MUNICIPAL MORTGAGE & EQUITY LLC
Form 10-K
March 31, 2011

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, 2010
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission file number 001-11981

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

Delaware (State or other jurisdiction of incorporation or organization)	52-1449733 (IRS Employer Identification No.)
621 East Pratt Street, Suite 600 Baltimore, Maryland (Address of principal executive offices)	21202-3140 (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 ¨ No x

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 ¨ No x

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

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

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. ¨

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

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company x

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

The aggregate market value of our common shares held by non-affiliates was $4,228,404 based on the last sale price as reported in the over the counter market on June 30, 2010.

Number of shares of Common Shares outstanding as of December 31, 2010: 40,415,605.

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 2010 Annual Report on Form 10-K ("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 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

Item 8. Financial Statements and Supplementary Data included in this Report present consolidated financial statements for the years ended December 31, 2010, 2009, 2008 and 2007. With the exception of this Report, our annual and quarterly filings for these years were not filed due to delays associated with the restatement of our financial statements for 2004 and 2005, and the delayed preparation and filing of our 2006 financial statements in 2009. As a result, we have been unable to meet our quarterly reporting requirements for 2007 through 2010, and our annual reports for 2007 through 2009. With the filing of this Report, we will become current on annual audited financial statements and most related annual disclosures. Also, this Report includes quarterly information for 2010 and 2009. This Report, however, does not include quarterly information for the years ended December 31, 2008 and 2007, or certain other historical information that would have been required in prior annual and quarterly reports that were not filed. We have not included this information because the significant cost of preparing and providing this information would be only marginally beneficial to our investors due to the significant changes that have occurred to our business in the last three years and would serve only to delay the filing of this Report.

Item 9A. Controls and Procedures includes our Management's Report on Internal Control Over Financial Reporting. Securities and Exchange Commission ("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 comment. As reported in our previously filed 2006 Annual Report on Form 10-K, 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 and since December 31, 2006 that made them not effective at or since that date, we terminated the process without completing the evaluation so that we could focus our time and attention on the effort to disseminate financial statements that are fairly presented in accordance with United States generally accepted accounting principles ("GAAP"). We believed, given our limited resources, distributing reliable financial information at the earliest practicable time was a higher priority and more beneficial to our investors and creditors. As a result, management did not complete its assessment of the effectiveness of our internal control over financial reporting at December 31, 2006 and subsequent year ends, including the December 31, 2010 year end, and our independent registered public accounting firm has not been able to render an attestation report on the effectiveness of our internal control over financial reporting for the years ended December 31,

2008, 2007 and 2006. In 2009, and continuing through December 31, 2010, the Company met the SEC rules to qualify as a “Smaller Reporting Entity,” which allows qualifying registrants some relief from certain SEC reporting rules. One such provision is that Smaller Reporting Entities are not required to have their independent registered public accounting firm render an attestation report on the effectiveness of their internal control over financial reporting. Management has concluded that there are material weaknesses in its internal control over financial reporting during the periods presented in this Report, which are described in more detail in Item 9A. Controls and Procedures. We also have described in that item the supplemental procedures that we performed to ensure that the financial statements presented in this Report are in compliance with GAAP and the remediation efforts for our material weaknesses.

PART I

Item 1. BUSINESS

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

Although this Report is for the years ended December 31, 2007 through December 31, 2010, 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 regarded 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 individual 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 operations 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.

Beginning in the second half of 2007, the capital markets in which the Company operates began to deteriorate, which restricted the Company's access to capital. This situation was compounded by the Company's inability to provide timely financial statements to creditors and investors. The Company has experienced and continues to experience significant liquidity issues. This lack of liquidity has resulted in the Company having to sell assets, liquidate collateral positions, post additional collateral, sell or close different business segments and work with its creditors to restructure or extend debt arrangements. We have also sold, restructured or liquidated a significant number of bonds, loans and other assets in order to satisfy debts and raise capital. Although we have been able to extend, restructure and obtain forbearance agreements on various debt and interest rate swap agreements, such that none of our debt has been accelerated at present, most of these extensions, restructurings and forbearance agreements are short-term in nature and do not provide a viable long-term solution to our liquidity issues. As more fully described below, the Company currently has only one primary business activity, bond investing.

We plan to continue to work with our capital partners to extend debt maturities, restructure debt payments or settle debt at amounts below the contractual amount due. In addition, we will have to continue to reduce our operating costs in order to be a sustainable business. All of these actions are being pursued in order to achieve the objective of continuing our operations. However, management's objective is heavily dependent on obtaining creditor concessions, liquidating non-bond related assets and generating sufficient bond portfolio net interest income that can be used to service our non-bond related debt and our on-going operating expenses. However, there can be no assurance that management will be successful in addressing these liquidity issues. More specifically, there is uncertainty as to whether management will be able to restructure or settle our non-bond debt in a manner sufficient to allow the Company's cash flow to support its operations. Our ability to restructure our debt is especially important with respect to our subordinate debt. We currently pay an interest rate of 0.75% on $169.2 million (unpaid principal balance) of subordinate debt. This rate will is due to increase, beginning in the first quarter of 2012, to a weighted average rate of approximately 8.5%. We do not currently have the liquidity to meet these payments and substantially all of our assets are encumbered, which limits our ability to increase our liquidity by selling assets or incurring additional

