired as well as for estimated losses on non-specified loans for our loans held for investment. The provision for credit losses also includes estimated losses on unfunded loan commitments as well as estimated losses for inherent loss exposure related to certain recourse provisions related to loans sold to Fannie Mae or guaranteed by Ginnie Mae. The provision for credit losses increased $7.4 million for year ended December 31, 2006 as compared to 2005 primarily due to several loans related to one property with additional impairment recorded in 2006 for $7.9 million.

Year Ended 2005 Compared to Year Ended 2004

Total bond impairments and provision for credit losses increased $12.5 million for year ended December 31, 2005 as compared to 2004 due primarily to the increase in bond impairments of $12.3 million taken in 2005, as discussed above.

Expenses from Consolidated Funds and Ventures

The following table summarizes our expenses from consolidated funds and ventures for the years ended December 31, 2006, 2005 and 2004:

(in thousands)		Consolidated	
	2006	**As Restated 2005**	**As Restated 2004**
Depreciation and amortization	$ 15,725	$ 19,585	$ 21,705
Interest expense	41,290	34,852	27,339
Impairment on investments in unconsolidated Lower Tier Property Partnerships	48,431	30,327	35,585
Other operating expenses	45,318	52,788	41,033
Total expenses from consolidated funds and ventures	$ 150,764	$ 137,552	$ 125,662

Expenses of consolidated funds and ventures are primarily the result of activities and charges related to our LIHTC Funds, consolidated Lower Tier Property Partnerships and the B-Note Value Fund.

Year Ended 2006 Compared to Year Ended 2005

Expenses from consolidated funds and ventures increased $13.2 million for the year ended December 31, 2006 as compared to 2005.

Depreciation and amortization decreased $3.9 million for the year ended December 31, 2006 as compared to the year ended December 31, 2005 mainly due to the transfer of several properties from a held for use classification to held for sale classification. Properties, once classified as held for sale, are no longer subject to depreciation expense.

Interest expense from consolidated funds and ventures increased $6.4 million for the year ended December 31, 2006 as compared to 2005. Interest expense increased in 2006 primarily due to increased usage of lines of credit to finance LIHTC Fund operations as well as additional debt related to the consolidation of the B-Note Value Fund in 2005.

LIHTC Funds were utilizing approximately eight lines of credit at year end 2005 with a total outstanding balance at year end of $74.6 million and in 2006 approximately 12 additional lines were added resulting in a total outstanding balance at year end of $374.0 million. The consolidation of the B-Note Value Fund in 2005 had a significant impact on interest expense growth in 2006 as the fund further financed the growth of its loan portfolio in 2006.

Impairment on investments in unconsolidated Lower Tier Property Partnerships increased $18.1 million for the year ended December 31, 2006 as compared to 2005. During 2005, 197 properties recorded impairment as compared to 253 properties in 2006 without any one property comprising the majority of the balance. The increase cannot be attributed to any single factor, but is due to property specific and sub-market factors that are unique to each individual property.

Other operating expenses related to consolidated funds and ventures are primarily management fees, maintenance and utilities related to consolidated Lower Tier Property Partnerships and accounting fees, legal expenses and bad debt reserves. Other operating expenses decreased by $7.5 million for the year ended December 31, 2006 as compared to 2005 mainly due to reduced expenses associated with the LIHTC Funds. Other operating expenses of the LIHTC Funds decreased $6.3 million primarily due to a $5.2 million decrease related to bad debt reserves for advances made to Lower Tier Property Partnerships and a $1.9 million decrease in LIHTC Fund legal and accounting costs.

Year Ended 2005 Compared to Year Ended 2004

Expenses from consolidated funds and ventures increased $11.9 million for the year ended December 31, 2005 as compared to 2004.

Depreciation and amortization decreased $2.1 million for the year ended December 31, 2005 as compared to 2004. The decrease in Depreciation and amortization expense was not due to any single factor, but is the result of more assets becoming fully depreciated in 2005 than 2004 and fewer property additions in 2005.

Interest expense from consolidated funds and ventures increased $7.5 million for the year ended December 31, 2005 as compared to 2004. Interest expense increased in 2005 primarily due to increased usage of lines of credit to finance LIHTC Fund operations as well as the first time consolidation of the B-Note Value Fund in 2005.

Impairment on investments in unconsolidated Lower Tier Property Partnerships decreased $5.3 million for the year ended December 31, 2005 as compared to 2004. The decrease cannot be attributed to any single factor, but is due to property specific and sub-market factors that are unique to each individual property.

Other operating expenses increased $11.8 million for the year ended December 31, 2005 as compared to 2004. Other operating expenses of the LIHTC Funds increased $8.1 million due to a $2.8 million increase related to bad debt reserves for advances made to Lower Tier Property Partnerships and a $4.2 million increase in LIHTC Fund legal and accounting costs.

Net Gains on Asset Sales and Derivatives

The following table summarizes our net gains on asset sales for the years ended December 31, 2006, 2005 and 2004:

		Consolidated	
		As	As
		Restated	Restated
(in thousands)	2006	2005	2004
Net gains (losses) on sale of bonds	$ 8,355	$ 6,398	$ (147)
Net gains on sale of loans	21,515	12,509	5,510
Net (losses) gains on derivatives	(3,617)	4,363	(4,430)
Net gains on sale of real estate	6,797		
Total net gains on asset sales and derivatives	$ 33,050	$ 23,270	$ 933

Year Ended 2006 Compared to Year Ended 2005

Net gains on asset sales and derivatives increased $9.8 million for the year ended December 31, 2006 as compared to 2005 mainly due to gains on sale of loans as described below.

Net gains on the sale of bonds increased $2.0 million for the year ended December 31, 2006 as compared to 2005. In 2006, 70.8%, or approximately $5.9 million of the gains on bond sales were attributable to two bonds; 81.6% of the gains can be explained with the addition of two other bonds with gains of under $0.6 million per bond. Generally, we do not actively sell our bonds and therefore these bond sale gains in 2006 and 2005 are primarily due to bond redemptions (pay-offs) on bonds we have previously impaired.

Net gains on the sale of loans increased $9.0 million for the year ended December 31, 2006 as compared to 2005 due to increased loan sales to Fannie Mae and Freddie Mac. This increase is largely due to the expansion of our Agency Lending business segment as a result of the Glaser acquisition in 2005.

We recorded net losses on derivatives of $3.6 million during 2006 as compared to net gains of $4.4 million during 2005 for an overall decline in income of $8.0 million. The net loss in 2006 was primarily due to mark-to-market losses on our derivative positions due to a decreasing interest rate environment in 2006. During 2005, our gains were primarily due to the sale of net pay fixed swaps during a rising rate environment, partially offset by net interest expense on our interest rate swaps.

Net gains on sale of real estate increased $6.8 million for the year ended December 31, 2006 as compared to 2005. From time to time the Company may protect its loan or bond position by taking legal ownership of a property through a deed-in-lieu of foreclosure, or directly through a foreclosure, and we may later sell our interest, at which time a gain or loss on sale of real estate will be recognized. In addition, we may sell certain limited or general partnership interests in partnerships that own real estate. In 2006, the Company recognized $6.8 million of gains on the sale of real estate. A gain of $5.6 million was related to a sale of our limited partner interest in an unconsolidated partnership and $1.2 million represents a gain on the sale of our general partnership interest in a partnership related to a GP Take Back property.

Year Ended 2005 Compared to Year Ended 2004

Net gains on asset sales increased $22.3 million in the year ended December 31, 2005 as compared to the year ended December 31, 2004.

Net gains (losses) on the sale of bonds increased $6.5 million for the year ended December 31, 2005 as compared to 2004. In 2005, 78.3%, or approximately $5.0 million of the gains on bond sales were attributable to two bonds with gains of $3.8 million and $1.2 million.

Net gains on the sale of loans increased $7.0 million for the year ended December 31, 2005 as compared to 2004 due to increased loan sales to Fannie Mae and Freddie Mac. This increase is largely due to the expansion of our Agency Lending business segment as a result of the Glaser acquisition in 2005.

We recorded net losses on derivatives of $4.4 million during 2004 as compared to net gains of $4.4 million during 2005 for an overall decline in income of $8.8 million. The net loss in 2004 was primarily due to net interest expense incurred on our derivative positions.

Net Gains on Sale of Real Estate from Consolidated Funds and Ventures

The following table summarizes our net gains on asset sales from consolidated funds and ventures for the years ended December 31, 2006, 2005 and 2004:

(in thousands)	**2006**	**Consolidated As Restated 2005**	**As Restated 2004**
Net gains on sale of real estate from consolidated funds and ventures	$ 52,479	$ 19,655	$ 5,805

Year Ended 2006 Compared to Year Ended 2005

Net gains on the sale of real estate from consolidated funds and ventures increased $32.8 million for the year ended December 31, 2006 as compared to 2005. The increase in 2006 is attributable to increased proceeds from sales of real estate held by Lower Tier Property Partnerships. These sales were primarily comprised of properties reaching the end of their tax credit compliance period, at which time, the LIHTC Funds have limited economic benefits from continuing to hold these properties and therefore they begin marketing their limited partners interests for sale. The gain recognized from a GAAP standpoint is the difference between the carrying value as measured on the equity method of accounting (typically zero at the end of the tax credit compliance period) and the net proceeds received at the time of sale. In 2006, the LIHTC Funds received

$66.6 million in proceeds on sales of properties as compared to $33.3 million in 2005, resulting in an increased gain on sale of real estate.

Year Ended 2005 Compared to Year Ended 2004

Net gains on the sale of real estate from consolidated funds and ventures increased $13.9 million for the year ended December 31, 2005 as compared to 2004. In 2005, the LIHTC Funds received $33.3 million in cash proceeds on sales of properties as compared to $24.4 million in 2004. The increased cash combined with lower basis in the sold properties, resulted in a larger gain in 2005.

Equity in Earnings from Unconsolidated Ventures

The following table summarizes our equity in earnings from unconsolidated ventures for the years ended December 31, 2006, 2005 and 2004:

(in thousands)	2006	Consolidated As Restated 2005	As Restated 2004
Equity in Earnings from Unconsolidated Ventures	$ 5,216	$ 26,346	$ 403

Year Ended 2006 Compared to Year Ended 2005

Equity in earnings from unconsolidated ventures decreased $21.1 million for the year ended December 31, 2006 as compared to 2005. These unconsolidated ventures principally acquire, develop and sell real estate properties. The decrease in 2006 can be attributed to lower average gains on property sales from our CAPREIT 3M Venture that invests in and manages numerous multifamily apartment projects. Even though the number of properties sold increased from three to six in 2006, there were lower gains associated with these sales in 2006 compared to 2005 as a result of transaction pricing and our basis in these properties.

Year Ended 2005 Compared to Year Ended 2004

Equity in earnings from unconsolidated ventures increased $25.9 million for the year ended December 31, 2005 as compared to 2004. The significant increase in 2005 can be attributed to an increase in sales volume over 2004; in 2005, three properties were sold compared with one in 2004. Furthermore, the proceeds of these sales were significantly greater.

Equity in Losses from Unconsolidated Lower Tier Property Partnerships held by Consolidated Funds and Ventures

The table below summarizes the equity in losses from unconsolidated Lower Tier Property Partnerships held by consolidated funds and ventures for the periods ending December 31, 2006, 2005 and 2004:

Consolidated As Restated	As Restated

(in thousands)	2006	2005	2004
Equity in losses from unconsolidated Lower Tier Property Partnerships held by consolidated funds and ventures	$ (319,511)	$ (281,162)	$ (238,674)

Year Ended 2006 Compared to Year Ended 2005

Equity in losses from unconsolidated Lower Tier Property Partnerships held by consolidated funds and ventures increased $38.3 million for the year ended December 31, 2006 as compared to 2005. Generally, the Lower Tier Property Partnerships generate GAAP net losses because they are low income housing projects that are designed to be subsidized by investment tax credits; therefore, the properties operations conceptually breakeven on a cash basis, but will have significant GAAP net losses due to deprecation expense. The increase

in the number and size of syndicated LIHTC Funds contributed to an increase in investments in Lower Tier Property Partnerships that resulted in increased equity losses. Also contributing to the increase was the fact that many more projects moved from the construction phase to operations, which triggers the property recording depreciation on the building. The $51.4 million increase in LIHTC Funds losses was offset by $12.4 million due to profits on sale of investment properties held by entities we have an equity investment in through our Real Estate division.

Year Ended 2005 Compared to Year Ended 2004

Equity in losses from unconsolidated Lower Tier Property Partnerships held by consolidated funds and ventures increased $42.5 million for the year ended December 31, 2005 as compared to 2004. The increase in the number and size of syndicated LIHTC Funds contributed to an increase in investments in Lower Tier Property Partnerships that resulted in equity losses as projects moved from their construction phase into operations. The LIHTC Funds losses increased $42.6 million for the year ended December 31, 2005.

Income Tax Expense

The table below summarizes the consolidated income tax expense for the periods ending December 31, 2006, 2005 and 2004:

	Consolidated		
	2006	As Restated 2005	As Restated 2004
(in thousands)			
Income tax expense	$ 3,323	$ 2,929	$ 2,923

We are a publicly traded partnership (**PTP**) for tax purposes, and as such, our entire pass-through entity income and loss is allocated to our common shareholders. Therefore, we do not have income tax expense related to our pass-through entity income. We do own C corporation entities, which are subject to federal and state income taxes. The income tax expense shown here is related to our C corporation entities. Our income tax expense is comprised of federal and state income tax expense. State income tax expense remained relatively the same each year for a variety of reasons, such as the nature and originating location of the income, the attribution of expenses to such income, etc. The federal income tax expense has remained relatively constant as we are generating C corporation GAAP net operating losses and we are in an overall net deferred tax asset position for all years. Because of this, we are dependent on the generation of future income in order to support our ability to record an income tax benefit related to our C corporation net losses. Based on an evaluation of all of the available evidence, both positive and negative, we concluded that our deferred tax assets would not be realized and as such we are providing a valuation allowance on virtually all of our originating deferred tax assets in all years. Thus, the federal portion of our income tax expense has not materially changed in these years.

Distributions Declared to Perpetual Preferred Shareholders of Subsidiary

The table below summarizes the distributions declared to perpetual preferred shareholders of subsidiary for the periods ending December 31, 2006, 2005 and 2004:

Consolidated

(in thousands)	2006	As Restated 2005	As Restated 2004
Distributions declared to perpetual preferred shareholders of subsidiary	$ (9,208)	$ (4,962)	$ (755)

Year Ended 2006 Compared to Year Ended 2005

Distributions declared to perpetual preferred shareholders of a subsidiary increased for the year ended December 31, 2006 as compared to 2005 due to new share issuances on November 4, 2005 of $100.0 million.

The increase in distributions declared to perpetual preferred shareholders of subsidiary in 2006 can be attributed to the full year impact of the $100.0 million November 2005 issuance. The corresponding annual distribution rates for 2006 and 2005 were 5.3% and 5.6%, respectively.

Year Ended 2005 Compared to Year Ended 2004

Distributions declared to perpetual preferred shareholders of a subsidiary increased for the year ended December 31, 2005 as compared to 2004 due to new share issuances on November 4, 2005 and October 19, 2004 of $100.0 million and $73.0 million, respectively. The full year impact of the October 2004 issuance combined with the partial year impact of the $100.0 million issuance in November 2005 were the primary drivers of the $4.2 million increase in 2005. The corresponding annual distribution rates for 2005 and 2004 were 5.6% and 5.0%, respectively.

Net Loss Allocable to Non-Controlling Interests from Consolidated Funds and Ventures

The table below summarizes the net loss allocable to non-controlling interests from consolidated funds and ventures for the periods ending December 31, 2006, 2005 and 2004:

(in thousands)	**2006**	**Consolidated As Restated 2005**	**As Restated 2004**
Net loss allocable to non-controlling interests from consolidated funds and ventures	$ 360,011	$ 327,761	$ 294,840

Year Ended 2006 Compared to Year Ended 2005

Losses allocable to non-controlling interests from consolidated funds and ventures increased $32.3 million for the year ended December 31, 2006 as compared to 2005. Losses allocable to non-controlling interests in consolidated funds and ventures are primarily attributable to the LIHTC Funds. The Company holds a 0.1% to 1.0% interest in these Funds; therefore, the majority (i.e., 99%) of the activity related to these entities is allocated to the non-controlling interest holders. In addition, other income statement activities, such as asset management and guarantee fees, are reclassified (when we consolidate these entities) from revenue to net loss allocable to non-controlling interests from consolidated funds and ventures. The increase from 2005 to 2006 is attributable to an overall increase in net losses of consolidated funds and ventures of $12.4 million and an increase in our allocation of income attributable to asset management and other fees, gains on sale of real estate and allocations of income due to the Company s general partner interests of $21.9 million.

Year Ended 2005 Compared to Year Ended 2004

Losses allocable to non-controlling interests from consolidated funds and ventures increased $32.9 million for the year ended December 31, 2005 as compared to 2004. The increase from 2004 to 2005 is attributable to increase in net losses of consolidated funds and ventures of $17.6 million and an increase in our allocation of income of $14.8 million.

Discontinued Operations

The table below summarizes our income from discontinued operations related to consolidated funds and ventures for the periods ending December 31, 2006, 2005 and 2004:

	Consolidated		
		As	As
		Restated	Restated
(in thousands)	2006	2005	2004
Discontinued operations	$ 9,618	$ 7,575	$ 8,043

Years Ended 2006, 2005 and 2004 Compared

In 2006, we generated net income from discontinued operations of $9.6 million, an increase of $2.0 million over 2005. The $9.6 million was primarily attributable to two properties we disposed of in 2006, generating net income of $9.4 million, which for the most part represents the reversal of cumulative non-cash losses we recorded on these properties during our holding period. In 2005, our $7.6 million of net income from discontinued operations is primarily related to a $10.0 million gain on sale of real estate related to a property we foreclosed on and immediately sold. In 2004, we had a similar foreclosure and immediate sale of a property generating a $11.3 million gain.

Section II. Summary of GAAP-adjusted Results

We consolidate all of our LIHTC Funds, certain Lower Tier Property Partnerships in situations where we executed a GP Take Back of a Lower Tier Property Partnership, and certain other funds and ventures that the Company manages through its Real Estate Division (see Notes to Consolidated Financial Statements-Note 20, Consolidated Funds and Ventures). The effects of consolidating these entities is to include in our financial statements the assets, liabilities, non-controlling interests, income and expenses of these entities, even though we have little or no legal or economic ownership interest in them. Management believes that explaining the effect of excluding these consolidated funds and ventures from our financial results is useful for investors.

GAAP-adjusted net income is a view of the Company s financial results without the effects of the consolidated funds and ventures. In addition, GAAP-adjusted net income excludes the allocations of losses in those cases where the Company s capital account has reached zero. Also, discontinued operations (after removing the impact of the consolidated funds and ventures) are reclassified to the financial statement line items where they would have been recorded if we did not account for them as discontinued operations. GAAP-adjusted net income is a non-GAAP financial measure and is used in addition to, and in conjunction with, results presented in accordance with GAAP. This non-GAAP financial measure should not be relied upon to the exclusion of the GAAP net income. The following discussion is intended to provide the reader with an example of the amounts that would be presented on a GAAP-adjusted results basis and we have limited our discussion to the year ended December 31, 2006.

The table below summarizes our GAAP-adjusted financial performance for the year ended December 31, 2006:

Summary of GAAP-adjusted Results

	December 31, 2006		
	GAAP	**Adjustments**	**GAAP-adjusted**
Revenue:			
Interest income	$ 188,653	$ 6,572	$ 195,225
Fee and other income	73,000	37,953	110,953
Revenue from consolidated funds and ventures	88,914	(88,914)	
Total revenue	350,567	(44,389)	306,178
Expenses:			
Interest expense	120,592	527	121,119
Operating expenses	139,233	15,328	154,561
Impairment and valuation allowances	14,663	1,581	16,244
Expenses from consolidated funds and ventures	150,764	(150,764)	
Total expenses	425,252	(133,328)	291,924
Net gains on asset sales and derivatives	33,050	(2,589)	30,461
Net gains on sale of real estate from consolidated funds and ventures	52,479	(52,479)	
Equity in earnings from unconsolidated ventures	5,216	1,614	6,830
Equity in losses from unconsolidated Lower Tier Property Partnerships held by consolidated funds and ventures	(319,511)	319,511	
Loss before income taxes, (income) loss allocable to non-controlling interests and discontinued operations	(303,451)	354,996	51,545
Income tax expense	3,323	(562)	2,761
Distributions declared to perpetual preferred shareholders of subsidiary	(9,208)		(9,208)
Net losses allocable to non-controlling interests from consolidated funds and ventures	360,011	(360,011)	
Income before discontinued operations	44,029	(4,453)	39,576
Discontinued operations	9,618	(9,618)	
Net income	$ 53,647	$ (14,071)	$ 39,576

Interest income is primarily adjusted in consolidation to reclassify the Company s earnings related to bonds and loans held by the Company due from Consolidated Lower Tier Property Partnerships. GAAP-adjusted interest income is increased $6.6 million for the year ended December 31, 2006 of which $4.3 million and $2.3 million is attributable to bonds and loans, respectively.

