MUNICIPAL MORTGAGE & EQUITY LLC
Form 10-Q
November 14, 2013

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

FORM 10-Q

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

For the quarterly period ended September 30, 2013
OR

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

For the transition period from __________________ to __________________

Commission File Number 000-55051

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

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

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

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

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

Large accelerated filer o　　Accelerated filer o

Non-accelerated filer o Smaller reporting company þ

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

There were 41,512,514 shares of common shares outstanding at November 8, 2013.

Municipal Mortgage & Equity, LLC
TABLE OF CONTENTS

I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This 2013 Quarterly Report on Form 10-Q (“**Report**”) contains forward-looking statements intended to qualify for the safe harbor contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). Forward-looking statements often include words such as “may,” “will,” “should,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “seek,” “would,” “could,” a
are made in connection with discussions of future operating or financial performance.

Forward-looking statements reflect our management’s expectations at the date of this Report regarding future conditions, events or results. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial condition may differ materially from what is anticipated in the forward-looking statements. There are many factors that could cause actual conditions, events or results to differ from those anticipated by the forward-looking statements contained in this Report. They include the factors discussed in Part I, Item 1A, “Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2012 (“**2012 Form 10-K**”).

Readers are cautioned not to place undue reliance on forward-looking statements in this Report or that we make from time to time, and to consider carefully the factors discussed in Part I, Item 1A, “Risk Factors” of the 2012 Form 10-K, in evaluating these forward-looking statements. We have not undertaken to update any forward-looking statements.

Part I FINANCIAL INFORMATION

Item 1. Financial Statements

Municipal Mortgage & Equity, LLC

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2013 (Unaudited)		December 31, 2012	
ASSETS				
Cash and cash equivalents (includes $41,634 at December 31, 2012 in a consolidated subsidiary that had restrictions on distributions)	$	45,605	$	50,857
Restricted cash (includes $55,945 and $53,957 related to CFVs)		90,949		55,313
Bonds available-for-sale (includes $132,930 and $925,346 pledged as collateral and/or restricted)		196,485		969,394
Investments in Lower Tier Property Partnerships related to CFVs		299,730		333,335
SA Fund investments related to CFVs		157,791		161,433
Real estate held-for-use, net (includes $15,595 and $17,756 pledged as collateral and $103,649 and $111,931 related to CFVs)		121,863		129,687
Real estate held-for-sale related to CFVs		51,836		15,338
Investment in preferred stock		31,371		31,371
Other assets (includes $12,054 and $14,691 pledged as collateral and $23,714 and $17,568 related to CFVs)		44,226		55,024
Total assets	$	1,039,856	$	1,801,752
LIABILITIES AND EQUITY				
Debt (includes $96,142 and $55,433 related to CFVs)	$	461,126	$	1,042,959
Derivative liabilities		662		3,544
Accounts payable and accrued expenses		7,833		12,498
Unfunded equity commitments to Lower Tier Property Partnerships related to CFVs		13,461		15,881
Other liabilities (includes $10,167 and $6,150 related to CFVs)		17,281		15,145
Total liabilities	$	500,363	$	1,090,027
Commitments and contingencies				
Equity:				

Perpetual preferred shareholders’ equity in a subsidiary company, liquidation preference of $159,000 at December 31, 2012	$		$	155,033
Noncontrolling interests in CFVs and IHS (net of $1,533 of subscriptions receivable)		487,896		511,791
Common shareholders’ equity:				
Common shares, no par value (40,902,784 and 40,638,614 shares issued and outstanding and 1,310,226 and 1,873,348 non-employee directors’ and employee deferred shares issued at September 30, 2013 and December 31, 2012, respectively)		15,741		(93,786)
Accumulated other comprehensive income		35,856		138,687
Total common shareholders’ equity		51,597		44,901
Total equity		539,493		711,725
Total liabilities and equity	$	1,039,856	$	1,801,752

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

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands)

	For the three months ended September 30, 2013	2012	For the nine months ended September 30, 2013	2012
Interest income				
Interest on bonds	$ 4,214	$ 15,998	$ 34,677	$ 49,467
Interest on loans and short-term investments	166	227	500	720
Total interest income	4,380	16,225	35,177	50,187
Interest expense [(1)]				
Bond related debt	1,975	5,922	21,167	18,208
Non-bond related debt	224	625	1,046	1,882
Total interest expense	2,199	6,547	22,213	20,090
Net interest income	2,181	9,678	12,964	30,097
Non-interest revenue				
Income on preferred stock investment	1,326	1,340	3,935	4,429
Other income	809	489	1,866	1,662
Revenue from CFVs	7,475	4,067	16,880	8,458
Total non-interest revenue	9,610	5,896	22,681	14,549
Total revenues, net of interest expense	11,791	15,574	35,645	44,646
Operating and other expenses				
Interest expense [(2)]	3,628	4,639	11,374	14,179
Salaries and benefits	2,895	2,457	10,045	7,757
General and administrative	1,102	1,286	3,528	3,814
Professional fees	1,375	1,525	6,777	5,163
Impairment on bonds	939	2,282	1,772	3,369
Net loan loss (recovery)	5	(1,363)	5	(5,647)
Other expenses	1,178	955	4,965	2,950
Expenses from CFVs	14,854	9,039	39,948	21,123
Total operating and other expenses	25,976	20,820	78,414	52,708
Net gains (losses) on assets and derivatives	76,404	(633)	78,509	(1,768)
Net (losses) gains on early extinguishment of liabilities	(84)	132	36,179	601
Net gains due to initial real estate consolidation and foreclosure	2,411	2,853	10,895	5,404
Net gains (losses) related to CFVs	3,812	(4,608)	27,732	5,407
Equity in losses from Lower Tier Property Partnerships of CFVs	(6,343)	(6,486)	(20,129)	(25,917)
Net income (loss) from continuing operations before income taxes	62,015	(13,988)	90,417	(24,335)

Income tax (expense) benefit	(123)	(24)	1,309	(65)
Income from discontinued operations, net of tax	403	602	6,527	694
Net income (loss)	62,295	(13,410)	98,253	(23,706)
Income allocable to noncontrolling interests:				
Income allocable to perpetual preferred shareholders of a subsidiary company	(36)	(2,284)	(3,714)	(6,852)
Net losses (income) allocable to noncontrolling interests in CFVs and IHS:				
Related to continuing operations	11,186	17,407	18,915	36,884
Related to discontinued operations	(129)	(995)	(1,312)	648
Net income to common shareholders	$ 73,316	$ 718	$ 112,142	$ 6,974

(1) *Represents interest expense related to debt which finances interest-bearing assets. See Note 6, "Debt."*

(2) *Represents interest expense related to debt which does not finance interest-bearing assets. See Note 6, "Debt."*

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

3

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS (continued)

(Unaudited)

(in thousands, except per share data)

	For the three months ended September 30, 2013	2012	For the nine months ended September 30, 2013	2012
Basic income per common share:				
Income from continuing operations	$ 1.73	$ 0.03	$ 2.52	$ 0.13
Income (loss) from discontinued operations	0.01	(0.01)	0.12	0.03
Income per common share	$ 1.74	$ 0.02	$ 2.64	$ 0.16
Diluted income per common share:				
Income from continuing operations (adjusted for liability classified awards)	$ 1.66	$ 0.03	$ 2.48	$ 0.13
Income (loss) from discontinued operations	0.01	(0.01)	0.12	0.03
Income per common share	$ 1.67	$ 0.02	$ 2.60	$ 0.16
Weighted-average common shares outstanding:				
Basic	42,290	42,304	42,380	42,207
Diluted	43,916	42,380	43,823	42,414