indebtedness. There is also uncertainty related to our ability to liquidate non-bond related assets at sufficient amounts to satisfy associated debt and other obligations and there are a number of business risks surrounding our bond investing activities that could impact our ability to generate sufficient cash flow from the bond portfolio (see Item 1A. Risk Factors – "Risks Related to Our Business"). These uncertainties could adversely impact the Company's financial condition or results of operations. In the event management is not successful in restructuring or settling its remaining non-bond related debt, or in generating liquidity from the sale of non-bond related assets, or if the bond portfolio net interest income and the common equity distributions the Company receives from its subsidiaries are substantially reduced, the Company may have to consider seeking relief through a bankruptcy filing. These factors raise substantial doubt about our ability to continue as a going concern.

The Evolution of Our Business

When we became a publicly traded 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 then, the following acquisitions significantly expanded our business; however, in 2008, due to the financial crisis, we began contracting our business (see Item 1. Business – "Business Sales" 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.

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

- In February 2007, we acquired a mortgage brokerage business known as George Elkins Mortgage Banking.

- 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.

Description of the Business

At the beginning of 2007, we and our subsidiaries operated three primary divisions, as described below:

- The Affordable Housing Division was established to conduct activities related to affordable housing through three reportable segments, as follows:

  - Tax Credit Equity ("TCE") - A business which created investment funds and finds investors for such funds that receive tax credits for investing in affordable housing partnerships (these funds are called Low Income Housing Tax Credit Funds or "LIHTC Funds").

  - Bonds - A business which originates and invests primarily in tax-exempt bonds secured by affordable housing.

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

- The Real Estate Division was established to conduct real estate finance activities through two reportable segments, as follows:

  - Agency Lending - A business which originated both market rate and affordable housing multifamily loans with the intention of selling them to government sponsored entities (i.e., Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") collectively referred to as agencies ("Agencies")) or through programs created by them. This division also sold permanent loans to third party investors, which were guaranteed by the Government National Mortgage Association ("Ginnie Mae") and insured by the United States Department of Housing and Urban Development ("HUD").

- o Merchant Banking - A business which provided 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, including the sale of permanent loans to third party investors.

- The Renewable Ventures Division was established to finance, own and operate renewable energy and energy efficiency projects.

Remaining Businesses

As more fully described below, we have sold, liquidated or closed down all of our different businesses except for our bond investing activities and certain assets and residual interests related to the businesses and assets that we sold due to our liquidity issues. For further discussion regarding our on-going bond investing activities, see "Notes to Consolidated Financial Statements – Note 1, Description of the Business and Basis of Presentation and Note 2, Bonds Available-for-Sale." We have a majority position in International Housing Solutions S.a.r.l., a partnership that was formed to promote and invest in affordable housing in overseas markets. In addition, at December 31, 2010, we have an unfunded equity commitment of $5.1 million, or 2.67% of total committed capital with respect to our role as the general partner to the South Africa Workforce Housing Fund SA I ("SA Fund"). The SA Fund was formed to invest directly or indirectly in housing development projects and housing sector companies in South Africa. 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 primarily invested by institutional and large private investors. We expect to continue this business.

Business Sales

Agency Lending Business

The Agency Lending business was a reportable segment that consisted of originating, selling and servicing loans related to the affordable and market rate multifamily housing market through the Agencies and certain HUD insured multifamily lending programs. The net assets, personnel and related resources to conduct the Company's Agency Lending business were sold in May 2009 at a net loss, after taxes of $56.8 million. In addition, our goodwill related to this business segment of $25.5 million was fully impaired in December 2008. We received total consideration of $57.4 million, including $47.0 million in preferred stock from the purchaser (which we estimated had a fair value of $37.7 million due to certain indemnifications associated with the preferred stock. See "Notes to Consolidated Financial Statements – Note 4, Investments in Preferred Stock"). Under Fannie Mae's Delegated Underwriting and Servicing ("DUS") program, loan servicers were required to bear up to 20% (and in certain cases more) of the losses on loans sold to Fannie Mae, based on various loss sharing formulas. Freddie Mac also had similar loss sharing arrangements with mortgage originators and servicers. When we sold this business, we agreed to reimburse the purchaser for certain of these loss sharing obligations. See "Notes to Consolidated Financial Statements – Note 4, Investments in Preferred Stock."