Fee and other income is adjusted in calculating GAAP-adjusted revenues related to fees earned by the Company from the LIHTC Funds and other consolidated Real Estate Funds for asset management services, yield guarantees and other services provided. Asset management fees are typically based on a percentage of gross proceeds or the number of properties under management. Depending on the fee structure, some of these amounts are recognized when distributed from the funds or on the accrual basis. Guarantee fees are recognized on a straight-line basis over the life of the guarantee which is typically 15 years. As a result, asset management fees as of December 31, 2006 increased $34.9 million, guarantee fees increased $2.7 million and other income increased $0.3 million for a total $37.9 million increase in Fee and other income.

The adjustment to operating expenses in calculating GAAP-adjusted Expenses primarily includes adjustments to reinstate the amortization related to an asset management contract intangible asset acquired in conjunction with the acquisition of the Company s LIHTC business (this asset was eliminated upon consolidation of the LIHTC Funds). Also, we reinstated the bad debt expense associated with our LIHTC Fund asset management fee receivable and we reinstated bad debt expense related to servicing advances associated with a Consolidated Lower Tier Property Partnership. In addition, there are adjustments related to charitable contributions made to

a consolidated not-for-profit entity. The $15.3 million increase to operating expenses includes $3.5 million of intangible amortization, $6.6 million of bad debt expense, $4.2 million of servicing advance reserves and $1.0 million related to contributions paid related to a consolidated not-for-profit entity. For the most part, these expenses are reflected as an allocation of income in the consolidated statement of operations.

Impairment and valuation allowance adjustments primarily relate to a $2.1 million provision against a loan to a consolidated not-for profit entity. The provision, and related loan balance, is eliminated in consolidation and thus required an increase in the GAAP-adjusted results. Additionally, there are minor offsetting changes to loan provisions related to the LIHTC Fund and Consolidated Lower Tier Property Partnerships of $0.5 million.

Net gains on asset sales and derivatives is adjusted in calculating GAAP-adjusted net income for the gain or loss recognized in the sale of a bond or loan. This adjustment reverses the impact of us recording additional losses against bond and loan investments in cases where the Company lent funds to certain unconsolidated Lower Tier Property Partnerships. This may result in a difference in the gain or loss recognized on the subsequent sale of the bond or loan. Net gains on asset sales and derivatives is adjusted $2.6 million of which $1.2 million is related to LIHTC Funds and $1.4 million is related to consolidated not-for-profit entities.

Equity in earnings of unconsolidated ventures is adjusted in calculating GAAP-adjusted net income by reversing-out the consolidated results of operations impact related to the consolidated funds and ventures in which we have minor interests and accounting for them under the equity method (with the exception to equity method accounting in that we stop recording net losses when our capital account reaches zero.) Equity in earnings of unconsolidated ventures is increased $1.1 million related to consolidated Real Estate Funds and $0.5 million related to LIHTC Funds.

Discontinued operations (after removing the impact of the consolidated funds and ventures) are reclassified to the financial statement line items where they would have been recorded if we did not account for them as discontinued operations.

The table below is the reconciliation of GAAP net income to GAAP-adjusted Net Income for the year ended December 31, 2006:

Reconciliation of GAAP Net Income to GAAP-adjusted Net Income

	2006
GAAP net income	$ 53,647
Adjustments from GAAP:	
LIHTC Funds	(3,184)
Consolidated Lower Tier Property Partnerships	(6,915)
Other	(4,536)
Income tax effect	564
GAAP-adjusted net income	$ 39,576

The decrease in GAAP-adjusted net income of $3.2 million for the year ended December 31, 2006, related to the LIHTC Funds is attributable to allocations of income based on legal ownership or the equity method of accounting for unconsolidated Lower Tier Property Partnerships of the LIHTC Funds. Allocations of income are either based on ownership interest in the LIHTC Funds or, in instances where the non-controlling interest holders capital accounts

have been reduced to zero, the Company absorbs all of the losses. For the year ended December 31, 2006, the impact of deconsolidation from allocations of income is $4.4 million offset by the impact of deconsolidation from the equity method of accounting of $1.2 million.

The decrease in GAAP-adjusted net income related to the Consolidated Lower Tier Property Partnerships of $6.9 million for the year ended December 31, 2006, is primarily attributable to changes in the allocations of income based on legal ownership. In many instances, the non-controlling interest holders equity accounts in these properties have reached zero and the Company is recognizing all of the losses related to the property. For this reason, we would normally have a positive net income impact in our GAAP-adjusted results of our

operations; however, in 2006 we have a reduction in net income due to a number of sales in 2006 that had a positive impact on net income (due to the reversal of cumulative losses previously recorded). We are now reversing this income in our GAAP-adjusted results.

The decrease to GAAP-adjusted net income related to Other entities of $4.5 million for the year ended December 31, 2006 is primarily attributable to changes in loan and bond accounting due to the consolidation of certain not-for-profit entities. More specifically, the impact is related to the $2.1 million increase in loan provision, $1.0 million increase related to charitable contributions and $1.4 million increase in net gain on sales of bonds and loans as discussed above.

The table below is the reconciliation of GAAP shareholders equity to GAAP-adjusted shareholders equity for the year ended December 31, 2006:

Summary of GAAP-adjusted Shareholders Equity

	2006
Shareholders Equity	$ 667,915
Adjustments from GAAP:	
LIHTC Funds	25,029
Consolidated Lower Tier Property Partnerships	65,043
Other	(1,899)
Income tax effect	(4,417)
GAAP-adjusted Shareholders Equity	$ 751,671

As the general partner, and in some instances limited partner, of the LIHTC Funds, we continue to record our portion of the LIHTC Fund losses, even if our capital account has been reduced to zero. Since we are the general partner, we also record losses attributable to the limited partners when the limited partners capital accounts in the LIHTC Funds reaches zero. In addition, where we have extended loan and bond financing to certain unconsolidated Lower Tier Property Partnerships, in consolidation, these are considered additional interests that should absorb losses of the unconsolidated Lower Tier Property Partnerships. These losses are generally non-cash losses caused by depreciation and thus we do not generally expect to advance cash related to these losses. The cumulative impact on shareholders equity related to these items was an increase of $25.0 million at December 31, 2006 to arrive at a GAAP-adjusted balance.

The cumulative impact of Consolidated Lower Tier Property Partnerships primarily represents losses absorbed because at the time of a GP Take Back transaction the developer general partner has little or no equity in the project, and in many cases there is no third party limited partner equity to absorb losses. As a result, the Company, as the new general partner, has recorded for financial reporting purposes all of the losses (which are primarily due to non-cash depreciation) in those cases where the limited partners capital accounts have reached zero. The cumulative impact on shareholders equity related to these items was an increase of $65.0 million at December 31, 2006 to arrive at a GAAP-adjusted balance.

Liquidity and Capital Resources

Our business activities require that we maintain adequate liquidity for the funding of new investments, payment of distributions to shareholders, investments in Lower Tier Property Partnerships, funding of real estate finance activities and operating expenses. We obtain the funds that we need to operate our business primarily through operating income, issuance of debt, sales of loans or bonds, distributions from Lower Tier Property Partnerships, other cash flows from operating activities, and issuances of privately placed preferred securities.

Liquidity

Our principal sources of liquidity include: (1) cash and cash equivalents; (2) cash flows from operations (including loan sales to GSEs and government agencies); (3) cash flow from investing activities (including sales of bonds and loans, principal payments from bonds and loans and distributions from equity investments);

and (4) cash flow from financing activities (including common and preferred equity offerings and borrowing activities.)

Summary of Cash Flows

At December 31, 2006, 2005 and 2004, we had cash and cash equivalents of approximately $49.1 million, $140.2 million and $92.9 million, respectively. The following table summarizes the changes in our cash and cash equivalents balances from December 31, 2004 to December 31, 2006:

	2006	As Restated 2005	As Restated 2004
Cash and cash equivalents at beginning of period	$ 140,213	$ 92,881	$ 51,008
Net cash provided by (used in):			
Operating activities	(238,330)	68,953	38,123
Investing activities	(772,670)	(1,235,401)	(940,835)
Financing activities	919,872	1,213,780	944,585
Net (decrease) increase in cash and cash equivalents	(91,128)	47,332	41,873
Cash and cash equivalents at end of period	$ 49,085	$ 140,213	$ 92,881

Operating activities

Cash flow used in operating activities was $238.3 million and cash flow provided by operating activities was $69.0 million for the years ended December 31, 2006 and 2005, respectively. The $307.3 million increase in cash used in operating activities for 2006 versus 2005 is due primarily to an increase in purchases, advances on and originations of loans held for sale of $672.0 million which was only partially offset by increased proceeds from the sale of and principal payments received on loans held for sale of $346.3 million. The decrease in operating cash flow related to loans held for sale was due to us acquiring or originating more loans then what we sold in 2006, thus loans held for sale on our balance sheet at December 31, 2006 increased $341.2 million from year end 2005. This increase is primarily the result of us strategically moving into the business of originating or acquiring loans for investors versus for our own investment purposes. The 2005 acquisitions of Glaser and MONY allowed us to expand into this business.

Cash flow provided by operating activities was $69.0 million and $38.1 million for the years ended December 31, 2005 and 2004, respectively. The $30.8 million increase in cash flow provided by operating activities for 2005 versus 2004 is due primarily to an increase in proceeds of the sale of and principal payments received on loans held for sale of $372.3 million, and an increase in earnings distributions received from investments in partnerships of $20.8 million, offset by an increase in purchases, advances on and originations of loans held for sale of $437.2 million.

Investing activities

Cash flow used in investing activities was $772.7 million and $1.2 billion for the years ended December 31, 2006 and 2005, respectively. The $462.7 million decrease in cash used in investing activities for 2006 versus 2005 is due

primarily to an increase in net cash flows from loans held for investment of $642.2 million, a decrease in restricted cash and cash of consolidated funds and ventures of $121.8 million and a decrease in cash outflows for business acquisitions of $56.4 million, only partially offset by an increase in cash flows used to invest in partnerships of $350.5 million. Our decrease in cash flow related to investing activities is consistent with our 2006 strategy of acquiring, placing and managing assets for others and originating and acquiring less for our own investment purposes.

Cash flow used in investing activities was $1.2 billion and $940.8 million for the years ended December 31, 2005 and 2004, respectively. The $294.6 million increase in cash used in investing activities for 2005 versus 2004 is due primarily to an increase in net cash outflow related to loans held for investment of $203.2 million, an increase in cash flow used to invest in partnerships of $89.0 million and an increase in

restricted cash and cash of consolidated funds and ventures of $72.1 million, only partially offset by a decrease in net cash outflows from bonds of $78.8 million. The increase in cash used to invest in loans held for investment was primarily due to the ramp-up in 2005 of loan investments that we made on behalf of the B-Note Value Fund, a fund relationship that we acquired through our 2005 MONY acquisition. Although we only have a 10.6% ownership interest in the B-Note Value Fund we consolidate it based on our control of the Fund.

Financing activities

Cash flow from financing activities was $919.9 million and $1.2 billion for the years ended December 31, 2006 and 2005, respectively. The $293.9 million decrease in cash provided by financing activities for 2006 versus 2005 is due primarily to a decrease in net non-controlling interest capital contributions to consolidated funds and ventures of $287.3 million (much of this related to B-Note Value Fund, where we had significant contributions from investors in 2005, but based upon investment sales within the fund in 2006, we distributed cash to investors versus calling capital) and a decrease of $161.0 million due to the issuance of common shares in 2005, but none in 2006, partially offset by a net increase in borrowings of $164.6 million. Our primary source of funding has been through borrowings to finance our investing activities as we are capital dependent in order to execute our strategy of acquiring, placing and managing assets for others. Current market conditions have dramatically impacted our ability to finance our business and as such we have been dramatically adversely affected by the current credit market conditions. See Item 1. Business Effect of Current Market Condition on Us.

Cash flow from financing activities was $1.2 billion and $944.6 million for the years ended December 31, 2005 and 2004, respectively. The $269.2 million increase in cash provided by financing activities for 2005 versus 2004 is due primarily to an increase in net borrowings of $189.3 million, a net increase in non-controlling interest capital contributions of $56.6 million and an increase in issuance of shares of $37.4 million.

See Capital Resources and Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities for information about issuances and repurchases of our equity securities.

Capital Resources

We use line of credit facilities; repurchase facilities; senior interests and debt owed to securitization trusts; notes payable and other debt; and subordinate debentures to finance our lending programs, syndication activities, investment activities and general working capital needs. These debt sources are what we consider corporate debt. We also have debt related to our consolidated funds and ventures that is discussed separately below in Debt Related to Consolidated Funds and Ventures.

The following table summarizes the outstanding balances and weighted-average interest rates at December 31, 2006 (See Notes to Consolidated Financial Statements-Note 11, Debt included in this Report for more information on our debt):

(dollars in thousands)	**2006**	**Weighted-Average Interest Rate** [(1)]
Line of credit facilities:		
Due within one year	$ 322,502	8.0%
Repurchase facilities:		
Due within one year	211,825	6.5
Senior interests and debt owed to securitization trusts:		
Due within one year	28,820	4.0
Due after one year	1,112,644	4.1
Notes payable and other debt:		
Due within one year	161,684	5.9
Due after one year	206,155	7.1
Subordinate debentures:		
Due after one year	175,500	8.6
Total	$ 2,219,130	

[(1)] *Certain institutions provide us with interest credits based on balances held in escrow related to our loan servicing portfolio. These credits are used to offset amounts charged for interest expense on outstanding line of credit balances. These weighted-average interest rates exclude the effects of any such interest credits.*

Line of credit facilities

We rely on short-term lines of credit with commercial banks and finance companies to finance our growth.

The following table summarizes our total lines of credit facilities and our outstanding balances:

		2006	
(dollars in thousands)	**Principal Purpose**	**Aggregate Facilities**	**Balance**
General bank lines of credit	Working capital	$ 275,000	$ 12,000
Loan warehousing and taxable bond lines	Warehousing construction and permanent loans and taxable bonds	702,000	198,930
Tax credit equity warehousing line	Property acquisition and working capital	165,000	111,572
Total		$ 1,142,000	$ 322,502

Interest rates on these lines of credit, excluding rate reduction programs, ranged from 6.20% to 10.10% in 2006.

Repurchase facilities

In June 2006, we entered into a Mortgage Asset Purchase Agreement and other ancillary agreements with Wachovia Bank, National Association. The terms of the Purchase Agreement provided for a financing facility whereby Wachovia agreed to purchase up to $260.0 million of certain qualifying mortgage loans, subject to our obligation to repurchase such mortgage loans from Wachovia within a ninety day period. The facility bears interest at LIBOR plus a spread and is supported by up to $100.0 million of letters of credit provided by third parties, which we have an obligation to reimburse if such letters of credit are drawn upon. The maturity date of the facility was extended through November 13, 2006, at which time it was replaced with a repurchase facility with a capacity of up to $300.0 million, which was reduced to $200.0 million on May 13, 2007. The repurchase facility was set to expire on November 6, 2009; however, the line was paid off and terminated in December 2007.

Senior interests and debt owed to securitization trusts

In 2006, we raised capital through the securitization of bonds. For a description of our securitizations below, see Item 1. Business Affordable Housing Division Affordable Bond Sector included elsewhere in this Report.

(dollars in thousands)	**Net Proceeds Raised for the Year Ended December 31, 2006**
Securitizations:	
On balance sheet securitizations	$ 550,784
Off balance sheet securitizations	2,890

Notes payable and other debt

Notes payable and other debt consists primarily of notes payable which are used to finance lending needs and warehouse permanent loans before they are purchased by third parties. If the transaction does not qualify as a sale, we record a secured borrowing to the extent of proceeds received. The borrowing terms under these facilities are generally set to the terms of the underlying loans that we originate.

Subordinate debentures

One of our consolidated wholly owned subsidiaries, MMA Financial Holdings, Inc. (**MFH**), formed Trusts that issued Preferred Securities to qualified institutional investors which MFH and we guarantee. The Preferred Securities are fixed-rate until a specific interest rate reset date and then the rate is adjusted thereafter to either a new fixed-rate or variable interest rate which resets quarterly. The Preferred Securities may be redeemed in whole or in part beginning on a specific redemption date at our option. Cash distributions on the Preferred Securities are paid quarterly. The Trusts used the proceeds from the offerings to purchase Debentures issued by MFH with substantially the same economic terms as the Preferred Securities. The Debentures are unsecured obligations of MFH and are subordinate to all of MFH s existing and future senior debt. We have fully and unconditionally guaranteed all of MFH s obligations on the Debentures. The Trusts must redeem the Preferred Securities, when and to the extent the Debentures are paid at maturity or if redeemed prior to maturity.

Covenant compliance

We had credit agreements totaling $534.3 million in outstanding debt at December 31, 2006, that were either in technical default or were going to be in technical default shortly thereafter, due to our inability to deliver timely audited financial statements for 2006. Based on the 2006 financial information presented herein, we were in compliance with all of the net worth, leverage and other financial covenants related to our debt agreements. We continue to be in technical default on certain debt arrangements, see Item 1. Business Effect of Current Market Condition on Us.

Letters of credit

We have available letter of credit facilities with multiple financial institutions. At December 31, 2006, we had $543.6 million available under our various letter of credit arrangements, of which $255.2 million was issued. These letters of credit typically provide credit support to various third parties for real estate activities and expire at various

dates through September 2017. As disclosed in the guarantee table below, we have provided a guarantee on certain of our letters of credit. Our maximum exposure with respect to letter of credit guarantees was $50.9 million at December 31, 2006.

Guarantees

Our maximum exposure under our guarantee obligations is not indicative of the likelihood of the expected loss under the guarantees.

The following table summarizes guarantees by type at December 31, 2006:

	2006	
(dollars in thousands)	**Maximum Exposure**	**Carrying Amount**
Mortgage banking loss-sharing agreements [(1)]	$ 574,136	$ 4,174
Indemnification contracts [(2)]	103,224	1,499
Other financial/payment guarantees [(3)]	66,033	1,146
Letters of credit guarantees [(4)]	50,924	
	$ 794,317	$ 6,819

[(1)] *As a Fannie Mae DUS lender and Ginnie Mae loan servicer, we have exposure to losses and/or servicing advances relating to defaulted real estate mortgage loans sold under the Fannie Mae DUS program and loans that are mortgage backed securities sold to third parties that are guaranteed by Ginnie Mae and represent loans that are insured by HUD. More specifically, if the borrower fails to make a payment of principal, interest, taxes or insurance premiums on a DUS loan we originated and sold to Fannie Mae, we may be required to make servicing advances to Fannie Mae. Also, as a requirement of the DUS program, we have agreed to share in the loss of principal after foreclosure on Fannie Mae DUS loans. We maintain a reserve for the potential losses in an amount equal to the estimated fair value of the liability which is amortized and reflected as the carrying amount in the table above. We owed no cash payments to Fannie Mae under its DUS loss sharing agreement for the year ended December 31, 2006. Subsequent to December 31, 2006 and through December 31, 2008, we paid $0.4 million under the DUS loss-sharing agreement. In addition, we have exposure to losses related to defaulted real estate mortgage loans which are delivered to investors by us, guaranteed by Ginnie Mae and insured by HUD. Our exposure to these losses is limited to the amount which is not covered by the Ginnie Mae guarantee and HUD insurance, and is equal to approximately one month s interest on each loan.*

[(2)] *We have entered into indemnification contracts with investors in our LIHTC Funds to compensate them for losses resulting from a recapture of tax credits due to foreclosure or difficulties in reaching occupancy milestones with respect to LIHTC Funds. We owed no cash payments under these indemnification agreements for the year ended December 31, 2006. Subsequent to December 31, 2006, and through December 31, 2008, we have not made any payments related to these obligations.*

[(3)] *We have entered into arrangements that require us to make payments in the event that a third party fails to perform on its financial obligations. Generally, we provide 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.*

[(4)] *We provide a guarantee for the repayment of losses incurred under letters of credit issued by third parties.*

Debt Related to Consolidated Funds and Ventures

The creditors of our consolidated funds and ventures do not have recourse to the assets or general credit of MuniMae. At December 31, 2006 the debt owed by the LIHTC Funds, Consolidated Lower Tier Property Partnerships and Real Estate Funds had the following terms:

(dollars in thousands)	**Carrying Amount**	**Face Amount**	**2006 Weighted-Average Interest Rates** [1]	**Weighted-Average Maturity Date**
LIHTC Funds:				
Bridge financing	$ 374,025	$ 374,025	LIBOR + 0.6%	Revolving
Notes payable [2]	530,483	550,781	6.17% [2]	September 2010
Total LIHTC Funds	904,508	924,806		
Consolidated Lower Tier Property Partnerships:				
Mortgage debt	150,605	169,377	6.78%	December 2022
Notes payable	312	312	5.00%	September 2038
Total Lower Tier Property Partnerships	150,917	169,689		
Real Estate Funds:				
Notes payable	32,720	32,720	6.42%	July 2007 [3]
Total Real Estate Funds	32,720	32,720		
Total	$ 1,088,145	$ 1,127,215		

[1] *Excludes the impact of rate reduction programs. Certain institutions provide LIHTC Funds with interest credits based on cash balances held. These credits are used to offset amounts charged for interest expense on outstanding line of credit balances.*

[2] *Notes payable of $357.0 million bear interest at LIBOR + 0.7%.*

[3] *Total amount was paid off at June 30, 2007.*

LIHTC Funds

At December 31, 2006 six LIHTC Funds had bridge financing arrangements. Bridge financing is a revolving line of credit collateralized by investor subscriptions. At December 31, 2006 25 LIHTC Funds had notes payable arrangements. Notes payable are term loan agreements collateralized by investor subscriptions. Subscriptions receivable were $2.3 billion for the year ended December 31, 2006, of which $1.2 billion was pledged under note payable agreements and bridge financing arrangements. Included in the carrying amount of notes payable are unamortized discounts of $34.1 million and fair value premiums of $13.7 million at December 31, 2006. Interest expense related to the unamortized discounts was $11.2 million, for the year ended December 31, 2006. Included as a reduction to interest expense related to the LIHTC Funds is premium accretion related to the fair value premium of $5.1 million for the year ended December 31, 2006. This represents the accretion of net premiums recorded upon initial consolidation of the LIHTC Funds in order to record the consolidated debt at fair value.