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

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(in thousands)

	For the three months ended September 30, 2013	2012	For the nine months ended September 30, 2013	2012
Net income to common shareholders	$ 73,316	$ 718	$ 112,142	$ 6,974
Net loss allocable to noncontrolling interests	(11,021)	(14,128)	(13,889)	(30,680)
Net income (loss)	$ 62,295	$ (13,410)	$ 98,253	$ (23,706)
Other comprehensive (loss) income allocable to common shareholders:				
Bond related changes:				
Unrealized net holding (losses) gains arising during the period	$ (5,259)	$ 12,803	$ (16,792)	$ 28,489
Reversal of unrealized gains on sold/redeemed bonds	(76,362)		(76,960)	(52)
Reclassification of unrealized bond losses to operations due to impairment	939	2,282	1,772	3,369
Reclassification of unrealized bond gains to operations due to consolidation of funds and ventures	(2,411)	(2,853)	(10,895)	(5,404)
Net changes in other comprehensive income due to bonds	(83,093)	12,232	(102,875)	26,402
Foreign currency translation adjustment	43	(24)	44	97
Other comprehensive (loss) income allocable to common shareholders	$ (83,050)	$ 12,208	$ (102,831)	$ 26,499
Other comprehensive loss allocable to noncontrolling interests:				
Foreign currency translation adjustment for SA Fund and IHS	$ (2,212)	$ (45)	$ (20,674)	$ (3,758)
Comprehensive (loss) income to common shareholders	$ (9,734)	$ 12,926	$ 9,311	$ 33,473
Comprehensive loss to noncontrolling interests	(13,233)	(14,173)	(34,563)	(34,438)
Comprehensive loss	$ (22,967)	$ (1,247)	$ (25,252)	$ (965)

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

5

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

(in thousands)

	Common Equity Before Accumulated Other Comprehensive Income		Accumulated Other Comprehensive Income	Total Common Shareholders' Equity	Perpetual Preferred Shareholders' Equity	Noncontrolling Interest in CFVs and IHS	Total Equity
	Number	Amount					
Balance, January 1, 2013	42,512	$ (93,786)	$ 138,687	$ 44,901	$ 155,033	$ 511,791	$ 711,725
Net income		112,142		112,142	3,714	(17,603)	98,253
Other comprehensive income			(102,831)	(102,831)		(20,674)	(123,505)
Distributions					(3,714)		(3,714)
Contributions						8,051	8,051
Net change due to consolidation						6,331	6,331
Non-employee director deferred shares	67	81		81			81
Non-employee director options		19		19			19
Employee deferred shares (liability classified awards)	52						
Mark to market activity for liability classified awards previously classified as equity		(19)		(19)			(19)
Employee and non employee shares cancelled	(32)						
Common shares repurchases	(386)	(516)		(516)			(516)
Preferred shares repurchases		842		842	(37,055)		(36,213)
Preferred shares transferred to TEB purchaser		(3,022)		(3,022)	(117,978)		(121,000)
Balance, September 30, 2013	42,213	$ 15,741	$ 35,856	$ 51,597	$	$ 487,896	$ 539,493

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

6

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	For the nine months ended September 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 98,253	$ (23,706)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net gains on sales of bonds and loans	(78,450)	(366)
Net gains due to real estate consolidation and foreclosure	(10,895)	(5,399)
Net gains related to CFVs	(32,964)	(5,407)
Provisions for credit losses and impairment	16,962	8,502
Equity in losses from Lower Tier Property Partnerships of CFVs	20,323	25,917
Subordinate debt effective yield amortization and interest accruals	6,188	8,629
Net gains on early extinguishment of liabilities	(36,179)	
Depreciation and other amortization	15,742	7,274
Foreign currency loss	9,136	1,237
Stock-based compensation expense	2,137	294
Other	(2,322)	(1,312)
Net cash provided by operating activities	7,931	15,663
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances on and purchases of bonds		(6,189)
Principal payments and sales proceeds received on bonds	15,203	15,721
Advances on and originations of loans held for investment	(278)	(450)
Principal payments received on loans held for investment	563	2,400
Insurance recoveries on real estate		753
Investments in property partnerships and real estate	(20,509)	(46,033)
Proceeds from the sale of real estate and other investments	39,437	3,222
Proceeds received on redemption of investment in preferred stock		5,000
Net proceeds from the sale of a subsidiary company	19,151	
Increase in restricted cash and cash of CFVs	(24,784)	(11,278)
Capital distributions received from investments in partnerships	12,728	8,816
Net cash provided by (used in) investing activities	41,511	(28,038)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowing activity	116,461	35,482
Repayment of borrowings	(136,639)	(34,647)
Payment of debt issuance costs	(1,202)	(889)
Contributions from holders of noncontrolling interests	8,051	20,462
Purchase of treasury stock	(516)	
Distributions paid to perpetual preferred shareholders of a subsidiary company	(4,636)	(7,050)
Redemption of perpetual preferred shares	(36,213)	
Net cash (used in) provided by financing activities	(54,694)	13,358

Net (decrease) increase in cash and cash equivalents		(5,252)		983
Cash and cash equivalents at beginning of period		50,857		42,116
Cash and cash equivalents at end of period	$	45,605	$	43,099

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

7

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(Unaudited)

(in thousands)

	For the nine months ended September 30, 2013		2012	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Interest paid	$	26,868	$	31,235
Income taxes paid		254		146
Non-cash investing and financing activities:				
Unrealized (losses) gains included in other comprehensive income		(123,505)		22,741
Debt and liabilities extinguished through sales and collections on bonds and loans		4,252		11,400
Increase in real estate assets due to initial consolidation of funds and ventures		43,943		47,058
Decrease in bond assets due to initial consolidation of funds and ventures		37,777		34,108
Increase in non controlling interests due to consolidation of funds and ventures		6,737		
Increase in real estate assets and decrease in loan investments due to foreclosure				7,711
Increase in common equity due to purchase of noncontrolling interests				2,203
Decrease in noncontrolling interests due to sale of common equity				2,203
Net change in assets and liabilities due to the sale of a subsidiary company:				
Net decrease in interest receivable		4,612		
Net decrease in interest payable		(1,052)		
Net decrease in bonds available-for-sale		678,983		
Net increase in restricted cash		(14,672)		
Increase related to new borrowing activities		169,601		
Net decrease in perpetual preferred shares and related distributions		(122,669)		
Decrease related to borrowings transferred to purchaser		(695,652)		

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

Municipal Mortgage & Equity, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 description of the business and BASIS OF PRESENTATION

Municipal Mortgage & Equity, LLC, the registrant, was organized in 1996 as a Delaware limited liability company. When used in this report, the "**Company**", "**MuniMae**", "**we**", "**our**" or "**us**" may refer to the registrant, the registra and its subsidiaries, or one or more of the registrant's subsidiaries depending on the context of the disclosure.

Effective July 10, 2013, we are taxed as a corporation. However, we have significant loss carryfowards that we expect will be sufficient to offset federal taxable income and gains for the foreseeable future.

Description of the Business

The Company operates through two reportable segments: US Operations and International Operations.

We own and manage a range of real estate related assets. Our primary holdings include a portfolio of tax-exempt bonds, a substantial portion of which are backed by affordable multifamily rental properties. We also manage tax credit equity funds for third party investors which invest in similar affordable multifamily rental properties. Finally, we own a variety of direct investments in multifamily rental properties and land. Outside of the United States ("**US**"), we are in the business of raising, investing in and asset managing private real estate funds which invest in affordable for-sale and rental housing in South Africa and, to a lesser extent, Sub-Saharan Africa.