TCE Business

The TCE business was a reportable segment that created investment funds and raised capital from institutional investors for such funds, who in return received tax credits and other tax benefits for investing in affordable housing partnerships. Normally, the developer of an affordable housing development forms a limited partnership ("Lower Tier Property Partnership") to develop or hold and operate the affordable housing property 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. Prior to the sale of substantially all of our Tax Credit Equity Business, we "syndicated" tax credits by forming LIHTC Funds that purchased directly or indirectly the limited partnership interests in multiple Lower Tier Property Partnerships. We raised capital from institutional investors, which comprised virtually all of the equity of the LIHTC Funds, and the LIHTC Funds used this capital, and sometimes interim debt financing, to purchase the limited partner interests in the Lower Tier Property Partnerships. Because 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 were the general partner of, and managed, the LIHTC Funds, and usually retained an interest of between 0.01% and 1.0% in each of them. The remaining 99.0% to 99.99% interest in each LIHTC Fund was typically held by one or more large financial institutions.

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 as we are considered the primary beneficiary under Accounting Standards Codification ("ASC") No. 810 "Consolidation" ("ASC 810").

Within the Tax Credit Equity business, 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.

The net assets, personnel and related resources to conduct our TCE business were sold in July 2009 for $22.3 million (in cash). Our net gain on sale, after taxes, was $9.1 million, which includes gains of $46.8 million attributed to the

reversal of cumulative losses previously recognized during the time we consolidated the LIHTC Funds and certain affiliated entities that were sold. We did not sell our general partner interest in 14 of the LIHTC Funds; these retained funds represented approximately 13% of the total assets of the TCE business at the sale date. We deconsolidated three of the remaining 14 funds in July 2009 because we were deemed not to be the primary beneficiary. We continued to consolidate and report through continuing operations four funds that were sold as part of the July 2009 sale because we continued to be the primary beneficiary in these four funds. However, with the adoption of ASU No. 2009−17 on January 1, 2010, we are no longer deemed the primary beneficiary. Therefore, in 2010, the results of these four funds are reported through discontinued operations and at December 31, 2010 there are 11 funds that we continue to consolidate and report through continuing operations. All of the funds that we continue to consolidate are Guaranteed Funds. We outsourced the asset management of all of our retained funds to the purchaser. The cash flows related to these retained funds, which are nominal asset management fees and expenses, will continue until dissolution of the funds, which is generally after the tax credit compliance period expires and is estimated to range from 2021 to 2027.

Renewable Ventures Business

The Renewable Ventures business was a reportable segment involved in the development, operation and maintenance of renewable energy projects (e.g., solar power, wind power and biopower), as well as in providing or arranging debt and equity financing for these projects. We syndicated the tax credit equity associated with these projects through investor funds, similar to our TCE business. The net assets, personnel and related resources to conduct our Renewable Ventures business were sold in March 2009. The total sales proceeds were $13.8 million, and we recognized a net loss on sale, after tax, of $16.3 million. After the sale, we continue to own general partner interests in two solar funds, for which we guarantee the investor yields. We also did not sell two solar and one biomass projects that we owned. We fully impaired the two solar projects in 2007 and sold the biomass project in 2010. There are virtually no cash flows related to the retained funds and the two remaining projects.

Other Sales and Business Wind-Downs

In February 2007, we acquired a mortgage brokerage business known as George Elkins Mortgage Banking ("GEMB") for $10.5 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 exited the George Elkins Mortgage Banking and the Sustainable Land Fund businesses at the end of 2008 and recorded a combined net loss of $0.1 million. We wrote-off $10.5 million of goodwill related to the GEMB acquisition in September 2007. No consideration was received except for the buyer's assumption of certain leases and other vendor payable obligations. In 2010, we also sold the last remaining asset of the B-Note Value Fund L.P., an investment fund managed by us. We are in process of liquidating this partnership.

Previously, we 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 were 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 made taxable mortgage loans to entities formed by developers of conventional multifamily or commercial properties, which were secured primarily by the real estate. Usually, we retained construction period loans until projects were completed, at which time we arranged permanent financing or originated and sold permanent loans to the GSEs or programs created by them. Although we have discontinued new loan originations, at December 31, 2010, we still owned loans from this business with a carrying value of approximately $72.9 million, of which approximately $7.3 million were subordinated loans.

Material U.S. Federal Income Tax Considerations

Treatment as a Partnership

We are a partnership for federal income tax purposes and, as such, our shareholders are treated as partners in a partnership and all of our pass-through income (or loss) is allocated directly to our shareholders. As a partnership with interests that trade on either an established securities market, or a readily tradable secondary market, we are further classified as a publicly traded partnership ("PTP") for federal tax purposes. As long as we remain qualified as a PTP we generally do not have a liability for federal and state income taxes related to the PTP income. In addition, 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, including the Company and ultimately our shareholders, are allocated the taxable income or loss). As a PTP, 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 tax 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 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. For certain loans that are not qualified as tax-exempt, that interest income is treated as ordinary interest and is reported as such on the annual Schedule K-1 issued to all investors. 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. Since ownership of our shares represents ownership of a partnership interest, shareholders must also adjust the tax basis in their shares by the annual income, deduction, gain or loss reported on their annual Schedule K-1. This is a significant difference from the traditional basis reporting of shares in a corporation and it will generally result in a basis that is different than the price paid or reflected in a shareholder’s brokerage statement.