Consolidated Lower Tier Property Partnerships

At December 31, 2006 the consolidated Lower Tier Property Partnerships maintained significant debt balances which are predominantly secured by the properties held by the Lower Tier Property Partnerships. The primary lenders are banks and housing authorities.

Included as an increase to interest expense related to the Lower Tier Property Partnerships is amortization expense of $0.8 million for the year ended December 31, 2006. This represents the amortization of net discounts recorded upon initial consolidation of the Lower Tier Property Partnership in order to record the consolidated debt at fair value.

Real Estate Funds B-Note Value Fund

At December 31, 2006 the B-Note Value Fund maintained both a $70.0 million revolving line of credit and a $125.0 million repurchase facility. The revolving line of credit is collateralized by a security interest in the unfunded capital commitments of the investors. At December 31, 2006 the outstanding principal balance and the interest rate on the revolving line of credit was $15.9 million and 6.2%.

The repurchase facility had a maturity date of August 20, 2007; however, it was terminated effective July 1, 2007. This repurchase facility s interest rate was based upon LIBOR plus a spread as defined in the agreement. The weighted-average interest rate on the line of credit at December 31, 2006 was 6.63% in relation to the outstanding repurchase facility balances of $16.8 million. The B-Note Value Fund pledged $31.5 million of loans at December 31, 2006, to the lender in return for its borrowings under the repurchase facility.

Other Capital Resources

Common Shares

Prior to 2007, we from time to time issued common shares in public offerings or private sales, including under a dividend reinvestment plan. When we failed to file this report on time, we first became ineligible to use the SEC s short form registration procedures, and then failed to meet the SEC s requirements for registration statements relating to public offerings of securities. At that time, we suspended the dividend reinvestment plan. We will not meet the SEC s registration statement requirements until we become current with the financial statements we file with the SEC. We do not anticipate that will happen at least until late 2009, and perhaps not until after that.

Preferred Shares

At December 31, 2006, one of our subsidiaries, TE Bond had both perpetual preferred shares and mandatorily redeemable preferred shares outstanding of which the net proceeds were used to acquire investments that produce tax-exempt interest income and for general corporate purposes. In addition to the quarterly dividends which range from 4.7% to 7.75%, the holders of both the perpetual preferred shares and the mandatorily redeemable preferred shares receive an annual capital gains dividend equal to an aggregate of 10% of any net capital gains recognized by TE Bond during the immediately preceding taxable year. There was no capital gain dividend for 2006.

In June 2007, we failed to comply with financial reporting requirements related to the mandatorily redeemable and cumulative perpetual preferred shares. As a result, we were required to distribute an additional $0.4 million to the holders of these shares. Currently, we are not in compliance with this financial reporting requirement; however, we have not incurred any penalties at this time and plan to be in compliance before such penalties would be incurred.

The terms of the preferred shares require that they be remarketed (i.e., that buyers be sought for them) periodically, and in connection with these remarketing efforts, the dividend rates are adjusted to the rates that are necessary to find buyers (which may be the current holders) for all the shares that are being remarketed. If buyers cannot be found for all the shares that are being remarketed, the dividend rate increases significantly, and the remarketing effort is deferred for a year. The remarketing date for $100.0 million of preferred shares that currently require dividends of either 6.30% or 6.875% is June 30, 2009. Other series of preferred shares have remarketing dates ranging from September 30, 2009 to September 30, 2019.

GSEs and Government Agencies

We rely on GSEs and government agency programs as a source of liquidity and credit enhancement. In addition, at times we sell interests in tax credit equity funds to GSEs. Consequently, our results may be impacted by changes in the lending and investing activities of the GSEs or function of the government agency programs with which we are involved, particularly those that diminish their desire for investments in affordable housing or make their debt rates relatively more expensive and therefore less attractive to our developer clients.

Certain construction and permanent loans we originate are underwritten and structured so as to be eligible for ultimate placement with GSEs. For the year ended December 31, 2006 we delivered $852.4 million of loans in conjunction with GSE programs.

Distribution Policy

At December 31, 2006, our policy was to maximize shareholder value through, among other things, increases in cash distributions to shareholders. Our Board makes determinations regarding quarterly distributions based on management s recommendation, which itself is based on an evaluation of a number of factors, including our retained earnings, business prospects and available cash. Prior to the fourth quarter of 2007, we paid increasing dividends to our shareholders for 43 consecutive quarters. In January 2008 in response to deteriorating market conditions and our increasing costs, our Board reduced the dividend for the fourth quarter of 2007 by 37% from what we had paid for the prior quarter. Nonetheless, the total dividends for 2007 exceeded the operating cash we generated in that year. In May 2008, our Board did not declare any dividend and our Board has not declared any dividend since then. In the future our Board will determine whether and in what amounts to declare dividends based on our earnings and cash flows, cash needs and any other factors our Board deems appropriate.

Our distribution per common share for the three months and the year ended December 31, 2006 was $0.5075 and $2.00, respectively.

Contractual Obligations

See Notes to Consolidated Financial Statements-Note 11, Debt, Note 14, Commitments and Contingencies, and Note 15, Shareholders Equity and Preferred Shares, Note 20, Consolidated Funds and Ventures included in this Report for a description of our credit facilities, preferred obligations and contractual commitments.

The following table describes our commitments, at December 31, 2006, to make future payments under our debt agreements and other contractual obligations:

	Payment due by Period				
(dollars in thousands)	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Line of credit facilities	$ 322,502	$ 322,502	$	$	$
Repurchase facilities	211,825	211,825			
Senior interests and debt owed to securitization trusts	1,141,464	28,820	129,494	39,581	943,569
Notes payable and other debt	367,839	161,683	100,589	98,737	6,830
Subordinate debentures [(1)]	175,500			91,500	84,000
Mandatorily redeemable preferred shares [(2)]	162,168				162,168
Operating lease obligations [(3)]	40,830	6,469	10,908	9,515	13,938
Capital lease obligations	976	546	397	33	
Deferred business purchase cost [(4)]	10,250	10,250			
Unfunded loan commitments [(5)]	494,989	406,592	88,397		
Unfunded equity commitments [(6)]	1,219,854	1,219,854			
Unfunded bond commitments [(7)]	58,352	58,352			
Debt related to consolidated funds and ventures [(8)]	1,088,145	850,298	75,548	55,249	107,050
Total	$ 5,294,694	$ 3,277,191	$ 405,333	$ 294,615	$ 1,317,555

[(1)] *Subordinate debentures relate to offerings of preferred securities from Trusts formed by one of our subsidiaries (MFH). See Notes to Consolidated Financial Statements-Note 11, Debt included in this Report.*

[(2)] *Preferred shares subject to mandatory redemption relate to our mandatorily redeemable preferred shares issued by TE Bond Sub. Notes to Consolidated Financial Statements-Note 15, Shareholders Equity and Preferred Shares included in this Report.*

[(3)] *We have entered into non-cancelable operating leases for office space and equipment, as well as software hosting agreements for various information systems initiatives. These leases and hosting agreements expire on various dates through 2016. See Notes to Consolidated Financial Statements-Note 14, Commitments and Contingencies included in this Report.*

[(4)] *Deferred business purchase cost relates to the deferred portion of the purchase price in the Glaser acquisition and the resolved portion of the contingent consideration related to the ReVen asset acquisition. On January 25, 2007, we entered into Separation Agreements with each of the Glaser selling shareholders. The Separation Agreements included a cash payment of $0.5 million and the issuance of 472,068 shares for settlement of the remaining two installments of deferred purchase price and the acceleration of the contingent consideration. In May 2006, we acquired ReVen in an asset purchase transaction including a contingent consideration of $12.0 million when certain profitability milestones are met of which $2.3 million was resolved and accrued for at*

December 31, 2006. See Notes to Consolidated Financial Statements-Note 9, Acquisitions, Goodwill and Other Intangible Assets included in this Report.

(5) *Unfunded loan commitments are commitments to extend credit to a customer as long as there is no violation of any condition established in the contract. See Notes to Consolidated Financial Statements-Note 5, Loans Held for Investment and Loans Held for Sale included in this Report.*

(6) *As the limited partner in real estate operating partnerships, we have committed to extend equity to real estate operating partnerships in accordance with the partnership documents. In addition, our consolidated LIHTC Funds have committed to extend equity to Lower Tier Property Partnerships, and the commitments of these consolidated entities are included. The timing of advancing money on these commitments is not dependent on the passage of time, but is dependent on various milestones and events occurring as detailed in the partnership agreements. Estimating the timing for each partnership is not practical and, as such all amounts are shown in the less than one year column. See Notes to Consolidated Financial Statements-Note 20, Consolidated Funds and Ventures included in this Report.*

(7) *Unfunded bond commitments are agreements to disburse additional amounts of money to existing borrowers.*

(8) *Debt related to consolidated ventures consists of Bridge financing and notes payable arrangements of our LIHTC Funds and mortgage debt related to GP Take Backs that we consolidated. See Notes to Consolidated Financial Statements-Note 20, Consolidated Funds and Ventures included in this Report.*

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company holds a variety of financial instruments and other investments, including available-for-sale investments in tax-exempt bonds and residual interests in bond securitizations, taxable construction, permanent and related loans, short- and long-term debt and notes payable and investments in tax credit equity limited partnerships. These investments are subject to various forms of market risk including interest rate risk, credit risk and liquidity risk. The Company seeks to prudently and actively manage such risks, to earn sufficient

compensation to justify the undertaking of such risks and to maintain capital levels consistent with the risks the Company undertakes.

The following is a discussion of various categories of risk that the Company may be subject to in the foreseeable future and the steps that had been taken at December 31, 2006, seeking to mitigate or otherwise protect the Company against loss with regard to each of those categories of risk.

Interest Rate Risk

Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company s control. Developing an effective interest rate management strategy can be complex, and no strategy can insulate the Company from all potential risks associated with interest rate changes. Management believes the majority of the Company s interest rate risk arises in connection with: (1) certain of its residual interests in bond securitizations and senior interests in securitization trusts which are reflected as short and long-term debt in the Company s consolidated balance sheets; (2) properties warehoused prior to being placed in tax credit equity funds; and (3) to the extent not match-funded as described below, floating-rate debt used to finance the Company s mortgage banking activities. The Company manages its interest rate exposure on its investments in certain tax-exempt bond securitizations and certain of its other lending activities through the use of interest rate swaps. The Company may choose not to hedge any or all of its floating rate exposure with hedging instruments. As a result, changes in interest rates could result in either an increase or decrease in the Company s interest income and cash flows associated with these investments.

Generally, the duration of the Company s interest rate swaps is less than the duration of the Company s floating rate instruments. As a result, the Company would be fully exposed to interest rate risk on its floating rate instruments if it were not able to enter into new interest rate swaps when the existing agreements expire. There can be no assurance that the Company will be able to acquire interest rate swaps at favorable prices, or at all, when the existing arrangements expire.

The interest income collected on fixed-rate investments, interest paid on fixed-rate debt and interest collected on investments that pay interest based on the cash flow available from the underlying property are not directly impacted by fluctuations in interest rates. In contrast, certain of the Company s investments in residual interests in bond securitizations and the Company s floating rate debt is directly impacted by fluctuations in market interest rates. If interest rates had increased by 100 basis points and 200 basis points at December 31, 2006, the Company s annual net interest income on these investments and debt would have decreased by $6.0 million and $9.9 million, respectively. As discussed above, the Company attempts to manage this interest rate exposure through a financial risk management strategy, which currently relies heavily upon the use of interest rate swaps. Including the effects of our interest rate hedges and using the same 100 and 200 basis point increases in interest rates, the decreases in net interest income noted above would have been reduced to $1.9 million and $3.1 million, respectively, as of December 31, 2006.

The interest required to be paid on certain of the Company s senior interests in bond securitization trusts includes a remarketing spread over a floating market interest rate. This remarketing spread varies on a weekly basis and is not mitigated by the hedging instruments discussed above. As a result, changes in the remarketing spread could result in either an increase or decrease in the Company s interest income and cash flows associated with its residual interests in bond securitizations. At December 31, 2006, the Company s weighted average remarketing spread was 0.08%. If the remarketing spread had changed by 50% and 100% at December 31, 2006, and that change remained in effect for one year, the Company s annual interest income on these investments would have decreased by $0.3 million and $0.6 million, respectively.

The Company s investments in tax-exempt bonds, residual interests in bond securitizations, and investments in derivative financial instruments are carried at fair value. Significant changes in market interest rates could affect the amount and timing of unrealized and realized gains or losses on these investments. If interest rates had increased by 100 basis points and 200 basis points at December 31, 2006, the market value of these investments would have decreased by approximately $98 million and $203 million respectively. However, for the participating tax-exempt bonds for which the fair value is determined by discounting the underlying collateral s expected future cash flows using current estimates of discount rates and capitalization rates,

changes in market interest rates do not have a strong enough correlation to discount and capitalization rates from which to draw a conclusion. There are many mitigating factors to consider when determining what causes discount and capitalization rates to change, such as macroeconomic issues, real estate capital markets, economic events and conditions, and investor risk perceptions. Rising interest rate environments or changing investor perceptions of risk could reduce the demand for multifamily tax-exempt and taxable financing and tax credit equity investments, which could limit the Company s ability to structure transactions. Conversely, falling interest rates may prompt historical renters to purchase homes, which could reduce the demand for multifamily housing.

The majority of the Company s loans receivable and notes payable related to the Company s mortgage banking activities are generally not expected to be directly subject to interest rate risk. The Company typically provides loans to borrowers (loans receivable) by borrowing from third parties (notes payable). The Company earns net interest income that represents the difference between the interest charged to borrowers and the interest paid to the Company s lenders. The Company attempts to match the terms and rates of its loans receivable and notes payable to fix the net interest income the Company will receive.

Credit and Liquidity Risks

Substantially all of the Company s investments lack a regular trading market and are relatively illiquid. This lack of liquidity could be exacerbated during turbulent market conditions or if any of the tax-exempt bonds become taxable or if investments go into default. If the Company were required to raise additional cash during a turbulent market, the Company might have to liquidate its investments on unfavorable terms. In addition, the illiquidity associated with the Company s investments can result in increased volatility in the fair value of the Company s investments, which could impact the Company s balance sheet and other comprehensive income (loss).

There can also be significant credit risk assigned by investors to the types of investments held by the Company. The illiquid bond and residual bond assets and other investments held by the Company trade at yields that can be traced to spreads over investment grade instruments. On occasion there may be periods of market volatility during which investors demand an increased credit spread over investment grade investments for the investments owned by the Company. During these times, the market value of the Company s bonds may decline significantly. If the investors required rate of return on the Company s bonds had changed 100 basis points and 200 basis points at December 31, 2006, the market value of these bonds would have decreased by approximately 6% and 13%, respectively.

Under the terms of the Company s interest rate swap agreements with counterparties and certain other transactions, the Company is required to maintain cash deposits with its counterparties (margin call deposits). The Company s margin call deposits with counterparties were $1.4 million at December 31, 2006. There is a risk that the Company could be required to liquidate investments to satisfy margin calls on its interest rate swap contracts if interest rates rise or fall dramatically. If interest rates decreased by 50 and 100 basis points at December 31, 2006, the Company would be required to post additional margin call deposits of $11.7 million and $29.1 million, respectively. Longer term swaps are more sensitive to changes in interest rates, and the additional margin call exposure reported above assumes the changes in the values of the bonds being hedged do not offset any of the change in the value of the swap.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of MuniMae, together with the report thereon of KPMG LLP dated February 11, 2009, are in Item 15. Exhibits and Financial Statement Schedules at the end of this report.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On October 20, 2006, PwC was dismissed as our independent registered public accounting firm, effective immediately. The decision to change independent registered public accounting firms was recommended by our management and approved by the Audit Committee of our Board of Directors.

PwC s initial audit report on our financial statements for the years ended December 31, 2005 and December 31, 2004 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or

modified as to uncertainty, audit scope or accounting principle. As noted below, the Audit Committee has subsequently determined that those reports along with the related financial statements should no longer be relied upon.

On September 13, 2006, we filed a Form 8-K with the SEC reporting that on September 7, 2006 the Audit Committee of our Board of Directors had concluded that our previously filed interim and audited financial statements for the years ended December 31, 2005, 2004 and 2003, and the first quarter of the year ended December 31, 2006 should be restated to reflect adjustments to correct certain errors and accordingly, should no longer be relied upon. On October 26, 2006, we filed a Form 8-K with the SEC in which we reported the dismissal of PwC as our independent registered public accounting firm. Our restated financial statements for the years ended December 31, 2005 and December 31, 2004 are being filed as part of this Report on Form 10-K and were also included in a Form 8-K filed with the SEC on February 12, 2009.

During the years ended December 31, 2005 and December 31, 2004 and through October 20, 2006, there were no disagreements with PwC on any matter of accounting principles or practices, financial statement disclosure or audit scope or procedure, which disagreements if not resolved to the satisfaction of PwC would have caused them to make reference thereto in their reports on our financial statements.

During the years ended December 31, 2005 and 2004 and through October 20, 2006, there were no identified reportable events as defined in Item 304(a)(1)(v) of Regulation S-K. There were, however material weaknesses in internal controls described in Item 9A. Controls and Procedures of our Report on Form 10-K for the year ended December 31, 2005 and in Item 4 of our Form 10-Q for the quarter ended March 31, 2006. These material weaknesses cover the following areas:

- control environment;
- ineffective financial reporting process;
- accounting for tax credit equity business;
- accounting for deferral and recognition of bond and loan origination fees and direct costs;
- accounting for investments in partnerships using the equity method of accounting;
- identification and valuation of derivative financial instruments; and
- accounting for income taxes.

Management has noted that it believes the restatement described in our September 2006 Form 8-K was the result of additional material weaknesses. Management authorized PwC to respond fully to the inquiries of the successor accountant concerning the subject matter of each of the material weaknesses described in Item 9A. Controls and Procedures of our 2005 Report on Form 10-K.

PwC furnished a letter addressed to the SEC stating that it agrees with the above statements concerning PwC. A copy of such letter, dated October 20, 2006, was filed as Exhibit 16.1 to our Current Report on Form 8-K dated October 20, 2006.

Appointment of New Independent Registered Public Accounting Firm

On October 20, 2006, the Audit Committee approved the engagement of KPMG as our independent registered public accounting firm and on October 26, 2006, KPMG was so engaged. During the years ended December 31, 2005 and December 31, 2004 and through October 26, 2006, neither we nor anyone on our behalf consulted with KPMG regarding either: (1) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on our financial statements, and neither a written report nor oral advice was provided to us by KPMG that was an important factor considered by us in reaching a decision as to any accounting, auditing or financial reporting issue; or (2) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

At the end of the period covered by this Report, an evaluation was conducted under the supervision and with the participation of management, including the CEO and the then CFO, on the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (**Exchange Act**). Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosures. Based on the evaluation and the identification of material weaknesses in internal controls over financial reporting (the scope of which is discussed below), as well as our inability to file this Report on Form 10-K for the year ended December 31, 2006 within the statutory time period, management concluded that our disclosure controls and procedures were not effective as of December 31, 2006. Furthermore, management has subsequently concluded that our disclosure controls and procedures were not effective for our quarterly and annual reporting periods in 2007 and 2008 as we were not and will not be able to provide timely reporting for those periods as required by the SEC.