US Operations

The Company's bond portfolio consisted of 45 bonds and interests in bonds totaling $321.4 million (based on the fair value of all bonds, including those that have been eliminated due to consolidation), collateralized by 28 real estate properties at September 30, 2013. This bond portfolio is comprised primarily of multifamily tax-exempt bonds as well as community development district ("**CDD**") bonds. At September 30, 2013, approximately 55% of this portfolio was unleveraged.

MuniMae is also the general partner ("**GP**") and manager of 13 low income housing tax credit funds ("**LIHTC Funds**") which have $852.9 million in capital invested at September 30, 2013, which hold limited partnership interests in 117 affordable multifamily rental properties in the US. The Company's ownership interest in the LIHTC Funds is negligible; however, the Company is entitled to asset management fees as well as contingent asset management fees based on several factors including the residual value of the LIHTC Funds' underlying multifamily rental properties.

As a result of the third quarter 2013 sale of our common shares of MuniMae TE Bond Subsidiary, LLC ("**TEB**") described in Note 2 "Bonds Available-For-Sale," we significantly reduced our long term interest rate risk; however, we no longer have a substantial portion of the net interest spread generated by TEB. As a result, to cover operating costs and grow shareholder value over the long term, we will need to find and make new investments that generate sufficient returns to achieve these goals.

International Operations

Substantially all of the Company's International Operations take place through a subsidiary, International Housing Solutions S.à r.l. ("**IHS**") which is in the business of raising, investing in and asset managing private real estate funds which invest in affordable for-sale and rental housing in South Africa and, to a lesser extent, Sub-Saharan Africa. At September 30, 2013, the Company's ownership interest in IHS is approximately 83%. In addition to earning asset management fees, IHS as the managing member is entitled to special distributions based on returns generated by the funds it sponsors. IHS currently manages a single fund (South Africa Workforce Housing Fund SA I - "**SA Fund**"), and expects to raise capital for and manage additional funds in the near future.

Use of Estimates

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

Basis of Presentation and Significant Accounting Policies

The consolidated financial statements include the accounts of the Company and of entities that are considered to be variable interest entities in which the Company is the primary beneficiary, as well as those entities in which the Company has a controlling financial interest, including wholly owned subsidiaries of the Company. All intercompany transactions and balances have been eliminated in consolidation. Investments in unconsolidated entities where the Company has the ability to exercise significant influence over the operations of the entity are accounted for using the equity method of accounting. See Note 1, "Description of Business and Basis of Presentation" to the consolidated financial statements in our 2012 Form 10-K, which discusses our consolidation presentation and our significant accounting policies.

Changes in Presentation

We have revised the presentation of our consolidated statements of operations so that we now separately present "Net interest income," which is interest income less interest expense on debt which finances interest-bearing assets. This presentation change had no impact on "Net (loss) income."

Reclassifications

The Company made reclassifications to discontinued operations on its previously issued consolidated statements of operations for the three months and nine months ended September 30, 2012 as a result of certain discontinued operations occurring subsequent to September 30, 2012.

Interim Period Presentation

The unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("**SEC**"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with United States generally accepted accounting principles ("**GAAP**") have been condensed or omitted pursuant to those rules and regulations.

The consolidated financial statements are unaudited. These statements include all adjustments (consisting of normal recurring accruals) that we considered necessary to present a fair statement of our results of operations, financial position and cash flows. These consolidated financial statements should be read in conjunction with the financial statements included in our 2012 Form 10-K. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

Note 2 BONDs available-for-sale

Sale of the Company's common shares in TEB

On July 3, 2013, the Company sold the common shares of TEB to Merrill Lynch Portfolio Management, Inc. (together with its affiliates, the "**Purchaser**"), an affiliate of Bank of America Merrill Lynch, pursuant to a Share Purchase Agreement, dated as of July 1, 2013 ("**Share Purchase Agreement**"), by and among the Purchaser, MuniMae TEI Holdings, LLC, the Company and TEB. Immediately prior to the closing, TEB distributed to the Company, and the Company retained approximately $146.7 million of bonds and bond related investments on an unleveraged basis comprised of TEB's bonds that were non-performing (i.e., bonds that are 30 days or greater past due in either principal or interest) as well as certain performing bonds with debt service coverage below 1.0x, its participating multifamily bonds, and all but one of its CDD bonds.

Following TEB's distribution of the foregoing bonds, the Purchaser paid the Company $78.7 million for the TEB common shares, reflecting (a) the value of the bonds and non-bond related investments remaining in TEB, consisting of fixed rate performing multifamily bonds and interests in such bonds and one CDD bond (aggregate fair value of $848.6 million) as well as cash, restricted cash and accrued interest of approximately $51.5 million, net of (b) TEB's contractual debt and preferred share obligations of $821.4 million including interest and distributions due and payable of $4.8 million, which will remain the obligation of TEB. As a result of the transaction, the Company eliminated $816.7 million of debt and preferred equity financing (liquidation preference). See Note 6, "Debt" and Note 12, "Equity" for more information.

Even though the Company sold bonds and interests in bonds with a fair value of $848.6 million, the Company derecognized from its balance sheet only $679.0 million of bonds because bonds totaling $94.4 million did not receive sale accounting and $75.2 million were not reported as bonds on our balance sheet because the Company consolidated the real estate serving as collateral to these bonds.

On July 3, 2013, the Company also entered into two Total Return Swap ("**TRS**") agreements with the Purchaser using the July 3, 2013 fair value of two bond assets of $30.6 million to set the notional amount for the TRS. Under the terms of the TRS, the Purchaser is required to pay the Company an amount equal to the interest payments received on the two assets, currently a weighted average rate of 6.9%, and the Company is required to pay the Purchaser a rate of SIFMA (Securities Industry and Financial Markets Association) plus a spread of 150 basis points ("**bps**") on the notional amount of the TRS. The Company also agreed with the Purchaser to pledge $16.3 million of cash as additional collateral against the Company's new and existing TRS borrowings with the Purchaser. Because the Company retains the economic risk and rewards associated with these bonds, they do not receive sale accounting (these bonds are included in the $94.4 million described above). Also included in the $94.4 million of bonds that did not receive sale accounting were $63.8 million of senior certificates in bonds where the Company retained the subordinate certificates and therefore did not receive sale accounting for the sale of the senior interests.

The following table summarizes the third quarter 2013 impact of the transactions described above.

(in thousands)		
Increase in MuniMae's cash (including $16,337 of restricted cash)	$$78,664	
Reduction in bonds	(678,983)	(1)
Reduction in other assets (bond interest receivable)	(4,612)	(2)
Reduction in TEB's cash (including $1,665 of restricted cash)	(44,841)	(2)
Net reduction in assets	$(649,772)	
Reduction in senior interests and debt owed to securitization trusts	$574,652	
Reduction in mandatorily redeemable preferred shares	121,000	
Reduction in perpetual preferred shares ($121,000 liquidation preference)	117,978	
Reduction in accounts payable and accrued expenses and other liabilities (interest and distributions payable)	4,781	
Increase in debt (resulting from bonds and interests in bonds that did not qualify for sale treatment)	(94,410)	(1)
Increase in debt (due from CFVs)	(75,191)	(1)
Increase in accounts payable and accrued expenses (interest payable resulting from failed sales)	(618)	(2)
Increase in accounts payable and accrued expense (interest payable due from CFVs)	(1,442)	(2)
Net reduction in liabilities	$646,750	
Net reduction in common shareholders' equity	$(3,022)	(3)

(1) *The sum of these amounts total $848.6 million and represents the fair value of the bonds sold on July 3, 2013.*

(2) *Represents the total cash, restricted cash and interest receivable of $51.5 million transferred to the Purchaser as part of the sale of TEB.*

(3) *Represents the difference between the Company's carrying value of the perpetual preferred shares on June 30, 2013 of $118.0 million as compared to the liquidation preference amount assumed in the sale on July 3, 2013 of $121.0 million.*

In addition to the net $3.0 million reduction to common equity as described above, the bonds transferred to the Purchaser (that received sale accounting) resulted in a gain on sale of bonds of $75.7 million reported through "net gains (losses) on assets and derivatives" on the Consolidated Statement of Operations. These gains were offset by a corresponding reduction to "reversal of unrealized gains on sold/redeemed bonds" on the Consolidated Statements of Comprehensive loss resulting in no changes to common equity.