In 2010, 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. We have a tax election in place that requires us to adjust each shareholder's share of our assets based on the share price paid by each investor. Therefore investors that acquired shares since the January 2008 drop in our trading price may have limited tax basis in the assets owned by us. Due to this limited basis, those investors that acquired shares at depressed prices may have capital gains allocated to them related to bond sales and refinancings even if we reflect an overall loss for financial reporting purposes, and such gains could be significant. As stated above, the gain allocated to a shareholder from bond sales (as well as tax-exempt interest and deductions) may have a significant effect on the shareholder's tax basis of their investment and shareholders should consult their tax advisors. This tax effect for shareholders buying at low basis values (i.e., the prices at which the Company's common stock has traded since 2008) is expected to continue for the foreseeable future.

To preserve our PTP status we operate a number of businesses that do not generate qualifying PTP income through taxable corporations which may be subject to federal and state income tax. For example, all of our fee income is earned through subsidiaries that are taxable corporations. In general, such income (or loss) is not included in our partnership income, and therefore does not get taxed directly to our shareholders. An exception would occur if the taxable corporations were to make distributions to us, potentially generating dividend income which would then be taxable to our shareholders in the year of distribution. For calendar years 2008 through 2010 significant losses were generated within the taxable corporations and those losses are not part of the taxable income (or loss) distributed to shareholders.

Further, as described in the next section, the Internal Revenue Service ("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 allocations 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.

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 of 1986 (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 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, 2010, an entity controlled by Mr. Joseph was the sole general partner and a partnership controlled by Mr. Joseph was the sole limited partner of the

borrower on eight such properties.

We have received advice from tax counsel that, based on certain assumptions, ownership or control of borrowers by the partnership Mr. Joseph controls would not cause us to be a person related to a substantial user of the underlying properties, and therefore would not adversely affect 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 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 inaction) 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 of tax-exempt bonds could cause the interest on the bonds to lose their tax-exempt status. Typically, the Company will retain bond counsel to assist in the evaluation and structuring of any bond restructurings to ensure our bonds retain 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 tax 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.

Competition

Historically, we 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. Prior to the general downturn in the economy and our own liquidity issues that occurred during 2008, we were able to compete effectively against these competitors on the basis of service, track record, access to investor capital, longstanding relationships with developers and through a broad array of product offerings. At the present time, our only significant on-going business is our bond investing activities. Due to market conditions as well as our liquidity issues, we are not actively purchasing or originating new bonds. Therefore we are faced with little to no competition.

Employees

As of March 15, 2011, we had 38 employees, none of whom were parties to any collective bargaining agreements. We have reduced our employee base significantly, from 575 employees at December 31, 2007, to 435 employees at December 31, 2008, to 64 employees at December 31, 2009 and to 40 employees at December 31, 2010. We are engaging a small number of outside financial and tax consultants to supplement our accounting and tax operations and reporting processes.

Our principal office is located at 621 E. Pratt Street, Suite 600, Baltimore, MD 21202. Our telephone number at this office is (443) 263-2900. Our corporate website is located at http://www.munimae.com, and our filings under the Exchange Act 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.

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 on the value of our common shares.

Risks Related to Our Business

There is substantial doubt as to our ability to continue as a going concern.

Although the Company has been able to extend, restructure and obtain forbearance agreements on various debt and interest rate swap agreements, such that none of our debt has been accelerated at present, most of these extensions, restructurings and forbearance agreements are short-term in nature and do not provide a viable long-term solution to the Company's liquidity issues (see "Notes to Consolidated Financial Statements – Note 9, Derivative Financial Instruments and Note 10, Debt"). If the Company is not able to negotiate other arrangements, the Company will not be able to pay the interest on its non-bond debt (specifically its subordinate debentures when the rate is due to increase beginning in the first quarter of 2012), and possibly sooner. If these subordinated debentures were accelerated, the Company would not be able to pay the debt. See "Notes to Consolidated Financial Statements, Note 10 – Debt" for further information. In the event management is not successful in restructuring or settling its remaining non-bond related debt, or in generating sufficient liquidity from the sale of non-bond related assets or if the bond portfolio net interest income is substantially reduced, the Company may have to consider seeking relief through a bankruptcy filing. These factors raise substantial doubt about the Company's ability to continue as a going concern.

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.

Most of our real estate derives its value from the cash flows generated by tenant leases. If, because of general economic conditions, local market conditions or property specific conditions, the tenants move out or cannot pay the rents charged on the specific units they lease, the units may not be able to lease the units to replacement tenants at full rent (or at all), in which case the cash flows from the property may not be sufficient to pay interest on our bonds or loans and the values of our investments may decline. We conduct extensive due diligence prior to making investments but problems may arise subsequent to such investment. In addition, 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, or condemnation proceedings.

The value of our assets and our ability to conduct business may be adversely affected by changes in local or national laws or regulatory conditions that affect significant segments of the real estate market, especially the multifamily housing market, including environmental, land use 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.

Negative changes in the value of our assets could have a material adverse effect on us.