Management s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The effectiveness of any system of internal control over financial reporting is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating and evaluating the controls and procedures. Because of these inherent limitations, internal control over financial reporting cannot provide absolute assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to upgrade our internal controls as necessary and appropriate for our business, but cannot provide assurance as to when such improvements will be sufficient to provide us with effective internal control over financial reporting.

Although management, with the participation of our CEO and CFOs, began an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 as required under Section 404 of the Sarbanes-Oxley Act of 2002 (**SOX Act**), management did not complete its assessment. Management utilized substantial internal resources and engaged nationally recognized outside consultants to assist in various aspects of its assessment and compliance efforts. Based on the material weaknesses identified, management concluded that in certain instances we did not maintain effective internal control over financial reporting as of December 31, 2006, based on the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (**COSO**). In addition, the restatement effort itself identified numerous internal control weaknesses that existed as of December 31, 2006. Had management completed its assessment, additional internal control weaknesses as of December 31, 2006 might have been identified.

Due to material weaknesses identified in our evaluation of internal control over financial reporting, we implemented additional procedures and reviews that we believe were sufficient to ensure that our consolidated financial statements, or restated consolidated financial statements at December 31, 2003 and for the years ended December 31, 2004, 2005 and 2006, are presented in accordance with GAAP.

These procedures included, among other things, evaluating and documenting all applicable accounting policies related to our businesses, evaluating the application of such accounting policies, including those that were revised as well as those that were not revised, and remeasuring our financial reporting results as needed, performing analytical reviews, substantiating journal entries to source documents and in some cases

reconfirming balances with third parties to ensure the accuracy of our accounting records. In addition, we conducted a number of Disclosure Committee meetings involving senior executives of MuniMae to ensure the completeness and accuracy of the financial statements and related disclosures. Finally, our consolidated financial statements and restatement adjustments were reviewed with the Audit Committee of our Board of Directors.

A material weakness as defined by Public Company Accounting Oversight Board (**PCAOB**) Auditing Standard No. 5, *An Audit of Internal Control over Financial Reporting That is Integrated with an Audit of Financial Statements* (***Auditing Standard No. 5***) is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. A deficiency in internal control over financial reporting as defined by Auditing Standard No. 5 exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

In connection with management s assessment of our internal control over financial reporting, we identified the following deficiencies that when considered individually or in the aggregate resulted in material weaknesses in our internal control over financial reporting.

1. *Entity Level Control Environment*. We did not maintain an effective entity level control environment, which is the foundation needed for effective internal control over financial reporting, as evidenced by the following weaknesses:

   We focused disproportionately on an internal metric for assessing our performance, Cash Available for Distribution (**CAD**).

   We did not effectively invest in our infrastructure and support functions. As we rapidly expanded in breadth and complexity in significant part by acquiring companies, we did not effectively invest sufficient resources related to accounting expertise, information technology and other supporting functions that would have improved our ability to prepare accurate and timely financial statements.

   We did not effectively integrate our finance function with the business units so that business unit transactions were properly assessed from a GAAP accounting perspective.

   We did not maintain sufficient, formalized, and effective accounting and reporting policies nor did we maintain adequate controls with respect to the review and supervision of our accounting operations.

   Our internal audit function did not appropriately identify or address our risks, and it did not sufficiently document our processes and controls. We placed too great a reliance on nationally recognized consultants engaged to assist us in the design and assessment of our internal control over financial reporting and various aspects of our internal audit function and as a result we did not conduct a sufficient examination of our internal control environment. The ineffectiveness of our internal audit function adversely affected our ability to identify our control weaknesses and inhibited executive management s and the Audit Committee s ability to monitor and assess the performance of our internal control processes.

   We placed too great a reliance on our prior independent registered public accountants and the fact that their auditors reports were unqualified for all periods in which they were our auditors, including all the annual periods that we have subsequently restated.

The entity level control environment weaknesses described above also contributed to the existence of the material weaknesses outlined below.

2. *Consolidation Accounting.* We did not maintain effective controls over the accuracy of our accounting for our tax credit equity business and accounting for transactions where we assumed or acquired the general partner interest in Lower Tier Property Partnerships. More specifically, the consolidation accounting assessment related to these areas was not performed correctly and the revenue recognition related to the tax credit equity business needed to be corrected.

3. *Bond Accounting.* We did not maintain effective controls over the determination of fair values related to our bond portfolio. More specifically, we did not review and validate the broker quotes supporting our bond values.

4. *Equity Method Accounting.* We did not maintain effective controls to ensure accurate application of the equity method of accounting for investments in certain partnerships.

5. *Accounting for Derivatives.* We did not maintain effective controls over the identification and valuation of certain derivative financial instruments.

6. *Accounting for Mortgage Servicing Rights.* We did not maintain effective controls over the determination of fair value related to our mortgage servicing rights.

7. *Accounting for Loans.* We did not maintain effective controls over the proper determination of: (1) loan classification; (2) loan loss reserves associated with loans held for investment; and (3) amortization of loan fees and costs.

8. *Purchase Accounting.* We did not maintain effective controls over the determination of fair value and the purchase price allocation for business combinations. In addition, we did not maintain effective controls necessary to ensure proper impairment testing of goodwill and intangibles.

9. *Accounting for Property and Equipment, Payroll and Accounts Payable.* We did not maintain effective controls over the accounting for property and equipment as well as payroll and accounts payable.

10. *Contract Compliance.* We did not maintain internal controls sufficient to ensure that we complied with all of our contractual agreements. Specifically, we determined that during the second half of 2006 and the first half of 2007, we caused certain tax credit equity funds to hold cash reserves in bank accounts under arrangements that were inconsistent with the contractual requirements. These arrangements were terminated in 2007 and the funds were reimbursed.

Because of the material weaknesses described above, management has concluded that we did not maintain effective internal control over financial reporting as of December 31, 2006, based on the Internal Control Integrated Framework issued by COSO. However, since management has not completed its assessment, we cannot provide assurance that the material weaknesses described above constitute a complete list of deficiencies. In addition, because management did not complete its assessment, KPMG issued an attestation report on our internal control over financial reporting in which it disclaimed an opinion on the effectiveness of our internal control over financial reporting included in Item 8. Financial Statements and Supplementary Data of this Report. In view of the weaknesses identified in our control over financial reporting, we established special processes, procedures and controls in order to prepare our restated consolidated financial statements for 2004 and 2005, including a cumulative adjustment to restate shareholders equity at December 31, 2003, and to prepare our 2006 consolidated financial statements. However, due to the magnitude of the effort (much of which was, by necessity conducted by consultants who were not previously familiar with the Company), including the consolidation of over 230 entities that were not previously consolidated, there were a number of deficiencies that were identified by our independent registered public accountants during their audit of these financial statements. Many of these deficiencies, such as an inadequate supervisory review process, constitute material weaknesses in our internal controls over financial reporting. Consequently, we implemented additional procedures and reviews that we believe were sufficient to provide a basis for certifying that the financial statements presented in this Report are presented fairly, in all material respects, in accordance with GAAP.

Remediation of Material Weaknesses

Management is responsible for maintaining effective internal control over financial reporting, including the adequacy of accounting resources and the quality of the financial reporting processes. In our Report on Form 10-K for the year ended December 31, 2005, we reported that we had determined there were material weaknesses in our internal controls and we were in the process of remediating these weaknesses. Subsequent to that filing we determined that we had additional weaknesses in our internal control environment. As a result

we ceased our previously disclosed remediation efforts and re-assessed our processes and associated key controls. We engaged a nationally recognized consulting firm to help us review and formalize our accounting policies and procedures to ensure appropriate application of GAAP; replaced our previous registered independent public accounting firm with KPMG; and hired a new CFO, a new Senior Vice President and business unit financial officer and a new director of internal audit.

In this Report we have described material weaknesses in our internal control over financial reporting at December 31, 2006. Because of those material weaknesses, we were required to supplement our internal controls with substantive review procedures and in other ways, including in many instances reviewing source documents to be sure the accounting for the transactions that were the subject of those documents was correct, in order to ensure the accuracy of the financial statements at December 31, 2006 and for prior years that are included in this Report. We have been unable to focus significant resources on the remediation of our material weaknesses, because of the need to devote virtually all our accounting resources to restating our 2004 and 2005 financial statements and preparing our 2006 financial statements. In particular, we did not install systems and procedures that provide the necessary level of assurance regarding the accuracy of our financial reporting without the type of review process that had to be undertaken in connection with the preparation and audit of the financial statements that are contained in this Report. However, we have taken the following steps to remediate some of the material weaknesses, including many of the material weaknesses in the entity level control environment, described above:

We now focus all our attention on ensuring that our financial reporting is in accordance with GAAP, and we no longer view CAD as an important metric for evaluating our performance.

In late 2007, we hired a new CFO, a new Senior Vice President and business unit financial officer and a new Head of Internal Audit.

We have developed, adopted and documented formal accounting and reporting policies with respect to all the types of transactions and relationships that were relevant to our restated 2004 and 2005 financial statements and our 2006 financial statements. This includes policies regarding consolidation accounting, bond accounting, equity method accounting, accounting for derivatives, accounting for mortgage servicing rights, accounting for loans, purchase accounting, and accounting for property and equipment, payroll and accounts payable. We continue to develop formal accounting policies and procedures to ensure proper accounting for all aspects of types of transactions in which we might engage in the future but did not engage during 2004, 2005 or 2006 or prior years.

Although we used a large number of consultants in connection with the preparation of our 2006 and our restated 2005 and 2004 financial statements, we take responsibility for making the final determination of all matters relating to those financial statements, and management does not rely on the fact that an accounting treatment has been approved by an expert consultant as assuring that that accounting treatment is correct.

As a result of our efforts to sell and or exit many of our current business segments, we expect the scope and complexity of our finance and accounting related responsibilities and underlying processes to change significantly. Therefore, the level of remediation required will be dramatically impacted. Outlined below are additional remediation related steps that we will need to take in the future, but the scope of which will depend on the changes that are taking place in our business:

Revising our business methodology to integrate more effectively accounting implications in our evaluation of possible transactions.

Adopting additional accounting policies as necessary to ensure proper accounting treatment for aspects of transactions in which we engage in the future that are not covered by our existing accounting policies.

Revising our risk assessment processes to align them better with the changing nature and complexity of our various lines of business and with the way we will be assessing risk under Auditing Standard No. 5.

Despite the steps we have taken and intend to take to remediate the material weaknesses in our internal control over financial reporting at December 31, 2006 that we identified, there were material weaknesses in our internal control over financial reporting at December 31, 2007 and 2008. Accordingly, the preparation and audit of our consolidated financial statements at those dates will require significantly greater review of the accounting for individual transactions and other substantive procedures than would be required if we had had more effective internal controls over financial reporting at those dates.

Changes in Internal Controls over Financial Reporting

Although we began taking steps to remediate issues noted in our previous Form 10-K filing, during 2006 it became apparent that these steps would not be sufficient. Therefore, those remediation efforts were stopped and we reevaluated the remediation steps we would have to take. The subsequently identified steps, which are described above, had not been taken prior to December 31, 2006, and therefore did not impact the results of the assessment of the 2006 internal control environment.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Corporate Governance Guidelines

We have adopted Corporate Governance Guidelines, which are available on our website at *www.munimae.com* under About MuniMae Governance, then Corporate Governance Guidelines. These Guidelines contain general principles regarding the function of our Board and Board committees. The Guidelines are reviewed on an annual basis by the Governance Committee of the Board, which submits to the Board for approval any changes deemed desirable or necessary.

Independence of Directors

Our Corporate Governance Guidelines require that a majority of the Board of Directors be comprised of independent directors. When those Guidelines were adopted, our shares were listed on the NYSE. Although our shares are no longer listed on the NYSE, the NYSE s director independence guidelines are incorporated in our Corporate Governance Guidelines, which are used by the Board in making independence determinations. For a director to be considered independent under the Listing Standards of the NYSE, the Board must affirmatively determine that the director has no direct or indirect material relationship with MuniMae. The Board has determined that the following directors are independent: Charles C. Baum, Eddie C. Brown, Robert S. Hillman, Barbara B. Lucas, Douglas A. McGregor, Arthur S. Mehlman and Fred N. Pratt, Jr.

Qualification for Board Membership

The Board has the responsibility for nominating candidates for election to the Board and for filling vacancies on the Board as they arise. In evaluating potential candidates, the Board considers the qualifications listed in our Corporate Governance Guidelines including the requirement that nominees should possess the highest personal and professional ethics, integrity and values and be committed to representing the long-term interests of the shareholders. Nominees are

selected on the basis of their business and professional experience and qualifications, public service, diversity of background, and availability. In addition, in 2007 the Board established an expectation that each non-executive director will acquire, within three years after his or her election to the Board, a number of shares having a value at least equal to two-thirds of the fees earned in those three years (excluding Deferred Shares in the director s deferred share account). However, certain directors have not yet met that expectation because we have not been current in filing reports with the SEC, and our directors have not been permitted to buy our shares since September 2006. Further, no MuniMae

independent director may serve on the boards of more than four other publicly traded companies while serving on our Board and no Chief Executive Officer director may serve on the boards of more than two other publicly traded companies. All directors are in compliance with these requirements and expectations, except as described above.

Process for Nominating Potential Director Candidates

The Governance Committee of the Board is responsible for identifying, screening and selecting potential candidates for Board membership and for recommending qualified candidates to the full Board for nomination. In evaluating potential candidates, the Committee considers the qualifications listed in our Corporate Governance Guidelines. The Committee applies the same standards in evaluating candidates submitted by shareholders as it does in evaluating candidates submitted by other sources. Suggestions regarding potential director candidates, together with the supporting information concerning the potential candidate s qualifications, should be submitted in writing to:

Governance Committee
Municipal Mortgage & Equity, LLC
c/o Corporate Secretary
621 East Pratt Street, Suite 300
Baltimore, Maryland 21202

Code of Ethics and Business Integrity

We have developed and adopted a Code of Ethics and Principles of Business Integrity that is applicable to all of our employees and directors, including our principal executive officer, principal financial officer, principal accounting officer or controller, and to persons performing similar functions. The Code of Ethics and Principles of Business Integrity is available on our website and in print without charge, upon the request of any shareholder, by mail to our Corporate Secretary, Municipal Mortgage & Equity, LLC, at our Baltimore offices.

Executive Session

Pursuant to our Corporate Governance Guidelines, the independent directors of the Board meet in regularly scheduled sessions without the presence of management. The chair of these executive sessions is Mr. Pratt.

Communications with the Board of Directors

Shareholders and other interested parties may communicate with one or more members of MuniMae s Board by writing to the Board, or a specific director at:

Board of Directors (or specific director)
Municipal Mortgage & Equity, LLC
c/o Corporate Secretary
621 East Pratt Street, Suite 300
Baltimore, Maryland 21202

Available Information

Our website address is *www.munimae.com*. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC. Our website also includes our Corporate Governance

Guidelines, Code of Ethics and the charters of our Audit Committee, Compensation Committee and Governance Committee. These documents are also available in print to any shareholder upon request.

Directors

The following is information as of December 31, 2006, about each person who was a director of MuniMae on that date, except as otherwise noted. All of these persons still are directors, and no other persons have been elected or nominated for election to the Board.

Charles C. Baum, (64), has been a director of MuniMae since 1996. Mr. Baum has been the President since 2004, and the Chief Financial Officer since 1973, of United Holdings Co., Inc., a company that invests in real estate and securities, and its predecessors. Mr. Baum is also a member of the board of directors of Gabelli Group Capital Partners, an investment advisory firm.

Richard O. Berndt, (64), has been a director of MuniMae since 1996. Since 1976, Mr. Berndt has been the Managing Partner of Gallagher Evelius & Jones LLP, a law firm engaged in the general practice of law. Mr. Berndt has been an attorney in that firm since 1968. Mr. Berndt is also a director of PNC Financial Services, Inc.

Eddie C. Brown, (66), has been a director of MuniMae since 2003. Mr. Brown is founder, President and Chief Executive Officer of Brown Capital Management, Inc., an investment management firm, which manages money for institutions and wealthy individuals. Mr. Brown has served in this capacity since July 1983. Mr. Brown is also a director of PNC Financial Services, Inc. and Brown Capital Management Inc.

Michael L. Falcone, (45), has been a director of MuniMae since 1999. Mr. Falcone has been the Chief Executive Officer and President of MuniMae since January 1, 2005. Prior to his appointment as our Chief Executive Officer, he served as Chief Operating Officer since 1997. Prior to joining MuniMae, he was a Senior Vice President of Shelter Development Corporation, where he was employed from 1983 to 1996.

Robert S. Hillman, (67), has been a director of MuniMae since 1996. Since 2005, Mr. Hillman has been the Secretary and Treasurer of Corridor Media, Inc. Since 1998, he has been the President of H&V Publishing, Inc., a publishing company.

Mark K. Joseph, (68), has been Chairman of the Board of MuniMae since 1996. From our founding in 1996 until January 1, 2005, he also served as our Chief Executive Officer. He also served as the President of the managing general partner of the SCA Tax-Exempt Fund Limited Partnership, our predecessor, from 1986 through 1996. Mr. Joseph is also a director of Provident Bankshares Corporation.

Barbara B. Lucas, (61), has been a director of MuniMae since August 1, 2005. Ms. Lucas has been a retired executive since May 2006. At the time of her retirement, Ms. Lucas was Senior Vice President of Public Affairs and Corporate Secretary of The Black & Decker Corporation, a manufacturer and marketer of power tools and accessories, hardware and home improvement products, and technology based fastening systems. Ms. Lucas was elected Senior Vice President of Public Affairs in December 1996 and had been Corporate Secretary since joining The Black & Decker Corp. in 1985. Ms. Lucas is also a director of Provident Bankshares Corporation.

Douglas A. McGregor, (64), has been a director of MuniMae since 1999. In 2002, Mr. McGregor retired as Vice Chairman and Chief Operating Officer of The Rouse Company, formerly a real estate development and management company, a position he held since 1998. Mr. McGregor had been with The Rouse Company since 1972. Mr. McGregor has extensive experience in real estate development and management.

Arthur S. Mehlman, (64), has been a director of MuniMae since 2004. Prior to his retirement in 2002, Mr. Mehlman had served as a partner at KPMG, an independent registered public accounting firm, since 1972, including serving as the partner in charge of KPMG s audit practice for the Baltimore/Washington region. Mr. Mehlman is also a director

of Legg Mason Funds and The Royce Funds.

Fred N. Pratt, Jr., (62), has been a director of MuniMae since 2003. Since November 2006, Mr. Pratt has been the President of Benchmark Assisted Living, a private company that operates senior living facilities. From 2003 to November 2006, Mr. Pratt provided real estate investing and consulting advice. Prior to that, Mr. Pratt co-founded the Boston Financial Group, a leading real estate investment manager, operator, and service provider that managed billions in real estate investments, which was acquired by Lend Lease

Corporation Limited, a leading international retail and residential property group, in 1999. Mr. Pratt served Lend Lease in several capacities including as Chief Executive Officer of Lend Lease Real Estate Investments (U.S.) from 2001 through 2003.

Board Committees

The Board of Directors has appointed the following Board Committees:

Audit Committee. The Audit Committee assists the Board of Directors in fulfilling its oversight responsibility relating to:

the integrity of our financial statements, the financial reporting process, and internal controls over financial reporting;

the performance of our internal audit function;

the appointment, engagement and performance of our independent registered public accounting firm and the evaluation of the independent registered public accounting firm s qualifications and independence; and

compliance with our Code of Ethics and Principles of Business Integrity, and legal and regulatory requirements, including our disclosure controls and procedures.

In so doing, it is the responsibility of the Audit Committee to maintain free and open communication between the Committee, the independent registered public accounting firm, the internal auditors, and our management and to resolve any disagreements between management and the independent registered public accounting firm regarding financial reporting. The Committee also performs other duties and responsibilities set forth in a written Charter approved by the Board of Directors. The Charter of the Audit Committee is available on MuniMae s website at *www.munimae*.com under About MuniMae Governance, then Audit Committee. The Audit Committee held 12 meetings during fiscal 2006.

The Board and the Governance Committee have determined that all members of the Committee satisfy the independence requirements of the NYSE s Listing Standards, the rules adopted by the SEC and our Corporate Governance Guidelines. No member of the Audit Committee is to serve on the Audit Committee of more than three public companies, including MuniMae, and in 2006 no member of the Audit Committee served on the audit committee of any other public company except that Mr. Mehlman is chairman of the audit committee of The Legg Mason Funds and a member of the audit committee of The Royce Funds. The Board of Directors has also determined that Mr. Mehlman qualifies as an audit committee financial expert under SEC rules. During fiscal 2006, membership on the Committee consisted of Mr. Pratt, who served as Chairman, and Messrs. Baum, Brown, Hillman and Mehlman.