The following table summarizes the Company's bonds and related unrealized losses and unrealized gains at September 30, 2013 and December 31, 2012.

	September 30, 2013				
(in thousands)	Unpaid Principal Balance	Basis Adjustments (1)	Unrealized Losses	Unrealized Gains	Fair Value
Mortgage revenue bonds	$ 146,587	$ (3,879)	$ (37,572)	$ 16,776	$ 121,912
Other bonds	80,045	(1,921)	(22,922)	19,371	74,573
Total	$ 226,632 (2)	$ (5,800)	$ (60,494)	$ 36,147	$ 196,485

	December 31, 2012	
(in thousands)		Fair Value

	Unpaid Principal Balance		Basis Adjustments (1)	Unrealized Losses	Unrealized Gains	
Mortgage revenue bonds	$ 898,209		$ (10,314)	$ (118,933)	$ 115,196	$ 884,158
Other bonds	86,113		(2,339)	(22,364)	23,826	85,236
Total	$ 984,322	(2)	$ (12,653)	$ (141,297)	$ 139,022	$ 969,394

(1) *Represents net discounts, deferred costs and fees.*

(2) *The Company had bonds with an unpaid principal balance ("**UPB**") of $113.5 million ($124.9 million fair value) and $123.9 million ($125.1 million fair value) at September 30, 2013 and December 31, 2012, respectively, which were eliminated due to consolidation of the real estate partnerships where the real estate served as collateral for the Company's bonds. See Note 16, "Consolidated Funds and Ventures" for more information.*

11

Mortgage Revenue Bonds

Mortgage revenue bonds are issued by state and local governments or their agencies or authorities to finance multifamily rental housing; typically however, the only source of recourse on these bonds is the collateral, which is a first mortgage or a subordinate mortgage on the underlying properties. The Company's rights under the mortgage revenue bonds are defined by the contractual terms of the underlying mortgage loans, which are pledged to the bond issuer and assigned to a trustee for the benefit of bondholders to secure the payment of debt service (any combination of interest and/or principal as set forth in the trust indenture) on the bonds.

The payment of debt service on our subordinate bond investments occurs only after payment of senior obligations which have priority to the cash flow of the underlying collateral. At September 30, 2013, the Company's subordinate bond investments had an aggregate unpaid principal balance of $9.5 million (or $49.0 million including those bond investments eliminated in consolidation, $15.2 million of which a third party held the related senior interests).

At September 30, 2013, the Company had no participating bonds (i.e., bonds that allow the Company to receive additional interest from net property cash flows in addition to the base interest rate) on its balance sheet; however, there were participating bonds eliminated in consolidation with an unpaid principal balance of $33.3 million.

The interest income from the mortgage revenue bonds (including interest income from the participating bonds) is exempt from federal income tax. However, a significant portion of the tax-exempt income generated from the mortgage revenue bonds is subject to the alternative minimum tax ("**AMT**") calculation for federal income tax purposes. Prior to July 10, 2013, we were a pass-through entity for federal income tax purposes, meaning our shareholders paid any taxes due on our pass through income, which included any taxes due in respect of bond income subject to AMT. Effective July 10, 2013, we are taxed as a corporation and therefore the Company will now be responsible for AMT related to our mortgage revenue bonds. However, we have significant loss carryfowards that we expect will be sufficient to offset federal taxable income and gains for the foreseeable future.

Other Bonds

Other bonds consists primarily of municipal bonds issued by community development districts or other municipal issuers to finance the development of community infrastructure supporting single-family housing and mixed-use and commercial developments such as storm water management systems, roads and utilities. In some cases these bonds are secured by specific payments or assessments pledged by the issuers or incremental tax revenue generated by the underlying properties. The income on these bonds is exempt from federal income tax and is generally not included in the AMT calculation.

Maturity

Principal payments on bonds are based on amortization tables set forth in the bond documents. If no principal amortization is required during the bond term, the outstanding principal balance is required to be paid in a lump sum payment at maturity or at such earlier time as may be provided under the bond documents. The following table summarizes, by contractual maturity, the amortized cost and fair value of bonds available-for-sale at September 30, 2013.

	September 30, 2013	
(in thousands)	Amortized Cost	Fair Value
Non-Amortizing:		
Due in less than one year	$	$

Due between one and five years				
Due between five and ten years				
Due after ten years		1,429		1,532
Amortizing:				
Due at stated maturity dates between December 2013 and June 2056		158,909		194,953
	$	160,338	$	196,485

12

Bonds with Lockouts, Prepayment Premiums or Penalties

Substantially all of the Company's bonds include provisions that allow the borrowers to prepay the bonds at a premium or at par after a specified date that is prior to the stated maturity date. The following table provides the amount of bonds that were prepayable without restriction, premium or penalty at September 30, 2013 as well as the year in which the remaining portfolio becomes prepayable without restriction, premium or penalty at each period presented.

(in thousands)	September 30, 2013 Amortized Cost	Fair Value
Bonds that may be prepaid without restrictions, premiums or penalties at September 30, 2013	$	$
October 1 through December 31, 2013	1,133	1,400
2014		
2015		
2016	10,183	13,410
2017	5,725	6,488
Thereafter	106,023	128,531
Bonds that may not be prepaid	37,274	46,656
Total	$ 160,338	$ 196,485

Non-Accrual Bonds

The carrying value of bonds on non-accrual was $70.5 million and $103.8 million at September 30, 2013 and December 31, 2012, respectively (or $103.4 million at September 30, 2013 including those bonds eliminated in consolidation). During the period in which these bonds were on non-accrual, the Company recognized interest income on a cash basis of $3.2 million and $2.4 million for the nine months ended September 30, 2013 and 2012, respectively (or $3.9 million for the nine months ended September 30, 2013 including those bonds eliminated in consolidation). Interest income not recognized on the non-accrual bonds was $3.6 million and $3.7 million for the nine months ended September 30, 2013 and 2012, respectively (or $5.5 million for the nine months ended September 30, 2013 including those bonds eliminated in consolidation).

Bond Aging Analysis

The following table provides an aging analysis for the fair value of bonds available-for-sale at September 30, 2013 and December 31, 2012.

(in thousands)	September 30, 2013	December 31, 2012
Total current	$ 117,709	$ 850,155
30-59 days past due		8,013
60-89 days past due	8,244	7,471
Greater than 90 days	70,532	103,755
Total	$ 196,485	$ 969,394

Bond Sales and Redemptions

The Company recorded cash proceeds on sales and redemptions of bonds of $10.1 million and $8.2 million for the nine months ended September 30, 2013 and 2012, respectively.

Provided in the table below are unrealized losses and realized gains and losses recorded through “Impairment on bonds” and “Net gains (losses) on assets and derivatives” for bonds sold or redeemed during the three months and nine months ended September 30, 2013 and 2012, as well as for bonds still in the Company’s portfolio at September 30, 2013 and 2012, respectively.