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

Our businesses were affected by the disruptions in the credit markets over the past several years, in most cases significantly. Some of these disruptions had direct effects on us or our assets, and some had effects on financial institutions and other entities with which we deal that affected their ability or willingness to participate or to 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 – "Overview." As a result we have sold, liquidated or closed down substantially all of our non-bond related businesses.

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

Over the past several years, there has been 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, continued to affect us in 2010 and are likely to affect our operations in the current year. We are unable to originate new tax-exempt bonds and we have had to reduce the carrying value of those we own, as well as reducing the value of taxable loans we hold.

Despite the sale of assets and business segments we continue to have liquidity problems and substantially all of our assets are encumbered.

Although we previously sold investment assets to generate cash or to minimize our obligations related to future funding requirements, we continue to face a significant shortage of liquid assets. Substantially all of our assets are encumbered, which limits our ability to increase our liquidity by selling assets or incurring additional indebtedness. We may need to sell assets into unfavorable markets or at distressed prices.

As a result of our reductions in revenues, we may continue to incur significant operating losses.

Although we have substantially reduced our operating expenses and much of our debt, we continue to be obligated on debt we incurred when we were a much larger company. Our revenues may not be sufficient to pay our current operating expenses and debt service and we may continue to incur significant operating losses. This could force us to continue to sell assets into difficult market conditions.

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

We have $61.3 million of debt at December 31, 2010 that had matured, but our lenders have provided forbearance agreements until June 30, 2011. In addition, we have $169.2 million of debt that has a reduced interest pay rate, currently 0.75%. This rate is due to increase, beginning in the first quarter of 2012, to a weighted average rate of approximately 8.5%. We do not currently have the liquidity to meet these payments. To the extent these arrangements are not extended or modified these lenders have the right to require us to repay the debt in full or post additional collateral. 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.

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.

There is a significant possibility that if our lenders forced us to sell the assets we have pledged as collateral into the current market, the total sale proceeds would not equal our total secured borrowings. If that occurred, we would not be able to repay all of our secured borrowings and we would not be able to repay any of our unsecured 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. We also hold other types of tax-exempt and taxable bonds. The delinquency rate (the unpaid principal balance of bonds on non-accrual compared to our total bond portfolio's unpaid principal balance) at December 31, 2010, with regard to our bonds is 10.1%, or $135.9 million. Additionally, although bonds in our portfolio have operated with debt service coverage ratios (the trailing 12-month property level net operating income divided by annual property level debt service) below 1.0x for extended periods of time without defaulting, approximately $350.0 million or 32% of the performing mortgage revenue bond portfolio had a debt service coverage ratio of less than 1.0x at December 31, 2010, of which approximately $175 million or 16% is below a 0.9x debt service coverage ratio. The delinquency rate with regard to most of the other types of debt instruments, primarily loans, that we hold, is 44.8%, or $58.9 million, at December 31, 2010. 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. We have reduced the carrying value of our defaulted assets, but the values realized could be even less if foreclosures were required or if our borrowers filed for bankruptcy

protection.

Increases in interest rates may adversely affect the value of our bonds and increase our borrowing costs.

The Company has exposure to changes in interest rates because all of its investments in bonds pay a fixed rate of interest, while substantially all of the Company’s bond related debt is variable rate. A significant portion of the Company’s variable rate exposure is not hedged by interest rate swaps or caps and the Company does not have the credit standing to enter into any new interest rate swaps and has limited liquidity to purchase any new interest rate caps. A rise in interest rates or an increase in credit spreads could cause the value of certain bond investments to decline, increase the Company’s borrowing costs and make it ineffective for the Company to securitize its bonds.

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

Significant portions of the money we use to make investments are borrowed under arrangements that bear interest at floating rates. Therefore, an increase in prevailing interest rates could make it substantially more expensive for us 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. Therefore, we are to an extent exposed to risks that changes in interest rates will negatively affect the value of our assets.

We do not have the credit standing to enter into any new interest rate swaps and we have limited liquidity to purchase any new interest rate caps. As a result, we may not able to obtain such hedges even if they are generally available in the marketplace.

Our bonds are illiquid and may be difficult to sell at fair value.

Substantially all of the Company's bond investments are illiquid, which could prevent sales at favorable terms and make it difficult to value the bond portfolio. Our bond investments are unrated and unenhanced and, as a consequence, the purchasers of the Company's bonds are generally limited to accredited investors and qualified institutional buyers, which results in a limited trading market. This lack of liquidity complicates how the Company determines the fair value of its bonds as there is limited information on trades of comparable bonds. Therefore, there is a risk that if the Company needs to sell bonds the price it is able to realize may be lower than the carrying value (i.e., fair value) of such bonds. Such differences could be material to our results of operations and financial condition.

Substantially all of our taxable loans 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 our taxable loans. This could result in a serious lack of liquidity, particularly during weak markets, such as those that have prevailed for the past three years. The lack of liquidity could seriously adversely affect the price for which we could sell our taxable investments if necessary.

Our bonds are all in securitization trusts or serve as collateral for securitization trusts and could be the subject of a forced sale.