Compensation Committee. The Compensation Committee of the Board of Directors has the following principal duties and responsibilities:

review our executive compensation policy and programs to ensure that they (1) effectively motivate the CEO and other executive officers and key employees to achieve our financial goals and strategic objectives; (2) properly align the interests of these employees with the long-term interests of our shareholders; and (3) are sufficiently competitive to attract and retain the executive resources necessary for the successful management of our businesses;

review trends in management compensation, oversee the development of new compensation plans (including performance-based, equity-based and other incentive programs as well as salary, bonus and deferred compensation arrangements) and, when appropriate, make recommendations to the Board regarding new plans and revisions to existing plans;

annually review and approve corporate goals and objectives relevant to the compensation of our Chief Executive Officer and other executive officers and key employees, evaluate the performance of such individuals and approve the compensation for such individuals;

annually evaluate the compensation of the members of the Board; and

review our management succession plan for the Chief Executive Officer and other executive officers and key employees.

These duties and responsibilities are set forth in a written Charter of the Committee which has been approved by the Board of Directors and is available on our website at *www.munimae.com* under About MuniMae Governance, then Compensation Committee.

Pursuant to the Charter, the Committee has the authority to delegate certain of its responsibilities to a subcommittee. The Committee has the authority to administer our equity plans for the Chief Executive Officer and other executive officers. The Committee is responsible for all determinations with respect to participation, the form, amount and timing of any awards to be granted to any such participants, and the payment of any such awards. Our Senior Staff have the authority to administer our equity plans for all other participants.

Our Chief Executive Officer provides recommendations to the Compensation Committee with respect to the wage level, base salary amounts, performance targets for annual incentive and long-term incentive bonus programs, and any adjustments to the cash value for equity grants for each named executive officer other than himself. These compensation recommendations are based on the peer group market data reviewed by the Committee and the Chief Executive Officer s subjective review of each officer s overall performance and contribution to MuniMae during the prior year. While the Committee considers the recommendations of the Chief Executive Officer with respect to these elements of compensation, the Committee independently evaluates the recommendations and makes all final compensation decisions. The Chief Executive Officer does not make any recommendations as to his own compensation and such decisions are made solely by the Compensation Committee. For additional information on our Chief Executive Officer s role in recommending the amount or form of executive compensation during fiscal 2006, see the Compensation Discussion and Analysis below. Other than our Chief Executive Officer, no other executive officer of MuniMae had any role in determining or recommending the amount or form of executive officer or director compensation during fiscal 2006.

Pursuant to its Charter, the Committee has the sole authority to retain and terminate the services of any outside compensation consultants. During fiscal 2006, the Compensation Committee retained FPL Consulting (**FPL**) to provide advice to the Committee on general program design and best practices, as well as to assist the Committee in ensuring our executive compensation programs and the levels of compensation paid to our executive officers were competitive with a peer group of companies. FPL reported directly to the Committee. While FPL performed the general competitive review, as requested by the Committee, FPL did not determine or recommend any amount or form of executive officer compensation to the Committee.

During fiscal 2006, membership on the Compensation Committee consisted of Mr. Hillman, who served as Chairman, and Messrs. Baum and McGregor, and Ms. Lucas. All members of the Committee qualify as independent directors under our Corporate Governance Guidelines and the NYSE s Listing Standards. The Compensation Committee held seven meetings during the 2006 fiscal year.

Governance Committee. The Governance Committee assists the Board by:

developing and implementing corporate governance guidelines;

identifying and recommending qualified individuals to serve as members of the Board;

evaluating and recommending the size and composition of the Board and its Committees (including making determinations concerning composition of the Board and its Committees under the applicable requirements of the SEC and the NYSE); and

monitoring a process to assess the effectiveness of the Board and its Committees.

The Committee is also responsible for performing other duties and responsibilities set forth in a written Charter approved by the Board of Directors. The Charter of the Committee and our Corporate Governance Guidelines are available on our website at *www.munimae.com* under About MuniMae Governance, then Governance Committee. During fiscal year 2006, membership of the Committee consisted of Mr. McGregor,

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who served as Chairman, and Messrs. Baum and Hillman. The Committee held four meetings during the 2006 fiscal year. All members of the Committee qualify as independent directors under our Corporate Governance Guidelines and the NYSE Listing Standards.

Director Attendance at Meetings

During fiscal year 2006, there were 12 meetings of the Board. Each Director attended at least 75% of the total number of meetings of the Board and each of the Board Committees on which he or she served.

Non-Director Executive Officers

The following is information about each person who was an executive officer of MuniMae on December 31, 2006 and was not a director. Except as noted, the information is provided as of December 31, 2006.

Earl W. Cole, III, (53), is an Executive Vice President of MuniMae responsible for Credit and Portfolio Management, and has been since 2004. Since December 2008, Mr. Cole has been responsible for MMA Realty Capital. In addition, Mr. Cole is the Company s Chief Credit Officer and Head of Credit Strategy. Prior to assuming his current roles, Mr. Cole oversaw the loan servicing and construction management of MuniMae s real estate Portfolio Management and Asset Management functions. Mr. Cole joined our predecessor, the SCA Tax-Exempt Fund Limited Partnership, in 1989 and has served in various leadership positions with MuniMae since 1996. Prior to joining SCA, Mr. Cole worked for the U.S. Department of Housing and Urban Development for 13 years, where he was engaged in a number of activities, including loan origination and servicing and community planning and development. Mr. Cole is a graduate of the University of Maryland with a B.A. in Economics.

Frank G. Creamer, Jr., (60), was an Executive Vice President of MuniMae responsible for capital partner relationship management, business development and capital raising until he departed in March 2009. He joined MuniMae in 2004. From 2000 until his joining MuniMae, Mr. Creamer headed marketing for the commercial credit group of Lend Lease while also managing a number of key client relationships within the financial institutions sector. In addition, he managed Lend Lease s high yield debt programs. Until 2000, Mr. Creamer was an owner and principal of Creamer Vitale Wellsford, the successor firm to a real estate consulting company he founded in 1990. Mr. Creamer is a member of the Real Estate Roundtable and the immediate past chair of its tax committee, is an advisory committee member of Massachusetts Institute of Technology s Center for Real Estate and is a council member for the Urban Land Institute.

Melanie M. Lundquist, (44), was an Executive Vice President and our Chief Financial Officer through July 2007. Ms. Lundquist joined MuniMae in March 2005 as Senior Vice President and Chief Accounting Officer and became an Executive Vice President and Chief Financial Officer effective January 1, 2006. From 1991 until she joined MuniMae, Ms. Lundquist worked for The Rouse Company where she held numerous roles, the last of which was Senior Vice President and Corporate Controller.

Gary A. Mentesana, (42), is an Executive Vice President of MuniMae and has been responsible for Corporate Capital since February 2008. He has been an Executive Vice President of MuniMae since 2003 and has been in various leadership positions since joining MuniMae in 1996. From 2006 until his current appointment, he was responsible for MMA Financial. Prior to that, from 2003 to 2006, he was responsible for MuniMae s tax-exempt bond group and prior to 2003, Mr. Mentesana was MuniMae s Senior Vice President, and Chief Capital Officer. Mr. Mentesana also served as Chief Financial Officer from 1998 through 2001. Mr. Mentesana joined MuniMae in 1996 when we succeeded the SCA Tax-Exempt Fund Limited Partnership, whom he had been with since 1988. Before SCA, Mr. Mentesana was an active Certified Public Accountant and worked for Coopers and Lybrand. Mr. Mentesana graduated from the University of Rhode Island.

Anthony Mifsud, (42), was the Treasurer and a Senior Vice President of MuniMae from September 2005 until his resignation in September 2007. From January 2005 until he joined MuniMae in September of that year, Mr. Mifsud was the Vice President of Financial Management for Enterprise Social Investment Corporation. Mr. Mifsud was with The Rouse Company from 1990 to 2005. While with The Rouse Company he held numerous leadership roles. His last position with The Rouse Company was Vice President and Assistant

Treasurer responsible for raising capital in the forms of mortgage loans, venture agreements and corporate debt.

Jenny Netzer, (51), was an Executive Vice President of MuniMae responsible for developing new products until her departure in February 2009. Ms. Netzer joined MuniMae in July 2003 as a result of our acquisition of Lend Lease s tax credit business, and through December 2005 she led our tax credit equity syndication business. Ms. Netzer joined Lend Lease through its 1999 acquisition of Boston Financial, where she had been since 1987. At Boston Financial, Ms. Netzer led the housing tax credit business and new business initiatives and managed the firm s asset management division. Prior to Boston Financial, Ms. Netzer was Deputy Budget Director for the Commonwealth of Massachusetts, where she was responsible for the Commonwealth s health care and public pension program budgets. In addition, she was assistant controller at Yale University and a member of the Watertown Zoning Board of Appeals. Ms. Netzer received her undergraduate degree from Harvard University and her Masters Degree in Public Policy from Harvard s Kennedy School of Government.

Charles M. Pinckney, (48), was from July 2007 until his departure in December 2008, our Chief Operating Officer and interim head of MMA Realty Capital. In addition, he served as interim Chief Financial Officer from July 2007 to November 2007. From the time he joined MuniMae until July 2007, Mr. Pinckney served as head of MMA Realty Capital. Mr. Pinckney joined MuniMae in 2000 when we purchased Whitehawk Capital, a business Mr. Pinckney co-founded and that was engaged in structured finance activities. Mr. Pinckney received his undergraduate degree from The Citadel and a Master s in Business Administration from Duke University s Fuqua School of Business.

Changes in Executive Officers Since December 31, 2006

Ms. Lundquist resigned from her positions as an Executive Vice President and Chief Financial Officer in July 2007 and Mr. Mifsud resigned from his positions as a Senior Vice President and the Treasurer in September 2007. In June 2007, Rick Brown became an Executive Vice President in charge of human resources. Mr. Brown s employment terminated in April 2009, after the closing of the Company s sale of its Renewable Energy business. In July 2007, Charles Pinckney became our Chief Operating Officer and our interim Chief Financial Officer and then in November 2007, David Kay became Executive Vice President and Chief Financial Officer. Matthew Cheney became our Executive Vice President and the Chief Executive Officer of MMA Renewable Ventures in 2006. Mr. Cheney s employment terminated on April 1, 2009, upon the first closing in the Company s sale of its Renewable Energy business. In 2008 Jeffrey Muller became our Treasurer. Mr. Pinckney resigned from his position as Chief Operating Officer in December 2008. Ms. Netzer resigned her position as Executive Vice President in February 2009. Mr. Creamer s employment terminated upon the expiration of his employment agreement on March 31, 2009.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers to file reports of changes in ownership of our equity securities with the SEC and the NYSE. SEC regulations require that directors and executive officers furnish to us copies of all Section 16(a) forms they file. To the best of our knowledge, based solely on review of the copies of the reports that were furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2006, we have identified a total of 16 late filings involving ten of our directors and executive officers: (1) Mr. Thor had a late Form 3 filing, (2) Mrs. Netzer and Messrs. Berndt, Brown, McGregor, Joseph and Pratt each filed amended Forms 4 resulting in those forms being considered untimely and (3) Mrs. Lucas (one late filing), Messrs. Baum (one late filing), Berndt (one late filing), Brown (one late filing), Hillman (one late filing), Joseph (two late filings), McGregor (one late filing) and Pratt (one late filing) also had late Form 4 filings. These late filings were due to administrative error from internal staffing changes, which have since been addressed.

Item 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The purpose of this Compensation Discussion and Analysis is to provide our shareholders with the information necessary for understanding the compensation policies and decisions material to the compensation of our named executive officers during 2006 only. The compensation details are reflected in the compensation tables and accompanying narratives which follow in this Form 10-K.

Our Executive Compensation Objectives and Process

Our compensation program for our senior management team, including the named executive officers in the following tables, is comprised of an annual salary plus a combination of cash and equity-based incentive awards and a limited number of personal benefits. Our compensation philosophy is defined by the following objectives:

To pay competitively as compared to professionals performing similar functions at companies similar to ours, in order to attract and retain our executive talent.

To also take into consideration an executive s relevant experience, individual performance, and impact on the accomplishment of our company-wide financial goals and strategic objectives.

That a substantial portion of each executive s total compensation should be at risk and based on the achievement of certain company financial and individual performance goals over both the short and longer-term as a means of encouraging continued loyalty and effort.

The Compensation Committee of our Board of Directors administers the compensation program for our executive officers, including the Chief Executive Officer and the other named executive officers. The Committee applies the philosophy and objectives listed above equally to each of the named executive officers, including our Chief Executive Officer. In order to achieve the above objectives, the Compensation Committee considers the following factors:

an annual compensation and market review by the Committee;

an internal equity analysis, based on our internal wage approach for all of our employees including the named executive officers; and

the recommendations of the Chief Executive Officer with respect to the compensation of each of the named executive officers other than himself, as discussed more fully below.

Compensation and Peer Group Review

Our compensation program is evaluated in the context of compensation elements and amounts being paid by reasonably similar companies. In the past and for 2006, the Compensation Committee conducted a review of the compensation elements and amounts of peer companies. We believe these companies appropriate for our compensation evaluations because the executive positions in these organizations are similar in responsibility to, and within the same general industry as, our executives. We consider these companies as our peer group, and for fiscal 2006, they were as follows:

American Home Mortgage Investment Corp.	CharterMac (now known as Centerline Holding Co.)	MFA Mortgage Investments, Inc. (now known as MFA Financial, Inc.)
CapitalSource Inc.	Annaly Capital Management, Inc.	Fieldstone Investment Corporation
Impac Mortgage Holdings, Inc.	iStar Financial Inc.	Capital Trust, Inc.
MortgageIT Holdings, Inc.	NorthStar Realty Finance Corp.	NovaStar Financial, Inc.
RAIT Investment Trust	Redwood Trust, Inc.	

In the second half of 2006, the Compensation Committee retained FPL Consulting, a compensation consulting firm, to conduct a study of our compensation practices, including a competitive benchmarking analysis of the compensation we were providing to individuals or with regard to positions compared with compensation being paid by a group of reasonably similar benchmark companies, and to make recommendations regarding design

considerations for a compensation program going forward. FPL submitted a report in January 2007, which our Compensation Committee determined should be viewed as a general guideline for our compensation philosophy going forward.

We target total annual cash compensation, which consists of annual base salary and an annual performance-based cash bonus, at the 50th percentile of the peer group to reflect the typical benefit level of these market companies. Long-term compensation for our named executive officers, which is comprised of equity-based awards, is also targeted at the 50th percentile of the peer group. During fiscal year 2006 actual total annual cash compensation was slightly above or at the 50th percentile, and actual long-term compensation was substantially below the 50th percentile.

Internal Equity. The compensation of every MuniMae employee, including each named executive officer, is influenced by our internal wage approach that all employees with similar responsibilities are paid similarly, resulting in fairness among all employees. Selection of the compensation elements and amounts of every employee, including each named executive officer, is determined by the level of responsibility of the position held by the employee.

CEO Recommendations. Mr. Falcone, our Chief Executive Officer during fiscal year 2006, provided recommendations to the Compensation Committee with respect to the base salary increases, performance targets for the annual incentive bonus, and equity grants for each named executive officer other than himself. Mr. Falcone based his 2006 compensation recommendations on his subjective review of each officer s overall performance and contribution to MuniMae during the prior year. While the Committee considers the recommendations of the Chief Executive Officer with respect to these elements of compensation, the Committee independently evaluates the recommendations and makes all final compensation decisions. The compensation of Mr. Falcone as Chief Executive Officer, including base salary amounts, performance targets for annual incentive bonus and equity grants are decided by the Compensation Committee in executive session.

Elements of our Executive Compensation Program

Overview. In 2006, the primary elements of the compensation earned by each of our named executive officers were reflected in their individual employment agreements and consisted of:

- base salaries;
- annual incentive bonuses, a cash bonus based on threshold, target and superior performance achievement; and
- long-term incentive awards, usually in the form of restricted shares that vest over a period of years, and to a lesser extent, options, that also vest over a period of years.

The Committee reviews total compensation, consisting of annual base salary and incentive bonus, as well as our total long-term incentive opportunities, on an annual basis for purposes of determining whether the total compensation is competitive with the programs offered by the peer group of companies above described. The Compensation Committee reviews and approves each element of compensation separately, and, if necessary, makes adjustments to individual elements of compensation to achieve total compensation that is competitive with our peer group. See above under Compensation and Peer Group Review.

Base Salaries. Each named executive officer has an established base salary consistent with the objectives discussed above and reflected in his or her employment agreement. Annual adjustments to base salary ranges are generally determined using a review of market positioning versus our peer group for our specific executive positions and the Committee s and Chief Executive Officer s (for each named executive officer other than himself) subjective review of the executive s relevant experience, individual performance, and impact on the accomplishment of our company-wide

financial goals and strategic objectives.

Based on the general compensation review for determining 2006 base salaries, the Committee determined that base salaries for senior executives within our peer group were expected to increase by approximately 3.0% generally in line with the market. Mr. Falcone received a 5.0% increase in base salary pursuant to his

employment agreement. Each of the other named executive officers received greater than market increases in base salary, pursuant to their employment agreements and/or as a result of significant changes in their responsibilities. Messrs. Pinckney and Mentesana, as heads of business units received an 8.4% increase in base salary, Ms. Lundquist as Chief Financial Officer received a 20.0% increase in base salary and Ms. Netzer as head of new business initiatives received an 8.0% increase in base salary.

Annual Incentive Bonus. The annual incentive bonus is designed to provide our named executive officers with the potential to earn additional annual cash compensation. The annual incentive bonus consists of threshold, target and superior payout amounts and is subject to the achievement of certain annual individual, company and, as appropriate, business unit financial performance goals which are established before, or shortly after, the beginning of each fiscal year. The individual performance goals vary significantly from executive to executive due to differences in the duties and responsibilities of particular executives and are established collaboratively through discussion between the executive, the Chief Executive Officer and the Committee. The principal metric of company-wide and business unit financial performance that has historically been used in evaluating whether and to what extent our senior executives achieved the established performance goal is Cash Available for Distribution, or CAD, per share. With respect to a named executive officer directly responsible for a particular business unit, his or her annual incentive bonus is based in part on the achievement of CAD goals relating to that business unit, as well as MuniMae s CAD per share performance goals. The following table sets forth the performance metric and respective weight allocated to each metric, as applicable for each named executive officer s 2006 annual bonus:

Name	Performance Metric
Mr. Falcone	80% company-wide, 20% individual
Ms. Lundquist	80% company-wide, 20% individual
Mr. Pinckney	33% company-wide, 33% business unit, 33% individual
Ms. Netzer	33% company-wide, 33% business unit, 33% individual
Mr. Mentesana	33% company-wide, 33% business unit, 33% individual

CAD is a non-GAAP measure that is intended to measure cash that we could distribute to our shareholders or could reinvest in our businesses. Because CAD is not a GAAP measure, there is no external guidance as to how it should be measured. Instead, we established our own guidelines as to how we calculate CAD, and our CAD Committee, which includes our Chief Financial Officer, Controller and other executive officers, met periodically to review those guidelines and determine how they should be applied to particular circumstances. The method of calculation we use for CAD may differ significantly from the way other companies, including companies in our peer group, calculate what they refer to as Cash Available for Distribution.

The CAD performance goals are based upon the company-wide CAD per share and business unit CAD goals in our annual business plan as approved by the full Board. Factors considered by the Board in determining those CAD performance goals include historical CAD growth rates for MuniMae and its peer group, the economic environment at the time and factors specific to us. For fiscal year 2006, our stated objective was to grow CAD per share in the range of 4% to 10% per year. In recognition of the difficulty of achieving CAD growth goals, the Committee believes that it is appropriate to reward performance at the top end of the range. The bonus potential under our annual incentive program is reflected in the named executive officer s individual employment agreement. For 2006, the Committee established the following bonus payment levels for CAD growth ranging from 4% to 10%:

Growth Goal	CAD Growth	Mr. Falcone	Ms. Lundquist	Mr. Pinckney	Ms. Netzer	Mr. Mentesana

Threshold	4%	$ 120,000	$ 75,000	$ 275,000	Up to	$ 275,000
Target	6%	310,000	to	425,000	$ 292,500 *(1)*	425,000
Superior	10%	467,500	$ 150,000	575,000		575,000

(1) *Ms. Netzer s employment agreement also provided for up to $200,000 for superior business unit performance.*

We expect in the future to use a different metric than CAD to measure the quantitative aspects of our executives and other employees performance.