(in thousands)	For the three months ended September 30, 2013	2012	For the nine months ended September 30, 2013	2012
Bond impairment recognized on bonds held at each period-end	$ (939)	$ (2,282)	$ (1,242)	$ (3,369)
Bond impairment recognized on bonds sold/redeemed during each period			(530)	
Gains recognized at time of sale/redemption	76,362	2	76,960	54
Total net gains (losses) on bonds	$ 75,423	$ (2,280)	$ 75,188	$ (3,315)

Unfunded Bond Commitments

Unfunded bond commitments are agreements to fund construction or renovation of properties securing a bond over the construction or renovation period. Since September 30, 2010 there have been no unfunded bond commitments.

Note 3 INVESTMENTS IN PREFERRED STOCK

These investments are prepayable at any time and are comprised of preferred stock investments in a private national mortgage lender and servicer specializing in affordable and market rate multifamily housing, senior housing and healthcare. At September 30, 2013, the carrying value of the preferred stock investments was $31.4 million and the UPB and estimated fair value was $36.6 million with a weighted average distribution rate of 14.4%. These investments were obtained as part of the Company's sale of its Agency Lending business in May 2009. As part of the sale, the Company agreed to reimburse the purchaser for potential losses up to a maximum of $30.0 million over the first four years after the sale date. This reimbursement agreement expired on May 15, 2013 and over the course of the obligation period the Company used $3.4 million of shares to settle loss obligations. The Company accounts for the preferred stock using the historical cost approach and tests for impairment at each balance sheet date. An impairment loss is recognized if the carrying amount of the preferred stock is not deemed recoverable. The Company did not have impairments on the preferred stock for the nine months ended September 30, 2013 and 2012.

The Company was obligated to fund losses on specific loans identified at the sale date that were not part of the $30.0 million loss reimbursement discussed above. During the first quarter of 2013, the Company paid the purchaser $0.2 million to fully satisfy the guarantee obligation related to the specific loans and over the course of the entire obligation period, the Company paid the purchaser $1.8 million to cover losses on the specific loans. See Note 10, "Guarantees and Collateral."

On March 28, 2013, the Company sold 100% of its interests in the preferred stock investments for $36.6 million plus accrued interest. Separately, the Company entered into three total return swap agreements with an affiliate of the purchaser of the preferred stock investments. The notional amount of the TRS was set based on the preferred stock investments as the reference asset. Under the terms of the TRS, the Company receives an amount equal to the distributions on the preferred stock, a weighted average rate of 14.4% at September 30, 2013, and the Company pays a quarterly rate of 3-month LIBOR plus a spread of 400 bps, 4.25% at September 30, 2013, on the notional amount, currently an aggregate of $36.6 million. The TRS interest payments settle on a "net" basis and the notional amount will decline if and when the preferred stock is redeemed in part or in full. At September 30, 2013 the Company held $12.4 million in a restricted collateral account as security for the TRS.

The TRS agreements have a termination date of March 31, 2015, and a termination fee equal to 1% of the notional amount. The Company may elect to terminate any or all of the TRS at any time. The counterparty to the TRS has the right to terminate the TRS upon the occurrence of certain events. Under any termination event, if the fair values of the preferred stock are above par, the Company will receive the premium value above par. If the fair values of the preferred stock are below par, the Company will be required to pay the difference between fair value and par.

The Company recorded the $36.6 million of proceeds from the transfer of its interest in the preferred stock investments as debt on the consolidated balance sheets secured by the preferred stock as the sale transaction did not meet the criteria for sale accounting. See Note 6, "Debt."

Note 4 Real estate

Real estate held-for-use

The following table summarizes real estate held-for-use at September 30, 2013 and December 31, 2012:

(in thousands)	September 30, 2013	December 31, 2012
MuniMae's real estate held-for-use	$ 18,214	$ 17,756
Real estate held-for-use related to CFVs[(1)]	103,649	111,931
Total real estate held-for-use	$ 121,863	$ 129,687

(1) *For more information see Note 16, "Consolidated Funds and Ventures."*

MuniMae's real estate held-for-use was comprised of three investments in undeveloped land with a carrying value of $7.9 million at September 30, 2013 and December 31, 2012, and an affordable multifamily property with a carrying value of $10.3 million and $9.9 million, at September 30, 2013 and December 31, 2012, respectively.

Real estate held-for-sale

During the third quarter of 2013, the Company foreclosed on a multifamily real estate partnership serving as collateral to one of its bonds. The fair value of the Company's bond was $10.4 million at the foreclosure date. The Company sold the real estate property for $10.7 million in net cash proceeds. Because the bond had unrealized gains recorded through accumulated other comprehensive income, the Company transferred unrealized gains of $2.4 million out of equity and into income through an increase to "Net gains due to real estate consolidation and foreclosure" resulting in no impact to overall common equity. A gain on sale of real estate of $0.3 million was recorded to "Income (loss) from discontinued operations, net of tax."

14

During the second quarter of 2013, the Company took a deed-in-lieu of foreclosure on a multifamily real estate property serving as collateral to one of its bonds. The fair value of the Company's bond was $7.3 million at March 31, 2013 and during the second quarter of 2013, after taking title to the property, the Company sold the real estate property for $7.3 million in net cash proceeds. Because the bond had unrealized gains recorded through accumulated other comprehensive income, the Company transferred unrealized gains of $1.2 million out of equity and into income through an increase to "Net gains due to real estate consolidation and foreclosure" resulting in no impact to overall common shareholders' equity.

For information regarding real estate held-for-sale related to CFVs see Note 16, "Consolidated Funds and Ventures."

Note 5 OTHER ASSETS

The following table summarizes other assets at September 30, 2013 and December 31, 2012:

(in thousands)	September 30, 2013	December 31, 2012
Other assets:		
Solar facilities (includes other assets such as cash and other receivables)	$ 5,640	$ 7,960
Investment in a real estate partnership	6,089	6,266
Accrued interest receivable	1,461	6,035
State tax receivables, net	219	2,403
Debt issuance costs, net	3,705	10,199
Loans receivable	1,188	1,165
Other assets	2,210	3,428
Other assets held by CFVs (1)	23,714	17,568
Total other assets	$ 44,226	$ 55,024

(1) *For more information see Note 16, "Consolidated Funds and Ventures."*

Solar Facilities

At September 30, 2013, the Company had a solar investment fund and four solar facilities with a carrying value of $4.9 million. These facilities generate energy that is sold under long-term power contracts to the owner or lessee of the properties on which the projects are built. The useful life of these solar facilities is generally twenty years.

During the second quarter of 2013, the counterparty on a long-term power contract exercised its right to terminate the contract by paying a termination fee of $1.3 million, which represented the carrying amount of the solar facility at March 31, 2013. At termination, the Company had approximately $0.8 million in non-recourse debt for which the solar facility was serving as collateral. This debt was fully paid using proceeds from the termination. The lender and the Company also agreed to $0.3 million in contingent interest in connection with the termination which resulted in a $0.3 million loss which was recognized during the second quarter of 2013.

The Company has a contingent liability to creditors of its remaining solar facilities who provided non-recourse debt to finance the solar facilities. The Company entered into agreements with these creditors to provide for contingent interest to be paid to them should the Company recover its investment in the solar facilities. The total contingent liability associated with these agreements was $1.3 million at September 30, 2013 and should the facilities generate enough cash to pay the contingent interest, the Company will begin to record the associated contingent interest expense.