At December 31, 2010, substantially all of the Company's bond investments were either in securitization trusts or pledged as collateral for securitization programs, notes payable or other debt. In the event a securitization trust cannot meet its obligations, all or a portion of bonds held by or pledged to the trust may be sold to satisfy the obligations to the holders of the senior interests. In the event bonds are liquidated, no payment will be made to the Company except to the extent that the sales price received for the bond exceeds the amounts due on the senior obligations of the trust. In addition, if the value of the bond investments within the securitization trusts or pledged as additional collateral decreases, the Company may be required to post cash or additional investments as collateral for such programs. In the event the Company has insufficient liquidity or unencumbered investments to satisfy these collateral requirements, certain bonds within the securitization trusts may be liquidated by the third-party credit enhancer to reduce the collateral requirement. In such cases, the Company would lose the cash flow from the bonds and its ownership interest in them. If a significant number of bonds were liquidated, the Company's financial condition and results of operations could be materially adversely affected.

We depend on the availability of renewable credit enhancement and liquidity facilities for our securitization trusts.

Under GAAP, the senior interests we sell in the securitization trusts we sponsor are treated as bond related debt. A substantial portion of this bond related debt is subject to third party credit enhancement agreements and liquidity facilities that mature prior to the time that the underlying bonds in the trusts mature or are expected to be redeemed. If the Company were unable to renew or replace its third party credit enhancement and liquidity facilities, the Company

might not be able to extend or refinance its bond related debt. In that instance, the Company could be subject to bond liquidations to satisfy the claims of the holders of the senior interests. If the Company were unable to extend or refinance its non-bond related debt, whether through the extension or replacement of third party credit enhancement and liquidity facilities or through the placement of bond related debt without the benefit of third party credit enhancement and liquidity facilities, the Company could experience higher bond related debt costs. If a significant number of bonds were liquidated or if bond financing costs increased significantly, the Company's financial condition and results of operations could be materially adversely affected. The Company's senior interests and debt owed to securitization trust balance was $748.1 million at December 31, 2010, of which $71.3 million and $598.3 million have maturing credit enhancement and liquidity facilities in 2011 and 2013, respectively.

There are restrictions on the ability of our primary bond subsidiary to make distributions to us.

Substantially all of the Company's bond investments are held by MuniMae TE Bond Subsidiary, LLC ("TEB"), a 100% subsidiary of the Company. Under TEB's operating agreement with its preferred shareholders, there are covenants related to the type of assets in which TEB can invest, the incurrence of leverage, limitations on issuance of additional preferred equity interests, limitations on cash distributions to MuniMae and certain requirements in the event of merger, sale or consolidation. At December 31, 2010:

- TEB's leverage ratio was 59.9%, which was below the incurrence limit of 60%;
- TEB's liquidation preference ratios were at amounts that would restrict it from raising additional preferred equity on parity with the existing preferred shares outstanding; and

- TEB's ability to distribute cash to MuniMae is limited to Distributable Cash Flows (TEB's net income adjusted to exclude the impact of non-cash items) and TEB does not have the ability to make redemptions of common stock or distributions to MuniMae other than from Distributable Cash Flows ("Restricted Payments") because the current liquidation preference ratios prohibit it.

We have been unable to remarket our bond subsidiary's preferred shares, which adversely affects our subsidiary's ability to make distributions to us.

Beginning in June 2009, TEB has been unable to conduct successful remarketings of its mandatorily redeemable and perpetual preferred shares. This has caused the distributions owed to the TEB preferred shareholders to increase, which has resulted in a reduction to the amount of TEB income that can be distributed to the Company. If TEB continues to be unsuccessful with future remarketings, TEB could experience additional increases in payments to its preferred share distributions, which would result in further reductions to its common distributions to the Company and those changes could be material.

Our bond subsidiary stock is pledged as collateral and we are subject to restrictions governing how we use our subsidiary's cash flow.

All of TEB's common stock is pledged by the Company to a creditor to support collateral requirements related to certain debt and derivative agreements. On December 8, 2010, we entered into a forbearance agreement with this creditor that requires us to set aside a portion of the common distributions we receive from TEB. The set aside equals 50% of common distributions, less $0.8 million, for quarterly distributions beginning in the fourth quarter of 2010 and continuing through the third quarter of 2011. For quarterly distributions beginning in the fourth quarter of 2011 and continuing until TEB is in compliance with both its leverage ratio and liquidation preference ratios, the set-aside is equal to 50% of common distributions. Once TEB is in compliance with its leverage ratio and liquidation preference ratios there will be no restrictions on common distributions.

The set-aside is anticipated to be utilized by the Company to repurchase and retire various perpetual and mandatorily redeemable preferred stock issued by TEB. While such purchases will benefit us by reducing our obligations senior to TEB's common stock we may not be able to access the set-aside funds for other Company purposes which would exacerbate our liquidity issues.