In the Committee s evaluation of Mr. Falcone s performance, they placed particular emphasis on the qualitative elements of Mr. Falcone s performance, such as leadership and successful acquisitions, in determining his annual incentive bonus of above target. Ms. Lundquist s award was based upon achieving superior performance, with the effect of maximizing the compensation to which she was eligible with regard to 2006. We did so (1) in an effort to bring her compensation closer to the targeted 50th percentile of the peer group (her compensation was substantially less primarily because it had been decided prior to her promotion to Chief Financial Officer); (2) in recognition of the extraordinary efforts required of her during the very difficult process of restating our financial statements and her value to MuniMae; and (3) as an incentive to remain with MuniMae. The fiscal 2006 annual incentive bonus for each named executive officer is set forth in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.

Long-Term Incentive Awards. We offer long-term incentive compensation opportunities because we believe it encourages continued loyalty and motivates employees to continue to perform at a high level over a multi-year period. We grant our senior management, including each of the named executive officers, awards consisting of one-third cash and two-thirds deferred shares. In addition and to a lesser extent, we occasionally grant members of our senior management awards of options. The deferred shares typically vest 25% on the date of grant and then 25% on each of the first, second and third anniversaries of the date of the grant. When options are awarded, they typically vest equally over three years, expire in 10 years and have an exercise price equal to 100% of the fair market value of our shares on the date of the grant.

We grant equity awards to our senior executives, including our named executive officers, annually upon recommendation of the Committee. The Committee determines the dollar amount that is to be awarded and the form in which the award is to be made for each executive. The number of deferred shares and/or options granted is based on the cash value awarded to the executive divided by the closing price of our Common Stock, or the value of an option, on the date the Committee s approval of the award. We have tended to compensate senior executives on the basis of their current performance without regard to the extent to which they have potential gains with regard to equity incentive awards they received in prior years. We view gains or losses in the value of prior years equity awards to be an element of the prior years compensation, not the current year s compensation.

The Board approved an award to Mr. Falcone of long-term incentive compensation for 2006 of $385,000, consisting 30% of cash and 70% of deferred shares, one-fifth of which would have vested upon being awarded and one-fifth of which would have vested over each of the following four years, except that no portion of the long-term compensation was to vest until we filed this Form 10-K for fiscal year 2006. However, Mr. Falcone subsequently waived his entire right to that long-term compensation award. As with her annual incentive bonus and for the same reasons discussed above, Ms Lundquist s equity award was based upon achieving superior performance, with the effect of maximizing the compensation to which she was eligible with regard to 2006. For the equity awards made to our other named executive officers in 2006, see the Grants of Plan-Based Awards Table below.

Personal Benefits. During fiscal 2006, each of the named executive officers were entitled to receive personal benefits available to every employee of MuniMae consisting of a paid time off, health, disability and life insurance, 401(k) with MuniMae contributed matching up to $2,500 per year and similar standard benefits. The named executive officers were not entitled to, and did not receive, any personal benefits or perquisites not available to all employees who worked at least 30 hours per week.

Post-Employment. Most of our senior executives have employment agreements or non-competition agreements that contain provisions making long-term incentive awards vest upon a termination of employment shortly before or after a change of control of us, other than a voluntary termination by the employee without good reason or a termination by us for cause. A change of control without a termination of employment would not eliminate or change vesting requirements.

Share Ownership. In 2006, we had no policies regarding share ownership by employees. We did have a policy prohibiting employees from doing short sales of our shares or from engaging in transactions in puts, calls or other derivative securities involving our shares on an exchange or in any other organized market (which did not affect their right to receive and exercise employee share options). Our policy also discouraged

hedging transactions involving our securities and required that any employee who wants to engage in a hedging transaction obtain pre-approval from our general counsel in his role as insider trading compliance officer.

Tax and Accounting Considerations Performance-Based Compensation Section 162(m). The Compensation Committee annually reviews and considers the deductibility of the compensation paid to our top ten executive officers, which includes each of the named executive officers, under Section 162(m) of the Internal Revenue Code. Pursuant to Section 162(m), compensation paid to certain executive officers in excess of $1,000,000 is not deductible unless it qualifies as performance-based compensation. The Committee endeavors to structure the executive compensation program so that each executive s compensation will generally be fully deductible. From time to time, however, the Committee may approve compensation that exceeds the $1.0 million limitation under Section 162(m) in order to provide competitive levels of total compensation for our executive officers. For fiscal 2006, we did not have any named executive officer s compensation exceed the Section 162(m) limitation.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with our management the Compensation Discussion and Analysis that appears above. Based on the review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Report.

Respectfully submitted,

Robert Hillman, Chairman
Charles C. Baum
Barbara Lucas
Douglas A. McGregor

Summary Compensation Table

The following table sets forth the compensation information for each of our last three fiscal years with regard to our chief executive officer, and each of the other four most highly compensated executive officers who were executive officers at December 31, 2006. In reviewing this information, it is important to understand that some of the Stock Awards and Non-Equity Incentive Plan Compensation listed opposite the name of an executive officer, although they were earned in 2006, have not yet been issued and are still subject to a vesting schedule.

Name and Principal Position	Year	Salary	Bonus (1)	Stock Awards (2)	Non-equity Incentive Plan Compensation (3)	Total
Michael L. Falcone	2006	$ 446,250	$ 300,000	$ 66,647	$ 33,353	$ 846,250
CEO and President	2005	423,007	300,000	233,331	66,667	1,023,005
	2004	262,500	525,000	125,000	62,500	975,000
Melanie M. Lundquist	2006	275,000	125,000	100,000		500,000
CFO and Executive Vice	2005	200,961		499,984 (4)		700,945
President (resigned 07/27/07)	2004					
Charles M. Pinckney	2006	325,000	160,000			485,000
COO (resigned 12/31/08)	2005	286,539	160,000	133,331	66,667	646,537
	2004	262,500	399,998	149,981	50,000	862,479

Jenny Netzer	2006	292,500	325,000	240,000		857,500
Executive Vice President	2005	313,573	525,000			838,573
(resigned 02/06/09)	2004	291,278	499,000	133,328	66,667	990,273
Gary A. Mentesana	2006	325,000	150,000	66,647	33,353	575,000
Executive Vice President	2005	289,231	300,000	66,666	33,333	689,230
	2004	270,000	233,330	66,664	33,333	603,327

(1) *Amounts represent the cash awards earned by the named executive officer under our performance-based annual incentive bonus. For a discussion of the grant of these awards, see the Grants of Plan-based Awards Table and accompanying footnotes below. For a discussion of the performance goals relating to these awards, see Compensation Discussion & Analysis Annual Incentive Bonus above.*

(2) *Amounts include the cash and deferred share awards earned by the named executive officer under our performance-based long-term compensation. The awards vest one-fourth on the award date and one-fourth on each of the first three anniversaries of that date. The awards are payable on each vesting date 30% in cash and 70% with our common share or 100% with our common shares. The cash components are included under Non-Equity Incentive Plan Compensation and the deferred shares components are included in Stock Awards. Amounts include the dollar amount recognized for financial statement reporting purposes with respect to fiscal 2006 for each named executive officer, as computed in accordance with Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (* ***SFAS 123(R)*** *), disregarding any estimates of forfeitures relating to service-based vesting conditions. Amounts in the Stock Awards column reflect total expense related to grants of deferred shares pursuant to our 2004 Share Incentive Plan. For a discussion of the assumptions used in the valuation of the awards included in the Stock Awards column, see Notes to Consolidated Financial Statements-Note 16, Stock-Based Compensation.*

(3) *Amounts include the 30% cash portion of the deferred share awards earned by the named executive officer under our performance-based long-term compensation. The cash vests along with the shares, both vesting one-fourth on the award date and one-fourth on each of the first three anniversaries of that date.*

(4) *Includes a deferred share award in the amount of $499,984, payable in two equal annual installments, granted to Ms. Lundquist at the time she entered in to her employment agreement.*

Grants of Plan-Based Awards

The following table contains information regarding plan-based awards granted to the named executive officers during 2006.

Name	Grant Date	Approval Date	Estimated Payouts Under Non-Equity Incentive Plan Awards (2)	All Other Stock Awards: Number of Shares (1)	All Other Options Awards: Number of Securities Underlying Options (2)	Exercise or Base Price of Options Awards (3)	Grant Date Fair Value of Stock and Options Awards (4)
Michael L. Falcone	04/07/06	04/05/06	$ 325,000		201,863	$ 26.50	$ 325,000
	03/17/06			2,515		26.50	66,647
	03/17/06			3,773		26.50	99,985

Melanie M. Lundquist							
Charles M. Pinckney	04/05/06	04/05/06	200,000		124,224	26.71 [6]	200,000
Jenny Netzer	03/17/06			9,056 [5]		26.50	239,984
Gary A. Mentesana	04/07/06	04/05/06	100,000		62,112	26.50	100,000
	03/17/06			2,515		26.50	66,647

(1) *Amounts shown reflect deferred shares portion of awards under the 2004 Share Incentive Plan. These deferred shares vest based upon the executive s continued service to MuniMae and vest one fourth on the award date and one-fourth on each of the first three anniversaries of that date; subject to certain acceleration provisions of the Plan, as discussed under Potential Payments upon Termination or Change in Control below. Awards for Messrs. Falcone and Mentesana are payable on each vesting date 30% in cash and 70% with shares of our Common Stock. Award for Ms. Lundquist and Ms. Netzer are payable on each vesting date 100% with our shares of our Common Stock. In addition, 1,886 shares of Ms. Lundquist award were forfeited upon her resignation on July 27, 2007.*

(2) *Amounts shown include awards of stock options under the 2004 Share Incentive Plan. These stock options vest based upon the executive s continued service to MuniMae and vest one-fourth on the award date and one-fourth on each of the first three anniversaries of that date.; subject to certain acceleration provisions of the Plan, as discussed under Potential Payments upon Termination or Change in Control below.*

(3) *The exercise price of the stock options is equal to the closing price of MuniMae Common Stock on April 6, 2006, unless otherwise noted.*

(4) *Amounts represent the cumulative grant date fair value of each equity award granted during fiscal 2006 for each named executive officer, as computed in accordance with SFAS 123(R). For a discussion of the assumptions used in the valuation of the awards included in the All Other Stock Awards and All Other Option Awards columns, see Note 16 to our 2006 audited financial statements.*

(5) *Amount represents an original award issued on March 17, 2006 that was subsequently amended to provide for an additional 4,025 common shares over the life of the award.*

(6) *The exercise price of Mr. Pinckney s stock options is equal to the closing price of MuniMae Common Stock on April 4, 2006.*

Outstanding Equity Awards at Fiscal Year End

The following table shows all outstanding equity awards held by the named executive officers at December 31, 2006, including stock option awards and unvested deferred shares.

	Option Awards				Stock Awards	
Name	**Number of Securities Underlying Unexercised Options Exercisable**	**Number of Securities Underlying Unexercised Options Unexercisable**	**Option Exercise Price**	**Option Expiration Date and Vesting Date, As Applicable**	**Number of Shares That Have Not Vested**	**Market Value of Shares That Have Not Vested** [(1)]
Michael L. Falcone	50,466	151,397 [(2)]	$ 26.50	04/07/16		
					2,513 [(3)]	$ 80,919
					1,202 [(4)]	38,704
					1,837 [(5)]	59,151
					2,635 [(6)]	84,847
					1,886 [(7)]	60,729
Melanie M. Lundquist					2,829 [(8)]	91,094
					2,461 [(9)]	79,244
Charles M. Pinckney	31,056	93,168 [(2)]	26.71	04/07/16		
					962 [(4)]	30,976
					2,635 [(6)]	84,847
					6,769 [(10)]	217,962
Jenny Netzer					1,282 [(4)]	41,280
					6,792 [(7)]	218,702
					4,923 [(11)]	158,521
					3,953 [(6)]	127,287
Gary A. Mentesana	15,528	46,584 [(2)]	26.50	04/07/16		
					1,256 [(3)]	40,443
					641 [(4)]	20,640
					1,317 [(6)]	42,407
					1,886 [(7)]	60,729
					3,046 [(11)]	98,087

(1) *Market value calculated by multiplying the closing market price of MuniMae s Common Stock on December 31, 2006, or $32.20, by the number of unvested deferred shares.*

(2) *The remaining unvested stock options vested/will vest in equal increments on February 1, 2007, 2008 and 2009.*

(3) *The remaining unvested deferred shares vested on January 9, 2007.*

(4) *The remaining unvested deferred shares vested on February 1, 2007.*

(5) *The remaining unvested deferred shares vested in equal increments on January 1, 2007 and 2008.*

(6) *The remaining unvested deferred shares vested in equal increments on February 1, 2007 and 2008.*

(7) *The remaining unvested deferred shares vested/will vest in equal increments on February 1, 2007, 2008 and 2009.*

(8) *All but 1,886 of these shares were forfeited on July 27, 2007 when Ms. Lundquist left MuniMae.*

(9) *All 2,461 of these shares were forfeited on July 27, 2007 when Ms. Lundquist left MuniMae.*

(10) *All 6,769 of these shares were forfeited on December 31, 2008 when Mr. Pinckney left MuniMae.*

(11) *The remaining unvested deferred shares will vest in equal increments on April 6, 2007 and February 1, 2008, 2009, 2010 and 201, except that no portion of these shares will vest until the filing of the Company s 2006 Annual Report on Form 10-K.*

OPTION EXERCISES AND STOCK VESTED

The following table summarizes certain information regarding the stock awards that vested and the value realized upon vesting by the Named Executive Officers during the year ended December 31, 2006.

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise**	**Value Realized on Exercise [1]**	**Number of Shares Acquired on Vesting**	**Value Realized on Vesting [2]**
Michael L. Falcone	15,000	$ 141,450	8,467	$ 223,853
Melanie M. Lundquist			10,132	266,866
Charles M. Pinckney			4,578	120,630
Jenny Netzer			11,640	316,610
Gary A. Mentesana			3,668	97,111

(1) *The amounts shown are calculated based on the difference between the closing market price of MuniMae Common Stock on the date of exercise and the exercise price of the options, multiplied by the number of shares for which the options were exercised (and does not reflect the value realized by each named executive officer after payment of related taxes, which was less).*

(2) *The amounts shown are calculated based on the closing market price of MuniMae Common Stock on the date of vesting multiplied by the number of vested shares (and does not reflect the value realized by each named executive officer after payment of related taxes, which was less).*

Pension Benefits

We do not maintain any tax qualified benefit plans, supplemental executive retirement plans or similar plans for which information is required to be reported in a pension benefit table.

Employment Agreements and other Agreements

Mr. Falcone. Until December 31, 2007, Mr. Falcone had an employment agreement that provided for an annual base salary which was $425,000 during 2005, and increased by 5% per year for each subsequent year and under which Mr. Falcone was also eligible to receive: (1) annual incentive compensation, payable in cash, of up to $467,500 per year, depending upon satisfaction of certain individual and company performance objectives and (2) additional long-term compensation, payable one-third in options to purchase our common shares and two-third in deferred shares, of up to $385,000 per year depending upon satisfaction of certain company performance objectives.

When Mr. Falcone s employment agreement terminated, instead of entering into a new employment agreement, Mr. Falcone and the Compensation Committee of our Board agreed that, until Mr. Falcone and we entered into a new employment agreement (1) Mr. Falcone would receive a salary of $500,000 per year; (2) if for any reason, Mr. Falcone s employment were terminated prior to the execution of a new contract, Mr. Falcone would receive $2.5 million (or, if the termination is after a change in control of us, $5.0 million); and (3) Mr. Falcone would not be

paid an annual incentive bonus for 2007. Mr. Falcone also did not receive a bonus for 2008.

Ms. Lundquist. On July 16, 2007, we entered into a Separation and Transition Agreement with Ms. Lundquist (the **separation agreement**), who served as our Chief Financial Officer until her resignation, effective on July 27, 2007. The separation agreement provided for a severance payment of $600,000 payable in four equal installments on July 27, 2007, October 27, 2007, January 27, 2008 and April 27, 2008, an amount equal to Ms. Lundquist s accrued but unused vacation in accordance with the Company s standard practices, issuance of the shares of deferred shares of our Common Stock which had vested under Ms. Lundquist s Deferred Share Agreement dated March 16, 2006, and COBRA health, dental and vision insurance benefits through September 30, 2007. In consideration of the severance payment, Ms. Lundquist agreed to (1) a non-solicitation provision; (2) a non-disparagement provision; and (3) to consult, cooperate and be reasonably available in connection with the transition of her duties as Chief Financial Officer.

Other Named Executive Officers. Each of Messrs. Pinckney and Mentesana had an employment agreement with us effective as of January 1, 2006, with a term of three years, ending on December 31, 2008. Each

agreement provided for an initial base salary of $325,000, which would increase by $15,000 on each of January 1, 2007 and 2008. Each of the agreements also provided for incentive compensation of up to $575,000, $610,000 and $645,000 for our 2006, 2007 and 2008 fiscal years, respectively, depending on satisfaction of certain Company performance objectives. Incentive compensation for Messrs. Pinckney and Mentesana could take the form of cash and equity or equity-based awards.

Each of the employment agreements gave us a right to terminate it for cause or because of unsatisfactory job performance. Each of them provided for severance equal to the lesser of 12 months base salary or the total base salary during the remaining term of the agreement if we terminated it without cause, if Mr. Pinckney or Mr. Mentesana terminated it for good reason. or if it was terminated because of disability. Each of them also provided for death benefits equal to 24 months base compensation.

In August 2007, Mr. Pinckney entered into a new employment agreement due to changes in his responsibilities. That employment agreement originally was to terminate in July, 2010, but was amended to extend its term until March 2012, In December 2008, Mr. Pinckney left the Company and his employment agreement was terminated by mutual consent.

Ms. Netzer had an employment agreement with us with an initial term of 42 months, ending on December 31, 2006. Ms. Netzer s agreement provided for an initial base salary of $275,000, which increased by $25,000 on July 1, 2004, 2005 and 2006. Each fiscal year, Ms. Netzer was eligible to receive incentive compensation of up to 100% of her annual base salary, depending on the satisfaction of performance objectives relating to company-wide results, the low-income housing tax credit business and Ms. Netzer s individual performance, plus up to an additional $200,000 in the event of superior performance by the low-income housing tax credit business. If we terminated the agreement without cause, Ms. Netzer terminated the employment agreement for good reason or if Ms. Netzer became disabled, she would have been entitled to severance payments equal to the greater of twelve months base salary or the total base salary Ms. Netzer would have received during the remaining term of the agreement.

In June 2007, we entered into a new employment agreement with Ms. Netzer. However, in February 2009, Ms. Netzer left the Company and her employment agreement was terminated by mutual consent.

Compensation of Directors

The following table sets forth the compensation earned by the Directors for services rendered during the fiscal year ended December 31, 2006 to the non-employee members of its Board of Directors:

Name	Fees Earned or Paid in Cash [1]	Restricted Share Awards [2][3]	Change in Pension Value and Nonqualified Deferred Compensation Earnings [4]	Total
Charles C. Baum	$ 67,500	$ 12,500	$ 252,504	$ 332,504
Richard O. Berndt	45,000	12,500	214,586	272,086
Eddie C. Brown	45,500	12,500	114,081	172,081
Robert S. Hillman	72,500	12,500	251,402	336,402
Barbara B. Lucas	53,500	12,500	77,930	143,930

Douglas A. McGregor	69,000	12,500	196,847	278,347
Arthur S. Mehlman	51,500	12,500	17,086	81,086
Fred N. Pratt, Jr.	56,500	12,500	130,567	199,567

(1) *Amounts shown include fees earned in 2006 and deferred at the election of the director as follows: Messrs. Baum, Berndt, Brown, Hillman, Pratt and Ms. Lucas made elections under the Non-Employee Directors Share Plans to defer 100% of their fees.*

(2) *Amounts shown represent the dollar amount recognized for financial statement reporting purposes during fiscal 2006 for each director, as determined in accordance with SFAS 123(R), disregarding any estimates based on service-based vesting conditions. Awards include grants of restricted shares under the 2004 Non-Employee Directors Share Plan. The restricted shares granted to each non-employee director in fiscal 2006 had a full grant date fair value equal to $12,500, as determined in accordance with SFAS 123(R). For a discussion of the assumptions used in determining these values, see Notes to Consolidated Financial Statements-Note 16, Stock-Based Compensation.*

(3) *Amounts shown include restricted shares granted in 2006 and deferred at the election of each of the following directors: Messrs. Baum, Brown, Hillman, Pratt and Ms. Lucas.*

(4) *Amounts represent solely the determined aggregate change in the director s accumulated benefit under our deferred compensation program from December 31, 2005 to December 31, 2006.*

The following chart sets forth the number of exercisable and unexercisable options and unvested restricted shares held by each director as of December 31, 2006:

Name	Exercisable Options	Unexercisable Options	Unvested Restricted Shares
Charles C. Baum	25,000		
Richard O. Berndt	17,000		440
Eddie C. Brown	12,000		
Robert S. Hillman	27,500		
Barbara B. Lucas	2,333	4,667	
Douglas A. McGregor	22,500		
Arthur S. Mehlman	4,666	2,334	440
Fred N. Pratt, Jr.	7,000		

Narrative to the Director Compensation Table

Directors who are employees of MuniMae do not receive any additional fees for their service as a director; therefore Mr. Falcone does not receive any fees for his service as a director. In addition, pursuant to the Employment Agreement dated July 1, 2003 between him and MuniMae, Mr. Joseph has agreed not to receive any fees for his service as a director through December 31, 2008. Each director who is not an employee of MuniMae, upon his or her first election to the Board, receives a one-time grant of options to purchase 7,000 of our common shares. The options vest equally over three years, expire in 10 years and have an exercise price equal to 100% of the fair market value of our shares on the date of the grant. In 2006, annual fees paid to each director who was not an employee of MuniMae consisted of an annual retainer of $25,000 (paid in equal quarterly installments), and a meeting fee of $1,000 for each Board meeting attended. Directors who served on Board Committees also receive $1,000 for each Committee meeting they attended and an additional annual retainer of $2,500 (paid in equal quarterly installments). A director who serves as Chair of a Committee received an additional annual retainer of $5,000 (paid in equal quarterly installments). Directors may receive these retainers and fees in cash, restricted shares or deferred shares. In addition, in September 2006 pursuant to the 2004 Non-Employee Directors Share Plan (**Plan**), each non-employee director was granted an annual equity award of restricted shares valued at $12,500 (based on the closing price of our common shares on the date of the annual award). The shares subject to this annual award vest in full on the earlier of the first anniversary of the date of the award or the date of our next Annual Shareholders Meeting, subject to the continued service of the director on the Board. All restricted shares awarded become fully vested in the event of disability or death of the director, or a change in control of MuniMae.