Investment in a Real Estate Partnership

Investment in a real estate partnership represents a 33.3% interest in a partnership that was formed to take a deed-in-lieu of foreclosure on land that was collateral for a loan held by the Company. The remaining interest in the partnership is held by a third party who had also loaned money to the developer on the same land parcel. The ownership interests in the partnership were determined based on the relative loan amounts provided by the Company and the third party lender. This third party interest holder is the primary beneficiary of the partnership.

The following table displays the total assets and liabilities held by the real estate partnership in which the Company held an equity investment at September 30, 2013 and December 31, 2012:

(in thousands)	September 30, 2013	December 31, 2012
Investment in a real estate partnership:		
Total assets (primarily real estate)	$ 18,800	$ 18,820
Total liabilities	447	

The following table displays the net (loss) income for the three months and nine months ended September 30, 2013 and 2012 for the real estate partnership:

	For the three months ended September 30,		For the nine months ended September 30,	
(in thousands)	2013	2012	2013	2012
Net (loss) income	$ (194)	$ (38)	$ (583)	$ 302

Accrued Interest Receivable

As part of the TEB sale, the accrued interest related to the bonds transferred ($4.4 million) to the Purchaser was also transferred as part of the sale.

State Tax Receivables, net

State tax receivables represent the net refund position as reflected on the Company's various state tax returns. A portion of these receivables may be subject to challenge by the relevant tax authority and therefore a liability for uncertain tax positions of $0.7 million and $2.3 million at September 30, 2013 and December 31, 2012, respectively, has been recorded through "Other liabilities."

On March 20, 2013, the Company entered into a closing agreement with the Commonwealth of Massachusetts for all years covered by an audit of the Company by the Commonwealth of Massachusetts. Pursuant to the closing agreement, the Commonwealth of Massachusetts agreed to issue a refund of $1.8 million to the Company. The Company received the refund on April 8, 2013. This agreement also resolved $1.6 million of the Company's uncertain tax positions recorded at December 31, 2012. As a result, during the first quarter of 2013 the Company recorded a $1.6 million benefit on the consolidated statements of operations for the reduction of the liability for unrecognized tax benefits reflected in "Income tax (expense) benefit" for the nine months ended September 30, 2013.

Debt issuance costs, net

As part of the Company's sale of its common shares in TEB, the Purchaser assumed the debt obligations held by TEB at June 30, 2013 ($695.7 million of unpaid principal on the Company's balance sheet at June 30, 2013). As a result, the Company accelerated the recognition of unamortized debt issuance costs associated with this debt and increased its bond-related debt interest expense by $5.5 million during the second quarter of 2013.

Note 6 DEBT

The table below summarizes outstanding debt balances, the weighted-average interest rates and term dates at September 30, 2013 and December 31, 2012:

(dollars in thousands)	September 30, 2013	Weighted-Average Effective Interest Rate at September 30, 2013	December 31, 2012	Weighted-Average Effective Interest Rate at December 31, 2012
Asset Related Debt (1)				
Senior interests in and debt owed to securitization trusts				
Due within one year	$	%	$	%
Due after one year			589,592	2.1
Mandatorily redeemable preferred shares				
Due within one year			4,901	7.5
Due after one year			83,819	7.4
Notes payable and other debt bond related (2)				
Due within one year	21,261	1.8		
Due after one year	125,043	5.5	57,729	5.0
Notes payable and other debt non-bond related				
Due within one year	1,446	9.2	17,617	9.9
Due after one year	7,156	9.9	8,290	9.8
Total asset related debt	154,906	5.2	761,948	3.2
Other Debt (1)				
Subordinate debentures (3)				
Due within one year	742	8.1	529	8.1
Due after one year	142,157	7.2	193,971	6.9
Notes payable and other debt				
Due within one year (4)	5,342	10.0	10,444	13.5
Due after one year	61,837	5.3	20,634	6.4
Total other debt	210,078	6.7	225,578	7.2
Total asset related debt and other debt	364,984	6.1	987,526	4.1
Debt related to CFVs (5)				
Due within one year	35	6.0	5,908	10.0
Due after one year	96,107	4.5	49,525	2.7
Total debt related to CFVs	96,142	4.5	55,433	3.5

Total debt	$	461,126	5.7	$	1,042,959	4.1

(1) *Asset related debt is debt which finances interest-bearing assets and the interest expense from this debt is included in "Net interest income" on the consolidated statements of operations. Other debt is debt which does not finance interest-bearing assets and the interest expense from this debt is included in "Interest expense" under "Operating and other expenses" on the consolidated statements of operations.*

(2) *Included in notes payable and other debt were unamortized discounts of $1.7 million at December 31, 2012.*

(3) *Included in the subordinate debt balance were $1.3 million of net discounts and effective interest rate payable (i.e., the difference between the current pay rate and the effective interest rate) and $7.1 million of net premiums and effective interest rate payable at September 30, 2013 and December 31, 2012, respectively.*

(4) *This amount includes $3.8 million of debt that has come due and remains payable; however, the Company has a forbearance agreement with the lender such that it is not pursuing any remedies.*

(5) *See Note 16, "Consolidated Funds and Ventures" for more information.*

17

Covenant Compliance and Debt Maturities

The following table summarizes principal payment commitments across all debt agreements at September 30, 2013:

(in thousands)	Asset Related Debt and Other Debt	CFVs Related Debt
2013	$ 4,754	$ 133
2014	25,157	469
2015	67,007	403
2016	34,133	435
2017	3,737	469
Thereafter	228,985	92,974
Net discount	1,211	1,259
Total	$ 364,984	$ 96,142

Included in the 2013 principal payments for asset related debt and other debt is $3.8 million of debt that has come due and remains payable; however, the Company has a forbearance agreement with the lender such that it is not pursuing any remedies. The Company is not in default under any of its other debt arrangements.

Asset Related Debt

Senior Interests in and Debt Owed to Securitization Trusts

On July 3, 2013, all but $2.5 million of the Company's unpaid principal of $577.1 million in senior interests in and debt owed to securitization trusts at June 30, 2013, was transferred to the Purchaser of the Company's common shares in TEB. During the second quarter of 2013, the Company recognized $4.6 million of unamortized debt issuance costs associated with this debt that was recorded within other assets. During the third quarter of 2013, the remaining $2.5 million in senior interests and debt owed to securitization trusts was repaid.

Interest expense on the senior interests in and debt owed to securitization trusts totaled $11.3 million (including $4.6 million related to the acceleration of the unamortized debt issuance costs discussed above) and $9.6 million for the nine months ended September 30, 2013 and 2012, respectively.

Mandatorily Redeemable Preferred Shares

All of the Company's mandatorily redeemable preferred shares were transferred to the Purchaser of the Company's common shares in TEB at the liquidation amount of $121.0 million. During the second quarter of 2013, the Company recognized the remaining unamortized issuance discounts ($2.3 million) previously recorded as a net discount against the debt balance in order to carry the debt at its liquidation amount. In addition, the Company recognized $0.9 million of unamortized debt issuance costs associated with this debt that was recorded within other assets.

Interest expense on mandatorily redeemable preferred shares totaled $6.5 million (including $3.2 million related to the acceleration of debt issuance costs and issuance discounts discussed above) and $6.4 million for the nine months ended September 30, 2013 and 2012, respectively.

During the first quarter of 2013, TEB issued $74 million (unpaid principal) of mandatorily redeemable preferred shares with a distribution rate of 5.0%. Proceeds from this issuance were used to redeem $43.2 million (liquidation preference) of then outstanding mandatorily redeemable preferred shares at a rate of 7.5%. The Company recorded a loss on debt extinguishment of $1.5 million during the first quarter of 2013, due to the acceleration of unamortized debt issuance costs and issuance discounts related to the redemption. These losses are reflected in "Net (losses) gains on early extinguishment of liabilities" for the nine months ended September 30, 2013.