TEB's common stock is wholly owned by MuniMae TEI Holdings, LLC ("TEI"), which is ultimately wholly owned by MuniMae. Any unrestricted distributions by TEB will be remitted to TEI and TEI's ability to remit cash to MuniMae for liquidity needs outside of TEI may be restricted due to minimum liquidity and net worth requirements related to a TEI debt agreement. The most restrictive covenant, a net worth requirement, requires TEI to maintain a minimum net worth of $125 million. At December 31, 2010, TEI's net worth was $169.7 million.

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

Because the assets we own and manage are directly or indirectly secured by multifamily residential properties and other commercial real estate, the value of our investments is adversely affected (and those effects may be substantial) 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 have or manage 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 own, or that affect the availability of attractive investment opportunities; and

- 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.

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 manage are debt instruments or are 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 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, the recent financial disruptions led to market anomalies where 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.

The value of our tax-exempt investments could be adversely affected by changes in government tax incentive programs.

There is no guarantee that the government will not pass legislation that could adversely affect the value of our tax-exempt bonds. The government could make changes in the tax laws that, while not directly affecting our tax-exempt bonds, could make them less valuable to investors. For example, if the federal government were to lower marginal federal income tax rates, our bonds would likely decline in value. Congress could also pass laws that make competing investments more attractive than tax-exempt bonds, which would also make our bonds less valuable. A discussion of U.S. federal tax considerations that affect us and our shareholders appears in Item 1. Business – "Federal Income Tax Considerations."

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

Substantially all of our assets are encumbered. Most of our secured debt that is not part of a bond securitization transaction has matured, and most of our lenders could have required us to repay the indebtedness. If our secured lenders had required us to repay the indebtedness and we had been unable to do so (which, in view of recent market conditions, would likely 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 these lenders required us to repay all debt that is due, we would have to liquidate assets under difficult market conditions at amounts that would likely be insufficient to repay all such debt that is due resulting in bankruptcy or adverse consequences to us.

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. 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.

We continue to have material weaknesses in our internal control over financial reporting which substantially increases 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 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 prevent material misstatements in our financial statements. These alternative means have been very labor intensive and have contributed significantly to the high costs and delays 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, there will continue to be a risk of material weaknesses in our internal control over financial reporting.

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 perform a significant portion of our tax return preparation work ourselves instead of using outside consultants. However, in 2009 and 2010 we continued to incur higher than normal financial statement preparation and audit costs. Although we believe we can reduce these costs in 2011 and beyond, there can be no assurance that we will be able to achieve such reductions. These financial statement preparation and audit costs could have a material adverse effect on our results of operations.

The SEC staff has notified us that the SEC could take steps to de-register or suspend trading in our shares, either of which could have a material adverse effect on both the market value of and the ability to trade our shares.

We have received correspondence from the SEC's Division of Corporation Finance notifying us of the Company's status as a non-current filer and advising the Company that the SEC could bring an administrative proceeding to revoke the Exchange Act registration of our common shares or could order the suspension of trading in our common shares. If the registration of our common shares is revoked or trading is suspended, our common shares would no longer be quoted on the Pink Sheets and the public trading of our common shares would effectively terminate. If there were no longer a public trading market for our shares, investors would find it difficult, if not impossible, to buy or sell common shares publicly or to obtain accurate quotations for prices at which common shares may be purchased or sold. As a result, the price of our shares would likely decline.

The SEC staff previously inquired into the reasons for our restatements and if the SEC decided 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 cooperated fully with the informal inquiry. The SEC staff has not taken any further action. We cannot provide any assurance that the SEC will not take any action in light of our restatement or our filing delinquencies and deficiencies, including the lack of filing quarterly information or management not completing its assessment of the effectiveness of our internal control over financial reporting for any of the periods presented in this Report. 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 most 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 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 discussed under Item 1A. Risk Factors – "Risks Related to Our Business," under current market conditions, the prices for which we can sell the bonds, loans and other debt investments we own are lower, often significantly, than the prices for which they could be sold under normal market conditions.

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.

Although we have sold most of our low income housing tax credit business, we guaranteed availability of tax benefits and minimum returns on investment to investors in some of the tax credit equity funds that we sponsored. We have not sold our interest in those funds and in some cases where we have sold our interest in the funds we have indemnified the purchaser from investor claims related to guarantees on these funds. We continue to be obligated on our guarantees to the investors (or purchasers) in these funds and we could be required to make substantial payments with regard to these guarantees. 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

properties 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, potentially creating liability under our guarantees.

Similarly, although we sold most of our renewable energy business, we guaranteed the availability of tax benefits and a minimum yield to investors in some of the solar funds we sponsored. We have not sold our interest in these funds and we continue to be obligated on our guarantees to the investors in those funds. Among other things we must continue to own and operate the facility through the credit recapture period. If we did not comply with these requirements there would be a recapture of credits, potentially creating liability under our guarantees.

If we were to become obligated to perform on our tax credit or solar fund guarantees our financial condition and results of operation would suffer.

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

When we hold junior or subordinated debt instruments, if the borrower is unable or fails to make all of its required payments, we will not be paid until all the senior securities 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, 2010, we had bond and loan investments with a carrying value of $47.5 million, which were subordinate to more senior interests.