In 2006, the Compensation Committee retained FPL, a compensation consulting firm, to conduct a study of our Board compensation practices, including a competitive benchmarking analysis of the compensation we were providing our directors compared with compensation being paid by similar companies, and to make a recommendation regarding design consideration for a compensation program going forward. Pursuant to FPL s study and recommendation, in 2007 we modified our fees by increasing the annual retainer to $30,000, paid in equal quarterly installments, meeting fees to $1,500 for each Board meeting attended and the Audit Committee Chairperson retainer to $10,000. We also increased the annual equity award value to $20,000 (based on the closing price of our common shares on the date of the award). In 2009, in response to the general business climate and our liquidity and other operational issues, the Board voted to reduce its fees by one-third and to cap the total annual compensation of each Board member at $50,000.

The 2004 Non-Employee Directors Share Plan allows directors to elect to be paid fees in the form of Deferred Shares in lieu of receipt of such fees. Pursuant to the Plan, directors may elect to defer anywhere from 1% to 100% of their cash Board fees. For all Plan participants, including directors, prior to the award of restricted shares, directors may elect to defer the receipt of the underlying common shares upon vesting. If the director so elects, the director will be considered the owner of the underlying common shares and will receive voting rights and dividends on the shares until the deferral period expires. Director participants may elect the deferred amounts plus earnings to be distributed either upon retirement from the Board or on an interim distribution date. If a distribution date is not specified in the election, shares will be settled 30 days after the participant s separation from service on the Board. Distributions are either in a lump-sum, or based on the

director s distribution election made at the time of the deferral, in two to 10 year installments. Once a distribution election is made, the election is irrevocable. A distribution election may be changed for future years by filing a new election prior to the first day of the subsequent calendar year. Notwithstanding the foregoing, a participant may receive any amounts deferred by the participant in the event of an Unforeseeable Emergency as defined by the Plan. In December 2008, the directors accelerated all previously deferred share awards and received those shares on January 2, 2009. In addition, because shares continued to be issued to the directors who had previously elected to be paid in deferred shares at the very low share values that prevailed during 2008, the Plan ran out of shares. Consequently, beginning on December 12, 2008, the directors were paid their remaining fourth quarter 2008 fees in cash.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee has ever been an officer or employee of MuniMae or any of its subsidiaries. No executive officer of MuniMae served as a member or director of the compensation committee of another Company, one of whose executive officers served on MuniMae s Compensation Committee or served as a director of MuniMae during 2006.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The following table contains information about the number of our common shares that were beneficially owned on December 31, 2006, by each of our directors and by (1) each person who was our chief executive officer during 2006, (2) each person who was our chief financial officer during 2006, and (3) each of our three most highly paid executive officers (in addition to our chief executive officer and our chief financial officer) during 2006 who was serving as an executive officer at December 31, 2006 (our Named Executive Officers). There is no person who was among our three most highly compensated executive officers (in addition to our chief executive officer and our chief financial officer) during 2006 but was not an executive officer on December 31, 2006.

Name	Amount and Nature of Beneficial Ownership [2] [3]	Percent of Class [4]
Directors:		
Mark K. Joseph	1,080,636 [5]	2.76
Michael L. Falcone	303,111 [6]	*
Charles C. Baum	39,000	*
Richard O. Berndt	34,484	*
Eddie C. Brown	12,000	*
Robert S. Hillman	32,700	*
Barbara B. Lucas	8,000	*
Douglas A. McGregor	62,500	*
Arthur S. Mehlman	8,494	*
Fred N. Pratt, Jr.	7,000	*
Non-Director Named Executive Officers:		
Melanie M. Lundquist	20,262	*
Gary A. Mentesana	160,700	*
Jenny Netzer	42,033	*
Charles M. Pinckney	84,771	*
All Directors and Executive Officers (17 persons)	1,904,071 [7]	4.86

* Represents less than 1.0% of the total number of common shares outstanding.

(1) *An address for each person listed in the table below is c/o Municipal Mortgage & Equity, LLC, Pier IV Building, 621 E. Pratt Street, Suite 300, Baltimore, MD 21202.*

(2) *Includes shares of Common Stock beneficially owned by directors and executive officers alone, or jointly with spouses, minor children and relatives (if any) who have the same home as the director or executive officer. Also includes the following numbers of shares of Common Stock which could be acquired within 60 days of December 31, 2006 pursuant to the exercise of stock options and/or the vesting of deferred/restricted shares: Mr. Joseph 2,600; Mr. Falcone 137,875; Mr. Baum 25,000; Mr. Berndt 17,000; Mr. Brown 12,000; Mr. Hillman 27,500; Ms. Lucas 2,333; Mr. McGregor 22,500; Mr. Mehlman 4,666; Mr. Pratt*

7,000; Mr. Mentesana 65,672; Ms. Netzer 1,976; Mr. Pinckney 64,391; and directors and executive officers as a group 389,143.

(3) *Excludes deferred shares to which directors would have been entitled at a future date. At December 31, 2006 the deferred share account balances of the directors were: Mr. Baum 198,748; Mr. Berndt 97,905; Mr. Brown 74,013; Mr. Hillman 21,856; Ms. Lucas 2,138; Mr. McGregor 33,634; Mr. Pratt 177,432; and directors as a group 605,726.*

(4) *Percent of class is based upon shares of Common Stock issued and outstanding, and shares which could be acquired within 60 days of December 31, 2006 pursuant to the exercise of stock options and/or the vesting of deferred/restricted shares.*

(5) *This amount includes 754,674 shares of Common Stock held indirectly by Mr. Joseph as follows: SCA Associates 95-II Limited Partnership 277,982; SCA Associates 86-II Limited Partnership 203,140; The Shelter Policy Institute I, Inc. 187,466; SDC Associates Limited Partnership 50,786; Shelter Development Holdings, Inc. 26,729; SCA Custodial Co. Inc. 5,084; MME I Corporation 3,483; and MME II Corporation 4. Mr. Joseph disclaims beneficial ownership of such shares.*

(6) *This amount includes 45,439 shares of Common Stock held indirectly by Mr. Falcone as follows: SCA Associates 95-II Limited Partnership 26,741; SCA Associates 86-II Limited Partnership 6,094; SDC Associates Limited Partnership 12,026 and the Michael and Beth Falcone Foundation 578. Mr. Falcone disclaims beneficial ownership of such shares.*

(7) *Excludes shares of Common Stock indirectly held by Mr. Falcone (except for the 578 shares of Common Stock held by Mr. Falcone through the Michael and Beth Falcone Family Foundation) since these common shares are presented in the number of common shares beneficially owned by Mr. Joseph.*

Securities Authorized for Issuance under Equity Compensation Plans

The following table contains information regarding common shares authorized for issuance under our equity compensation plans as of December 31, 2006.

Equity Compensation Plans Approved by Security Holders	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights [1]	Number of Securities Remain for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)
Employee shares incentive plans [2]	859,405	$ 25.34	607,085
Non-employee directors share plans [3]	128,517	23.28	359,223
Total	987,922		966,308

[1] *The weighted-average exercise price does not include the 233,256 shares issuable upon vesting of outstanding deferred shares from the Employee share incentive plans and 3,517 shares issuable upon vesting of outstanding restricted shares from the Non-employee directors share plans, respectively, which have no exercise price.*

[2] *Includes the 1996, 1998, 2001 and 2004 Share Incentive Plans.*

[3] *Includes the 1996, 1998, 2001 and 2004 Non-Employee Director Share Plans.*

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

MMA Multifamily Equity REIT, formerly Midland Multifamily Equity REIT and MRC Mortgage Investment Trust, formerly Midland Affordable Group Trust

We have established relationships with pension funds through MMA Multifamily Equity REIT (**MMER**) and MRC Mortgage Investment Trust (**MMIT**). MMER and MMIT are owned by institutional investors through pension fund subscriptions. At December 31, 2006, Michael Falcone, our Chief Executive Officer, and other of our officers were trustees of MMER and MMIT. None of our directors or officers has an ownership interest in MMER or MMIT or receives compensation from either of them.

MMER invests in income-producing real estate through limited partnership interests and in real estate backed debt investment vehicles on behalf of a group of pension funds. We provide MMER with investment management services. MMER provides us with an unsecured credit facility that currently is $35.0 million. During 2006, the maximum amount of indebtedness outstanding under the MMER credit facility was

$41.0 million. As of December 31, 2006, all amounts were paid off and there was no outstanding balance under the facility.

MMIT invests primarily in real-estate-backed debt investments originated by us, and also provides construction, interim and permanent loans to developers of commercial real estate projects. We provide MMIT with investment management services. MMIT also provides us with a $160.0 million credit facility secured by real estate backed debt investments originated by us using draws on the facility. During 2006, the maximum amounts of indebtedness outstanding under the MMIT credit facility was $50.0 million. As of December 31, 2006, there was no outstanding balance under the facility. MMIT was reorganized and our arrangements with MMIT were substantially modified on December 29, 2006.

We received fee income from MMER totaling $0.5 million, $0.9 million and $1.9 million during 2006, 2005 and 2004. We received fees from MMIT totaling $3.1 million, $4.4 million and $4.7 million during 2006, 2005 and 2004.

In January 2009, we ceased being the advisor to MMER and MMIT and Mr. Falcone resigned as a trustee. See Item 1. Business.

Transactions with Gallagher, Evelius & Jones LLP

Gallagher, Evelius & Jones LLP (**GEJ**) is a law firm that provides substantial legal services to us. Payments for services rendered to us by GEJ are considered to be arms length transactions. Richard O. Berndt, one of our directors, is the managing partner of GEJ and owns 5.7% of GEJ equity. Stephen A. Goldberg, our General Counsel, is a partner at GEJ and we pay GEJ for Mr. Goldberg s services as our General Counsel at a discount from his standard hourly rates. Mr. Goldberg is eligible for an annual stock award from us but otherwise receives no compensation directly from us. During 2006, we paid GEJ $4.6 million in legal fees.

Transactions and Relationships with Entities Controlled by Mark Joseph

The Shelter Group

Mark Joseph, the Chairman of our Board of Directors, through family holding companies, controlled a 34.7% interest in The Shelter Group, LLC (**Shelter Group**) at December 31, 2006. Shelter Group acts as a developer of, and provides property management services relating primarily to multifamily residential real estate projects. Shelter Group provided management services during 2006 for two properties in which The Shelter Group had no ownership interest that served as collateral for tax-exempt bonds we owned. The properties paid The Shelter Group fees during 2006 totaling approximately $0.8 million for property management services with respect to these properties.

The real estate that secures one of our tax-exempt bonds is owned by a Shelter Group entity. As of December 31, 2006, this bond was carried on our books at $9.1 million.

Tax Credit Equity Syndication Transactions. We sometimes act as a tax credit equity syndicator with regard to affordable housing projects sponsored by Shelter Group. At December 31, 2006, the not yet funded equity commitments that we had arranged for projects sponsored by the Shelter Group totaled $17.2 million. Shelter Group received development fees in connection with the tax credit equity syndication transactions that we arranged.
Mr. Joseph does not participate in the structuring or negotiation of transactions in which we and Shelter Group are both involved. The disinterested members of our Board of Directors authorized our continued investment in and syndication of tax credit equity investments in affordable housing projects sponsored by Shelter Group on the same basis that we do so with regard to projects sponsored by other developers of like quality, without the need for further Board approval and they have approved all prior tax credit transactions with Shelter Group.

Revolving Loan Agreement. On February 28, 2005, we entered into a revolving loan agreement with a Shelter Group affiliate for loans to Shelter Group entities in an amount not to exceed $1.5 million. We hold a master note from Shelter Group and in addition, each loan is evidenced by a separate note signed by the relevant property partnership. All loans are expected to include a pledge of collateral typically granted in such

transactions. We believe the loan arrangement is typical of the type of arrangements tax credit equity syndicators enter into with developers with whom they have long- standing relationships. During 2006, there were no borrowings and no outstanding balance under the Shelter Group Loan Agreement as of December 31, 2006.

Bond Portfolio

In February 1995, our predecessor participated in the refunding of eleven tax-exempt bonds with an aggregate principal balance of $126.6 million that were secured by properties owned by partnerships of which Mr. Joseph controlled the general partners and in which he held significant ownership interests. In the refunding transaction, the originally issued bonds were exchanged for a senior series of Series A tax-exempt bonds with an aggregate principal balance of $67.7 million, and a subordinate series of Series B tax-exempt bonds with an aggregate principal balance of $58.9 million. We then arranged the sale to unrelated purchasers of custodial receipts representing beneficial ownership of all the Series A bonds, which were credit enhanced by Financial Security Assurance, Inc, and retained the Series B bonds. Subsequently, we made additional loans secured by the properties that secured the Series A and Series B bonds, which were junior to the Series A bonds but senior to the Series B bonds as to interest, but junior as to principal. We subsequently sold the loans and guaranteed the partnerships obligations to the purchaser of the loans. At December 31, 2006, $16.2 million principal amount of those loans were still outstanding.

The holders of the custodial receipts representing the Series A bonds had the right to require that those custodial receipts be redeemed and refunded in 2005. In order to avoid the cost and time involved in doing that, in February 2005, we purchased all the Series A bonds, transferred them to a securitization vehicle, and sold all but the most junior residual interests in the Series A bonds. The properties owned by the partnerships (which have now been consolidated under a single umbrella entity that is majority-owned by Mr. Joseph and entities he controls and of which he has sole decision making control) continue to secure the Series A and Series B bonds.

The properties that secure the bonds that were the subject of the refunding transactions had been transferred over several years beginning in 1989 to entities owned or controlled by Mr. Joseph and other persons who at the time were officers of our predecessor. At that time, these bonds were in default, but our predecessor could not acquire the properties without causing them to lose their tax-exempt status. Therefore, our predecessor caused the properties to be transferred to entities owned or controlled by Mr. Joseph and other of our predecessor s officers and those entities became the borrowers with regard to the bonds. In other instances, we arranged for the general partner interests in partnerships that owned properties that secured defaulted bonds we held to be transferred to entities controlled by Mr. Joseph. At December 31, 2006, entities controlled by Mr. Joseph owned 13 properties that secured tax-exempt bonds that we held with an unpaid principal balance of approximately of $169.3 million.

Special Shareholder and Dissolution Shareholder Relationships

Under the federal tax laws in effect when we were formed in 1996, in order for us not to be taxed as a corporation, it was necessary for us to meet certain requirements, including a requirement that at least some of our equity holders have unlimited liability and that there be circumstances under which our existence might terminate. In order to fulfill those requirements, Shelter Development Holdings, Inc. agreed that so long as it (or a successor) holds any of our shares, it will have personal liability to our creditors to the extent our assets are not sufficient to satisfy their claims. In addition, our Operating Agreement provides that if Shelter Development Holdings or a successor ceases to be a member of our company (i.e., a shareholder), we will be dissolved unless holders of more than 50% in interest of our shares vote within 180 days to continue our existence. Our Operating Agreement also gives Shelter Development Holdings or its successor as dissolution shareholder the right to designate a representative to serve as a member of our Board of Directors, or if there are more than ten directors, to designate two directors. The tax laws have subsequently been changed to permit an entity like us to elect to be taxed like a partnership even if it does not have the attributes described above, but our Operating Agreement has not been changed. Mark Joseph, through family companies, owns

Shelter Development Holdings.

Other Affiliates of Mark Joseph

Park View at Dundalk Apartments Project A public tax credit equity fund we manage was a limited partner in Heritage Court Limited Partnership, of which an affiliate of Shelter Group is the general partner. For property specific reasons, the property owned by Heritage Court was of no value to the tax credit equity fund, and therefore, in December 2005, the disinterested members of our Board of Directors approved the sale of the fund s interest in Heritage Court for $1 plus 50% of any net proceeds of a sale or refinancing of the property within two years. That transaction was completed in December, 2006. No sale or refinancing occurred in the two year period.

Not-for-Profit Entities controlled by our officers

MuniMae Foundation, Inc. Some of our properties are financed by tax-exempt bonds issued on behalf of borrowers that are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. For those bonds to remain tax-exempt, the properties must at all times be owned by 501(c)(3) organizations. The Foundation is a 501(c)(3) corporation that is devoted to the ownership and operation of affordable housing for all citizens. Until late in 2007, all its officers and directors were persons who were our officers. Several defaulted properties initially owned by unrelated 501(c)(3) organizations were transferred to the Foundation or its wholly-owned subsidiaries so that the properties could be preserved as affordable housing and the bonds secured by the properties would continue to be tax-exempt. Properties that are transferred to the Foundation continue to secure bonds that we hold, and the Foundation applies net revenues from the properties to payment of interest and principal on the bonds secured by the respective properties until such, if any, time as the bonds secured by a property are paid in full. We donate administrative support, asset management and financial services to the Foundation. In addition to owning affordable housing projects, the Foundation makes grants to other 501(c)(3) organizations. During the year ended December 31, 2006, we made $1.0 million in charitable contributions to the Foundation. At December 31, 2006, the Foundation directly or indirectly owned two properties that secured tax-exempt bonds we owned with a principal amount of $53.0 million. Because our 501(c)(3) bonds, like most of our loans, are non-recourse except against the properties that secure them, we value them by reference to the value of those properties. At December 31, 2006, we provided bond financing secured by properties owned by the Foundation with a fair value of $38.0 million.

MuniMae Affordable Housing, Inc. MuniMae Affordable Housing, Inc. (**MMAH**) is a not-for-profit entity organized to promote affordable housing. All of its officers and directors are persons who are our officers. It was formed to acquire interests in partnerships that owned affordable housing properties which secured indebtedness that had gone into default. At December 31, 2006, MMAH owned the general partner of partnerships that owned ten properties, two of which it had acquired during 2006. The two properties acquired in 2006 had been financed partly through equity investments by tax credit equity funds that we sponsored (including funds as to which we had guaranteed returns) and partly with tax-exempt bonds we purchased or taxable loans we made. MMAH is not a Section 501(c)(3) organization.

We have provided additional financing through advances, unsecured loans and supplemental loans with regard to some of the properties in which MMAH owns a general partner interest in order to advance development and by doing so to maximize the value of the investment we had already made.

In January 2006, we exercised our rights as a bondholder and foreclosed on one of the properties that had been transferred to MMAH in 2005. The property was collateral for an $8.5 million tax-exempt bond. The property was sold at foreclosure for $5.8 million.

Our officers who serve as officers or directors of the Foundation, or MMAH, do not receive any remuneration for serving in those capacities and neither we nor they have any ownership interests in either of those entities.

MMAH holds 21% interests in the general partners of several of our LIHTC Funds and our renewable energy projects.

Approval of Transactions with Related Persons

It is the policy of our Board of Directors that all transactions involving us or any of our subsidiaries, on the one hand, and any of our directors or officers, or entities in which any of them has a material financial interest, on the other, including all transactions between us and Shelter Group, must be approved by a majority of our directors who have no interest in the transactions. Additionally, all property management arrangements with the Shelter Group are subject to annual approval by a vote of a majority of our Directors who have no interest in Shelter Group, after considering the then market rate for the services of the type provided by Shelter Group and other applicable factors.