Notes Payable and Other Debt Bond Related

This debt is comprised of proceeds received on bond and bond interest transfers that did not qualify for sale accounting treatment because the Company either transferred a participation interest or the Company entered into a performance guarantee at the time of transfer. This debt also includes financing proceeds received on TRS agreements where the related bond did not receive sale accounting treatment.

Other Debt

Subordinate Debt

The table below provides a summary of the key terms of the subordinate debt issued by MMA Financial Inc. ("**MFI**") and MMA Financial Holdings, Inc. ("**MFH**") and held by third parties at September 30, 2013:

(dollars in thousands)

Issuer	Principal	Net Premium (Discount)	Carrying Value	Interim Principal Payments	Maturity Date	Coupon Interest Rate
MFI	$ 29,651	$	$ 29,651		Various dates through December 2033	8.0%
MFH	33,286	565	33,851	$4,689 due April 2015	March 30, 2035	0.75% to March 2015, then 3-month LIBOR plus 3.3%
MFH	30,116	331	30,447	$4,242 due May 2015	April 30, 2035	0.75% to April 2015, then 3-month LIBOR plus 3.3%
MFH	17,219	150	17,369	$2,305 due May 2015	July 30, 2035	0.75% to April 2015, then 3-month LIBOR plus 3.3%
MFH	31,308	273	31,581	$4,191 due May 2015	July 30, 2035	0.75% to April 2015, then 3-month LIBOR plus 3.3%
	$ 141,580	$ 1,319	$ 142,899			

Interest expense on the subordinate debt totaled $8.2 million and $11.4 million for the nine months ended September 30, 2013 and 2012, respectively.

During March of 2013, the Company repurchased the remaining unpaid principal balance ($45.5 million) of MFH subordinate debt due May 2034 for a cash payment of $17.4 million plus accrued interest. As a result of this transaction, the Company recognized a gain on debt extinguishment of $37.9 million, comprised of the difference between the cash payment of $17.4 million and the carrying value of the repurchased debt of $56.9 million, reduced by the acceleration of $1.6 million of debt issuance costs. The gain on debt extinguishment is recorded in "Net (losses) gains on early extinguishment of liabilities" on the consolidated statements of operations for the first nine months of 2013.

Notes Payable and Other Debt

At September 30, 2013, this debt includes $36.6 million related to the TRS entered into during March of 2013 in connection with the Company's sale of its preferred stock investment. See Note 3, "Investment in Preferred Stock" for more information. The debt is non-amortizing, matures on March 31, 2015 and bears an interest rate of 3-month LIBOR plus 400 bps (4.25% at September 30, 2013), which resets quarterly. The Company recorded debt issuance costs of $0.8 million associated with the transaction, of which $0.4 million was paid at inception and $0.4 million is payable at termination.

Letters of Credit

On July 1, 2013, $0.1 million in a letter of credit expired unused and $2.9 million was canceled unused on July 31, 2013. As a result, the Company had no letters of credit outstanding at September 30, 2013.

Note 7 DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the Company's derivative liabilities fair value balances at September 30, 2013 and December 31, 2012.

(in thousands)	Fair Value September 30, 2013	December 31, 2012
Interest rate swaps	$ 662	$ 3,184
Other		360
Total derivative financial instruments	$ 662	$ 3,544

The following table summarizes the derivative notional amounts at September 30, 2013 and December 31, 2012.

(in thousands)	Notional September 30, 2013	December 31, 2012
Interest rate swaps	$ 7,837	$ 24,885

The following table summarizes derivative activity for the three months and nine months ended September 30, 2013 and 2012.

	Realized/Unrealized (Losses) Gains For the three months ended September 30,		Realized/Unrealized (Losses) Gains For the nine months ended September 30,	
(in thousands)	2013	2012	2013	2012
Interest rate swaps[1]	$ (76)	$ (655)	$ (156)	$ (2,336)
Other		(3)	215	202
Total	$ (76)	$ (658)	$ 59	$ (2,134)

[1] *The cash paid and received on interest rate swaps is settled on a net basis and recorded through "Net gains (losses) on assets and derivatives." Net cash interest paid was $0.1 million and $1.0 million for the three months ended September 30, 2013 and 2012, respectively. Net cash paid was $0.7 million and $3.2 million for the nine months ended September 30, 2013 and 2012, respectively.*

Note 8 Financial Instruments

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

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

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

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

20

	September 30, 2013				December 31, 2012	
(in thousands)	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Carrying Amount	Fair Value
Assets:						
Investments in preferred stock	$ 31,371	$	$	$ 36,613	$ 31,371	$ 35,807
Loans receivable	1,174			302	1,072	383
Liabilities:						
Senior interests in and debt owed to securitization trusts					589,592	589,778
Mandatorily redeemable preferred shares					88,720	91,517
Notes payable and other debt, bond related	146,304			145,091	57,729	59,001
Notes payable and other debt, non-bond related	75,781			67,851	56,985	48,696
Notes payable and other debt related to CFVs	96,142		49,745	44,977	55,433	55,580
Subordinate debt issued by MFH	113,248			42,869	164,500	47,219
Subordinate debt issued by MFI	29,651			29,651	30,000	30,000

Investment in preferred stock The fair value of the preferred stock was determined based on the terms and conditions of the preferred stock as compared to other, best available market benchmarks. At December 31, 2012, the fair value also included the obligation related to the embedded loss-sharing feature contained in the Series B and C preferred stock agreements. These loss reimbursement agreements expired on May 15, 2013.

Loans receivable The Company estimates fair value by discounting the expected cash flows using current market yields for similar loans. Loans receivable is recorded through “Other assets.”

Notes payable and other debt The fair value was estimated based on discounting contractual cash flows using a market rate of interest or by estimating the fair value of the collateral supporting the debt arrangement, taking into account credit risk.

Subordinate debt The fair value of the subordinate debt was estimated using best available market benchmarks, taking into account credit risk.

21

Note 9 FAIR VALUE MEASUREMENTS

Recurring Valuations

The following tables present assets and liabilities that are measured at fair value on a recurring basis at September 30, 2013 and December 31, 2012.

(in thousands)	September 30, 2013	Fair Value Measurement Levels at September 30, 2013 Level 1	Level 2	Level 3
Assets:				
Bonds available-for-sale	$ 196,485	$	$	$ 196,485
Liabilities:				
Derivative liabilities	$ 662	$	$	$ 662

(in thousands)	December 31, 2012	Fair Value Measurement Levels at December 31, 2012 Level 1	Level 2	Level 3
Assets:				
Bonds available-for-sale	$ 969,394	$	$	$ 969,394
Liabilities:				
Derivative liabilities	$ 3,544	$	$ 2,477	$ 1,067

The following table presents activity for assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for the three months ended September 30, 2013.

(in thousands)	Bonds Available-for-sale	Derivative Liabilities
Balance, July 1, 2013	$ 896,322	$ (694)
Net losses included in earnings	(1,321)	32
Net losses included in other comprehensive income (1)	(80,682)	
Impact from sales/redemptions	(606,121)	
Bonds eliminated due to real estate consolidation and foreclosure	(10,168)	
Impact from settlements	(1,545)	
Balance, September 30, 2013	$ 196,485	$ (662)

(1) This amount includes $5.2 million of unrealized net holding losses arising during the period, which is then reduced by $0.9 million of unrealized bond losses reclassified into operations. This amount is then increased by $76.4 million of unrealized gains related to bonds that were redeemed.