In the sale of our Agency Lending business, we agreed to share losses (up to specified levels) on loans that we underwrote and sold to Fannie Mae and Freddie Mac.

Prior to the sale of our Agency Lending business, we participated in the Fannie Mae DUS and Freddie Mac Program Plus programs. The terms of our participation required 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 were 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 were generally responsible for the first 8% of the unpaid principal balance. Under the agreement by which we sold this business we agreed to reimburse the purchaser up to $30 million for loss sharing losses on loans acquired from us for the first four years after the sale or May 2013. Losses under this agreement are to be paid by reducing the par amount of preferred shares we received as part of the sale price of the business. At December 31, 2010 reductions totaled $1.0 million. We also have a $2.3 million cash risk of loss on other loans sold in this transaction of which $1.2 million has been incurred and paid. 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.

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 previously 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 foreseeable future.

In January 2008 in response to deteriorating market conditions and our increasing costs, our Board reduced the dividend for fourth quarter 2007 to $0.33 from $0.53 for third quarter 2007. 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 foreseeable future. It is possible that we will never resume the payment of dividends.

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 our 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 2010, although we had 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. In addition, as a result of the rules applicable to partnership taxation, shareholders who have a low basis in our shares may have capital gains allocated to them even when the Company itself had a capital loss.

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 10 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 January 2014. We sublease approximately 21,000 sq. feet of our Baltimore office space to a third party tenant at market rates. We also have an office in Tampa, Florida where we lease approximately 34,000 sq. feet of office space pursuant to a lease that expires in 2016, 32,021 sq. feet of which is subleased to two third party tenants at market rates.

As of the date of this Report, we also lease office space in Chicago, Illinois, and Irvine, California. We are attempting to sublease the Irvine office space and since December 31, 2007 we have closed or disposed of a number of regional offices due to sales of our businesses or 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 nor are any of our subsidiaries a party to any material pending 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.

After the Company announced in September 2006 that it would be restating the financial statements for 2005 and prior years, the Philadelphia Regional Office of the SEC informed the Company that it was conducting an informal inquiry and requested the voluntary production of documents and information concerning, among other things, the reasons for the restatement. The Company provided the requested documents and information and has cooperated fully with the informal inquiry.

In the first half of 2008, the Company was named as a defendant in 11 (subsequently reduced to nine) purported class action lawsuits and six (subsequently reduced to two) derivative suits. In each of these class action lawsuits, the plaintiffs claim to represent a class of investors in the Company's shares who allegedly were injured by misstatements in press releases and SEC filings between May 3, 2004, and January 28, 2008. The plaintiffs seek unspecified damages for themselves and the shareholders of the class they purport to represent. The class action lawsuits have been consolidated into a single legal proceeding pending in the United States District Court for the District of Maryland. By court order, a single consolidated amended complaint was filed in the class actions on December 5, 2008 and the cases will proceed as one consolidated case. Similarly, a single consolidated amended complaint was filed in the derivative cases on December 12, 2008 and these cases will likewise proceed as a single case. In the derivative suits, the plaintiffs claim, among other things, that the Company was injured because its directors and certain named officers did not fulfill duties regarding the accuracy of its financial disclosures. A derivative suit is a lawsuit brought by a shareholder of a corporation, not on the shareholder's own behalf, but on behalf of the corporation and against the parties allegedly causing harm to the corporation. Any proceeds of a successful derivative action are awarded to the corporation, except to the extent they are used to pay fees to the plaintiffs' counsel and other costs. The derivative cases and the class action cases have all been consolidated before the same court. The Company has filed a motion to dismiss the class action and the motion is before the court for decision. Due to the inherent uncertainties of litigation, and because these specific actions are still in a preliminary stage, the Company cannot reasonably predict the outcome of these matters at this time.

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 and Navigant settled the lawsuit in January 2010.

In December 2009, the Company received correspondence from the SEC's Division of Corporation Finance ("Corp Fin") noting the Company's status as a non-current filer and advising the Company that the SEC could, in the future, bring an administrative proceeding to revoke the Exchange Act registration of the Company's common shares and/or order, without further notice, the suspension of trading of the Company's common shares. The Company has provided notice Corp Fin of each significant disclosure the Company has made since the receipt of their letter in order to keep them apprised of the Company's progress toward becoming a current filer.

Item 4. RESERVED

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 NYSE 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 years ended December 31, 2010, 2009 and 2008 indicated in consolidated trading reported by the over the counter market quotation system known as the Pink Sheets, and the cash dividends we declared per share:

	Common Shares High/Low Prices			Cash Dividends Per Share		
Fiscal Quarter	2010	2009	2008	2010	2009	2008
First	$ 0.29-0.16	$ 0.97-0.15	$ 17.45-4.20	$ –	$ –	$ 0.33 (1)
Second	0.41-0.11	0.55-0.32	5.85-2.47	–	–	–
Third	0.16-0.08	0.79-0.28	3.03-0.37	–	–	–

Fourth	0.30-0.10