Director Independence

All of our directors, except Michael Falcone, Mark Joseph and Richard Berndt, are independent as that term is defined in the rules of the New York Stock Exchange (on which our shares were listed until February 2008). All the members of the Audit Committee of our Board of Directors are independent as that term is defined in the rules of the New York Stock Exchange and SEC rules, and all the members of our Compensation and Governance Committees are independent as that term is defined in the rules of the NYSE.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Independent Registered Public Accounting Firm

PwC is the independent registered public accounting firm that originally audited our financial statements for the years ended December 31, 2005 and 2004, and our restated financial statements for the year ended December 31, 2004. However, during 2006, 2007 and 2008, our financial statements for 2005 were restated, and our financial statements for 2004, which had already been restated, were further restated. KPMG is the independent registered public accounting firm that audited our restated financial statements for the year ended December 31, 2005, as well as the further restatement of our financial statements for the year ended December 31, 2004, and audited our financial statements for the year ended December 31, 2006.

Fees

The table below lists the audit fees and other fees billed by PwC for work performed during 2006 and 2005 and by KPMG for work performed after it became our registered public accounting firm in October 2006.

The following are the PwC and KPMG audit and other fees for which we were billed during 2006 and 2005.

(dollars in thousands)	**2006**	**2005**
PwC:		
Audit fees [(1)]	$ 3,177	$ 3,381
Audit related fees [(2)]		25
Total audit and audit related fees	3,177	3,406
Tax fees [(3)]	481	485
All other fees		
Total PwC fees	$ 3,658	$ 3,891
KPMG:		
Audit fees	$ 1,000	$
Audit related fees		
Total audit and audit related fees	1,000	
Tax fees		
All other fees		
Total KPMG fees	$ 1,000	$

[(1)] *Audit fees include fees for the audit of the consolidated financial statements and of management s assessment of the effectiveness of our internal controls over financial reporting, separate audits of certain subsidiaries and tax credit funds, review of financial statements included in our Reports on Form 10-Q and services that are normally*

provided in connection with statutory and regulatory filings or engagements, including audit services provided in connection with statutory and regulatory filings or engagements.

(2) *Audit-related fees include the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements but do not fall under the caption Audit fees. These fees consisted of due diligence services related to acquisitions.*

(3) *Tax fees include the aggregate fees billed for professional services for tax compliance, tax advice and tax planning. These fees consist of nominee gathering services and production of Schedules K-1s for investors, preparation of federal and state tax returns, earnings and profits studies and various other tax consultations.*

Between January 1, 2007 and December 31, 2008 we were billed additional KPMG audit fees for the 2004 to 2006 audits that totaled $30.7 million.

Pre-approval Policies and Procedures

The Audit Committee has written policies and procedures regarding pre-approval of services to MuniMae by its principal independent registered public accountants. Its policy is to pre-approve all auditing services and non-audit services (subject to de minimis exceptions). All of the audit, audit-related and tax services for which we were billed by our principal independent public accounting firms for 2006 and 2005 were pre-approved by the Audit Committee.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) The following is a list of the consolidated financial statements included at the end of this report:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2006 and 2005

Consolidated Statements of Operations for the Years Ended December 31, 2006, 2005 and 2004

Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2006, 2005 and 2004

Consolidated Statements of Shareholders Equity for the Years Ended December 31, 2006, 2005 and 2004

Consolidated Statements of Cash Flows for the Years Ended December 31, 2006, 2005 and 2004

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

Schedule II Valuation and Qualifying Accounts (The information required is presented within the notes to the Consolidated Financial Statements)

Schedules other than Schedule II are omitted as they are not applicable or not required.

(3) Exhibit Index

See Exhibit Index immediately preceding the exhibits.

SIGNATURES

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

MUNICIPAL MORTGAGE & EQUITY, LLC

By: /s/ Michael L. Falcone

Name: Michael L. Falcone

Title: Chief Executive Officer and President

(Principal Executive Officer)

Dated: April 29, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

By: /s/ Michael L. Falcone — April 29, 2009

Name: Michael L. Falcone
Title: Chief Executive Officer, President and Director (Principal Executive Officer)

By: /s/ David Kay — April 29, 2009

Name: David Kay
Title: Chief Financial Officer and Executive Vice President (Principal Financial Officer)

By: /s/ Mark K. Joseph — April 29, 2009

Name: Mark K. Joseph
Title: Chairman of the Board of Directors

By: /s/ Charles C. Baum — April 29, 2009

Name: Charles C. Baum
Title: Director

By: /s/ Richard O. Berndt — April 29, 2009

Name: Richard O. Berndt
Title: Director

By: /s/ Eddie C. Brown — April 29, 2009

Name: Eddie C. Brown
Title: Director

By: /s/ Robert S. Hillman April 29, 2009

Name: Robert S. Hillman
Title: Director

By:	/s/ Barbara B. Lucas	April 29, 2009
	Name: Barbara B. Lucas Title: Director	
By:	/s/ Douglas A. McGregor	April 29, 2009
	Name: Douglas A. McGregor Title: Director	
By:	/s/ Arthur S. Mehlman	April 29, 2009
	Name: Arthur S. Mehlman Title: Director	
By:	/s/ Fred N. Pratt, Jr.	April 29, 2009
	Name: Fred N. Pratt, Jr. Title: Director	

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Municipal Mortgage & Equity LLC:

We were engaged to audit Municipal Mortgage & Equity, LLC and subsidiaries internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting (Item 9A).

Management did not complete its December 31, 2006 assessment of the effectiveness of the Company s internal control over financial reporting. Had the Company completed its assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, it is possible that additional material weaknesses would have been identified. Because management did not complete its assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, we were not able to perform audit procedures necessary for us to express an opinion on the effectiveness of internal control over financial reporting as of December 31, 2006.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management s assessment as of December 31, 2006:

1. *Entity Level Control Environment.* The Company did not maintain an effective entity level control environment, which is the foundation needed for effective internal control over financial reporting, as evidenced by the following weaknesses:

    The Company focused disproportionately on an internal metric for assessing its performance, Cash Available for Distribution (**CAD**), which did not sufficiently encourage employees to ensure financial reporting was in accordance with U.S. generally accepted accounting principles (**GAAP**).

    The Company did not effectively invest in its infrastructure and support functions. As the Company rapidly expanded in breadth and complexity in significant part by acquiring companies, it did not effectively invest sufficient resources related to accounting expertise, information technology and other supporting functions that would have improved its ability to prepare accurate financial statements.

    The Company did not effectively integrate its finance function with the business units so that business unit transactions were properly assessed from a GAAP accounting perspective.

    The Company did not maintain sufficient, formalized, and effective accounting and reporting policies nor did it maintain adequate controls with respect to the review and supervision of its accounting operations.

    The Company s internal audit function did not appropriately identify or address the Company s risks, and it did not sufficiently document processes and controls.

The Company relied on its prior independent registered public accountants to function as a core element of internal control.

2. *Consolidation Accounting.* The Company did not maintain effective controls over the accuracy of its accounting for the tax credit equity business and accounting for transactions where it assumed or acquired the general partner interest in lower tier property partnerships.

3. *Bond Accounting.* The Company did not maintain effective controls over the determination of fair values related to its bond portfolio and did not review or validate the broker quotes supporting its bond values.

4. *Equity Method Accounting.* The Company did not maintain effective controls to ensure accurate application of the equity method of accounting for investments in certain partnerships.

5. *Accounting for Derivatives.* The Company did not maintain effective controls over the identification and valuation of certain derivative financial instruments.

6. *Accounting for Mortgage Servicing Rights.* The Company did not maintain effective controls over the determination of fair value related to its mortgage servicing rights.

7. *Accounting for Loans.* The Company did not maintain effective controls over the proper determination of: (1) loan classification; (2) loan loss reserves associated with loans held for investment; and (3) amortization of loan fees and costs.

8. *Purchase Accounting.* The Company did not maintain effective controls over the determination of fair value and the purchase price allocation for business combinations. In addition, the Company did not maintain effective controls necessary to ensure proper impairment testing of goodwill and intangibles.

9. *Accounting for Property and Equipment, Payroll and Accounts Payable.* The Company did not maintain effective controls over the accounting for property and equipment as well as payroll and accounts payable.

10. *Contract Compliance.* The Company did not maintain internal controls sufficient to ensure that it complied with all of its contractual agreements.

11. *Financial Reporting.* The Company did not implement effective processes and review procedures to ensure that the 2005 and 2004 restatement process and the 2006 financial reporting process resulted in financial statements prepared in accordance with GAAP.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitation, internal control over financial reporting may not prevent or detect misstatement. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Since management did not complete its evaluation of internal control over financial reporting as of December 31, 2006, and we were unable to apply other procedures to satisfy ourselves as to the effectiveness of the Company s internal control over financial reporting, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the effectiveness of the Company s internal control over financial reporting.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Municipal Mortgage & Equity, LLC and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, comprehensive income (loss), shareholders

equity and cash flows for each of the years in the three-year period ended December 31, 2006. The aforementioned material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the 2006 consolidated financial statements, and this report does not affect our report dated February 11, 2009, which expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Baltimore, Maryland
February 11, 2009

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Municipal Mortgage & Equity LLC:

We have audited the accompanying consolidated balance sheets of Municipal Mortgage & Equity, LLC and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, comprehensive income (loss), shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Municipal Mortgage & Equity LLC and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As described in note 2 to the accompanying consolidated financial statements, the Company has restated its consolidated balance sheet as of December 31, 2005, and the related consolidated statements of operations, comprehensive income (loss), shareholders equity and cash flows for the years ended December 31, 2005 and 2004, which were previously audited by other auditors.

As discussed in note 1 to the consolidated financial statements, effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share Based Payment.*

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 1 to the consolidated financial statements, the Company has incurred losses from operations and is in default on provisions of most of its credit agreements. The credit agreement defaults provide the respective lenders the right to declare immediately due and payable unpaid amounts approximating $454 million at September 30, 2008. These conditions raise substantial doubt about the Company s ability to continue as a going concern. Management s plans in regard to these matters are also described in note 21. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We also were engaged to audit, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Municipal Mortgage & Equity, LLC and subsidiaries internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 11, 2009 indicates that the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Baltimore, Maryland
February 11, 2009

Municipal Mortgage & Equity, LLC

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)	December 31, 2006	As Restated December 31, 2005
ASSETS		
Cash and cash equivalents	$ 49,085	$ 140,213
Restricted cash	14,927	26,804
Bonds available-for-sale (includes $1,641,222 and $1,194,686 pledged as collateral)	1,770,113	1,392,934
Loans held for investment, net of allowance for loan losses (includes $372,371 and $564,757 pledged as collateral)	514,900	708,274
Loans held for sale (includes $360,353 and $73,693 pledged as collateral)	417,747	76,516
Investments in unconsolidated ventures (includes $483,069 and $301,578 pledged as collateral)	539,542	352,521
Accrued interest receivable	23,405	21,621
Property and equipment, net	27,676	12,945
Mortgage servicing rights, net	72,074	71,774
Goodwill, net	102,428	97,846
Other intangibles, net	17,528	21,100
Derivative assets	7,052	7,161
Other assets	42,580	38,807
Assets of consolidated funds and ventures (Notes 1 and 20):		
Cash, cash equivalents and restricted cash (includes $6,518 and $5,307 of restricted cash)	289,543	327,831
Loans (includes $31,500 and $180,528 pledged as collateral)	55,956	279,424
Investments in unconsolidated Lower Tier Property Partnerships	4,174,337	3,655,733
Real estate, net (includes $163,628 and $186,620 pledged as collateral)	320,880	260,033
Other assets	44,041	20,844
Assets held for sale (includes $0 and $47,521 pledged as collateral)		56,535
Total assets of consolidated funds and ventures	4,884,757	4,600,400
Total assets	$ 8,483,814	$ 7,568,916
LIABILITIES AND SHAREHOLDERS EQUITY		
Debt:		
Line of credit facilities	$ 322,502	$ 388,811
Repurchase facilities	211,825	
Senior interests and debt owed to securitization trusts	1,141,464	767,376
Notes payable and other debt	367,839	319,798
Subordinate debentures	175,500	175,500

Mandatorily redeemable preferred shares	162,168	162,150
Guarantee obligations	6,819	6,993
Accounts payable and accrued expenses	56,480	59,422
Derivative liabilities	18,129	17,030
Deferred revenue	97,617	88,704
Other liabilities	65,922	48,639
Unfunded equity commitments to investments in unconsolidated ventures	336,051	232,396
Liabilities of consolidated funds and ventures (Notes 1 and 20):		
Bridge financing	374,025	74,599
Mortgage debt	150,605	182,375
Notes payable	563,515	592,611
Unfunded equity commitments to unconsolidated Lower Tier Property Partnerships	883,803	903,768
Other liabilities	73,200	67,375
Liabilities related to assets held for sale		54,901
Total liabilities of consolidated funds and ventures	2,045,148	1,875,629
Total liabilities	5,007,464	4,142,448
Commitments and contingencies		
Non-controlling interests in consolidated funds and ventures (net of $2,333,823 and $1,891,774 of subscriptions receivable)	2,639,749	2,593,197
Perpetual preferred shareholders equity in a subsidiary company, liquidation preference of $173,000	168,686	168,686
Shareholders equity:		
Common shares, no par value (38,591,580 and 38,053,771 shares issued and outstanding and 102,689 and 78,827 non-employee directors deferred shares issued at December 31, 2006 and 2005, respectively)	566,890	581,046
Accumulated other comprehensive income	101,025	83,539
Total shareholders equity	667,915	664,585
Total liabilities and shareholders equity	$ 8,483,814	$ 7,568,916

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

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
		As Restated	As Restated
(dollars in thousands, except per share data)	**2006**	**2005**	**2004**
REVENUE:			
Interest income:			
Interest on bonds	$ 100,059	$ 88,470	$ 79,301
Interest on loans	82,958	54,356	41,990
Interest on short-term investments	5,636	4,156	1,989
Total interest income	188,653	146,982	123,280
Fee and other income:			
Syndication fees	45,318	32,131	32,715
Asset management and advisory fees	4,878	6,520	3,083
Debt placement fees	2,106	5,355	2,926
Guarantee fees	577	1,150	3,133
Servicing fees	7,403	4,296	3,518
Other income	12,718	5,747	3,463
Total fee and other income	73,000	55,199	48,838
Revenue from consolidated funds and ventures:			
Rental and other income from real estate	50,246	54,812	48,568
Interest and other income	38,668	27,765	11,076
Total revenue from consolidated funds and ventures	88,914	82,577	59,644
Total revenue	350,567	284,758	231,762
EXPENSES:			
Interest expense	120,592	89,672	67,931
Salaries and benefits	78,187	79,970	62,933
General and administrative	32,191	30,817	24,753
Professional fees	15,710	12,089	9,279
Depreciation and amortization	7,200	6,305	4,996
Impairment on bonds	2,106	13,020	684
Provision for credit losses	12,557	5,117	4,981
Other expenses	5,945	1,099	1,491
Expenses from consolidated funds and ventures:			
Depreciation and amortization	15,725	19,585	21,705
Interest expense	41,290	34,852	27,339
Impairment on investments in unconsolidated Lower Tier Property Partnerships	48,431	30,327	35,585

Other operating expenses	45,318	52,788	41,033
Total expenses from consolidated funds and ventures	150,764	137,552	125,662
Total expenses	425,252	375,641	302,710
Net gains (losses) on sale of bonds	8,355	6,398	(147)
Net gains on sale of loans	21,515	12,509	5,510
Net (losses) gains on derivatives	(3,617)	4,363	(4,430)
Net gains on sale of real estate	6,797		
Net gains on sale of real estate from consolidated funds and ventures	52,479	19,655	5,805
Equity in earnings from unconsolidated ventures	5,216	26,346	403
Equity in losses from unconsolidated Lower Tier Property Partnerships held by consolidated funds and ventures	(319,511)	(281,162)	(238,674)
Loss before income taxes, (income) loss allocable to non-controlling interests and discontinued operations	(303,451)	(302,774)	(302,481)
Income tax expense	3,323	2,929	2,923
(Income) loss allocable to non-controlling interests:			
Distributions declared to perpetual preferred shareholders of subsidiary	(9,208)	(4,962)	(755)
Net losses allocable to non-controlling interests from consolidated funds and ventures	360,011	327,761	294,840
Income (loss) before discontinued operations	44,029	17,096	(11,319)
Discontinued operations	9,618	7,575	8,043
Net income (loss)	$ 53,647	$ 24,671	$ (3,276)

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

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS (continued)

(dollars in thousands, except per share data)	For the Years Ended December 31, 2006	As Restated 2005	As Restated 2004
Basic earnings (loss) per common share:			
Earnings (loss) from continuing operations	$ 1.14	$ 0.45	$ (0.32)
Discontinued operations	0.25	0.20	0.23
Earnings (loss) per common share	$ 1.39	$ 0.65	$ (0.09)
Weighted-average common shares outstanding	38,535	37,696	34,504
Diluted earnings (loss) per common share:			
Earnings (loss) from continuing operations	$ 1.12	$ 0.45	$ (0.32)
Discontinued operations	0.25	0.20	0.23
Earnings (loss) per common share	$ 1.37	$ 0.65	$ (0.09)
Weighted-average common shares outstanding	39,112	38,201	34,755

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

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	For the Years Ended December 31,		
(dollars in thousands)	**2006**	**As Restated 2005**	**As Restated 2004**
Net income (loss)	$ 53,647	$ 24,671	$ (3,276)
Other comprehensive income (loss):			
Unrealized gains (losses) on bonds available-for-sale:			
Unrealized net holding gains (losses) arising during the period	25,088	14,761	(3,561)
Reclassification of unrealized (gains) losses due to bond sales and other-than-temporary impairment activity	(4,266)	10,202	(6,845)
Reclassification of unrealized gains due to consolidation of funds and ventures	(3,479)	(849)	(5,096)
Total unrealized gains (losses) on bonds available-for-sale	17,343	24,114	(15,502)
Currency translation adjustment	143	(65)	
Other comprehensive income (loss)	17,486	24,049	(15,502)
Comprehensive income (loss)	$ 71,133	$ 48,720	$ (18,778)

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

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(dollars and shares in thousands, except per share data)	**Common Shares (Number)**	**Common Shares (Amount)**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
Balance, December 31, 2003 As Previously Reported	32,507	$ 629,677	$ (4,208)	$ 625,469
Prior period restatement adjustments		(72,845)	79,200	6,355
Balance, December 31, 2003 As Restated	32,507	556,832	74,992	631,824
Net loss		(3,276)		(3,276)
Other comprehensive loss			(15,502)	(15,502)
Distributions of $1.84 per share		(63,337)		(63,337)
Options exercised	284	5,382		5,382
Issuance of common shares, net of issuance costs	2,145	52,557		52,557
Issuance of common shares under employee share plans	238			
Common, restricted and deferred shares issued under the non-employee directors share plans	21	441		441
Stock-based compensation		6,111		6,111
Balance, December 31, 2004 As Restated	35,195	554,710	59,490	614,200
Net income		24,671		24,671
Other comprehensive income			24,049	24,049
Distributions of $1.92 per share		(71,739)		(71,739)
Options exercised	195	3,291		3,291
Issuance of common shares, net of issuance costs	2,575	64,740		64,740
Purchase of common shares	(56)	(1,372)		(1,372)
Issuance of common shares under employee share plans	202			
Common, restricted and deferred shares issued under the non-employee directors share plans	22	474		474
Stock-based compensation		6,271		6,271
Balance, December 31, 2005 As Restated	38,133	581,046	83,539	664,585
Net income		53,647		53,647
Other comprehensive income			17,486	17,486
Distributions of $2.00 per share		(77,103)		(77,103)
Options exercised	195	3,838		3,838
	179	4,638		4,638

Issuance of common shares related to business acquisition				
Issuance of common shares under employee share plans	162			
Restricted and deferred shares issued under the non-employee directors share plans	25	650		650
Modification of equity classified awards		(3,390)		(3,390)
Stock-based compensation		4,994		4,994
Stock-based compensation awards settled in cash		(1,430)		(1,430)
Balance, December 31, 2006	38,694	$ 566,890	$ 101,025	$ 667,915

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

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
		As Restated	As Restated
(dollars in thousands)	**2006**	**2005**	**2004**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 53,647	$ 24,671	$ (3,276)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Net non-cash losses (gains) on derivatives	5,011	(6,638)	(2,407)
Purchases, advances on and originations of loans held for sale	(1,226,404)	(554,408)	(117,251)
Proceeds from the sale of loans held for sale	880,271	533,952	161,751
Principal payments received on loans held for sale	8,738	103	
Net gains on sales of bonds and loans	(29,870)	(18,907)	(5,363)
Net gains on real estate	(59,276)	(29,671)	(17,063)