The following table provides the amount included in earnings related to the activity presented in the table above, as well as additional realized (losses) gains recognized at bond sale or redemption and derivative settlement for the three months ended September 30, 2013.

(in thousands)	Net gains on bonds [1]		Equity in Losses from Lower Tier Property Partnerships		Net losses on derivatives [2]	
Change in realized gains related to assets and liabilities held at July 1, 2013, but settled during the third quarter of 2013	$		$		$	
Change in unrealized losses related to assets and liabilities still held at September 30, 2013		(939)		(382)		32
Additional realized gains (losses) recognized		76,362		-		(77)
Total gains (losses) reported in earnings	$	75,423	$	(382)	$	(45)

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

(2) Amounts are reflected through "Net gains (losses) on assets and derivatives" on the consolidated statements of operations.

The following table presents activity for assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for the three months ended September 30, 2012.

(in thousands)	Bonds Available-for-sale		Derivative Liabilities	
Balance, July 1, 2012	$	1,006,539	$	(1,192)
Net losses included in earnings		(3,373)		(27)
Net gains included in other comprehensive income [1]		15,085		
Impact from purchases				
Impact from sales				
Bonds eliminated due to real estate consolidation and foreclosure		(21,545)		
Impact from settlements		(2,419)		
Balance, September 30, 2012	$	994,287	$	(1,219)

(1) This amount includes $12.8 million of unrealized net holding gains arising during the period, which is then increased by $2.3 million of unrealized bond losses reclassified into operations.

The following table provides the amount included in earnings related to the activity presented in the table above, as well as additional realized losses recognized at bond sale or redemption and derivative settlement for the three months ended September 30, 2012.

(in thousands)	Net losses on bonds [1]	Equity in Losses from Lower Tier Property Partnerships	Net losses on derivatives [2]
	$	$	$

Change in realized gains related to assets and liabilities held at July 1, 2012, but settled during the third quarter of 2012						
Change in unrealized losses related to assets and liabilities still held at September 30, 2012		(2,282)		(1,091)		(27)
Additional realized gains (losses) recognized		2				(76)
Total losses reported in earnings	$	(2,280)	$	(1,091)	$	(103)

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

(2) *Amounts are reflected through "Net gains (losses) on assets and derivatives" on the consolidated statements of operations.*

The following table presents activity for assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for the nine months ended September 30, 2013.

(in thousands)	Bonds Available-for-sale	Derivative Liabilities
Balance, January 1, 2013	$ 969,394	$ (1,067)
Net losses included in earnings	(4,589)	259
Net losses included in other comprehensive income [1]	(91,980)	
Impact from sales/redemptions	(612,154)	
Bonds eliminated due to real estate consolidation and foreclosure	(55,275)	
Impact from settlements	(8,911)	146
Balance, September 30, 2013	$ 196,485	$ (662)

(1) This amount includes $16.8 million of unrealized net holding losses arising during the period, which is then reduced by $1.8 million of unrealized bond losses reclassified into operations. This amount is then increased by $77.0 million of unrealized gains related to bonds that were redeemed

The following table provides the amount included in earnings related to the activity presented in the table above, as well as additional realized (losses) gains recognized at bond sale or redemption and derivative settlement for the nine months ended September 30, 2013.

(in thousands)	Net gains on bonds [1]	Equity in Losses from Lower Tier Property Partnerships	Net losses on derivatives [2]
Change in realized gains related to assets and liabilities held at January 1, 2013, but settled during the first nine months of 2013	$ (530)	$	$
Change in unrealized losses related to assets and liabilities still held at September 30, 2013	(1,242)	(2,817)	259
Additional realized gains (losses) recognized	76,960		(230)
Total gains (losses) reported in earnings	$ 75,188	$ (2,817)	$ 29

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

(2) Amounts are reflected through "Net gains (losses) on assets and derivatives" on the consolidated statements of operations.

The following table presents activity for assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for the nine months ended September 30, 2012.

(in thousands)	Bonds Available-for-sale	Derivative Liabilities
Balance, January 1, 2012	$ 1,021,628	$ (1,167)
Net losses included in earnings	(6,397)	429
Net gains included in other comprehensive income [1]	31,806	

Impact from purchases		6,189		
Impact from sales		(8,172)		
Bonds eliminated due to real estate consolidation and foreclosure		(34,108)		
Impact from settlements		(16,659)		128
Transfer into Level 3				(609)
Balance, September 30, 2012	$	994,287	$	(1,219)

(1) *This amount includes $28.4 million of unrealized net holding gains arising during the period, which is then increased by $3.4 million of unrealized bond losses reclassified into operations.*

The following table provides the amount included in earnings related to the activity presented in the table above, as well as additional realized (losses) gains recognized at bond sale or redemption and derivative settlement for the nine months ended September 30, 2012.

(in thousands)	Net losses on bonds [1]	Equity in Losses from Lower Tier Property Partnerships	Net losses on derivatives [2]
Change in realized gains related to assets and liabilities held at January 1, 2012, but settled during the first nine months of 2012	$	$	$
Change in unrealized losses related to assets and liabilities still held at September 30, 2012	(3,369)	(3,028)	(180)
Additional realized gains (losses) recognized	54		(228)
Total losses reported in earnings	$ (3,315)	$ (3,028)	$ (408)

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

(2) Amounts are reflected through "Net gains (losses) on assets and derivatives" on the consolidated statements of operations.

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

Bonds Available-for-sale For most of our performing bonds, the Company estimates fair value using a discounted cash flow methodology; specifically, the Company discounts contractual principal and interest payments, adjusted for expected prepayments. The discount rate for each bond is based on expected investor yield requirements adjusted for bond attributes such as the expected term of the bond, debt service coverage ratios, geographic location and bond size. The weighted average discount rate for the performing bond portfolio was 7.36% and 7.45% at September 30, 2013 and December 31, 2012, respectively for performing bonds still held in the portfolio at September 30, 2013. If observable market quotes are available, the Company will estimate the fair value based on such quoted prices.

For non-performing bonds and certain currently performing bonds where payment of full principal and interest is uncertain, the Company estimates fair value by discounting the property's expected cash flows and residual proceeds using estimated market discount and capitalization rates, less estimated selling costs. The discount rate averaged 8.6% and 8.2% at September 30, 2013 and December 31, 2012, respectively for these bonds still in the portfolio at September 30, 2013. The capitalization rate averaged 6.6% and 6.9% at September 30, 2013 and December 31, 2012, respectively, for these bonds still in the portfolio at September 30, 2013. However, to the extent available, the Company may estimate fair value based on a sale agreement, a letter of intent to purchase, an appraisal or other indications of fair value as available.

The discount rates and capitalization rates as discussed above are significant inputs to bond valuations and are unobservable in the market. To the extent discount rates and capitalization rates were to increase (decrease) in isolation the corresponding estimated bond values would decrease (increase).

Derivative Financial Instruments At September 30, 2013, the Company had one interest rate swap contract. This contract was valued using an internal valuation model, taking into consideration credit risk.

Non-recurring Valuations

At year-end 2012 and September 30, 2013, the only non-recurring instruments were certain loans held-for-sale; however, the Company's loan portfolio at each period-end was de minimis.

Note 10 GUARANTEES AND COLLATERAL

Guarantees

Guarantee obligations are recorded through "Other liabilities."

The following table summarizes guarantees, by type, at September 30, 2013 and December 31, 2012:

	September 30, 2013		December 31, 2012	
(in thousands)	Maximum Exposure	Carrying Amount	Maximum Exposure	Carrying Amount
Indemnification contracts				