

NUVEEN MARYLAND DIVIDEND ADVANTAGE MUNICIPAL FUND 3
Form N-Q
October 27, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-21153

Nuveen Maryland Dividend Advantage Municipal Fund 3

(Exact name of registrant as specified in charter)

333 West Wacker Drive, Chicago, Illinois 60606

(Address of principal executive offices) (Zip code)

Jessica R. Droeger Vice President and Secretary

333 West Wacker Drive, Chicago, Illinois 60606

(Name and address of agent for service)

Registrant's telephone number, including area code: 312-917-7700

Date of fiscal year end: 05/31

Date of reporting period: 08/31/06

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Schedule of Investments

Portfolio of Investments (Unaudited)

Nuveen Maryland Dividend Advantage Municipal Fund 3 (NWI)

August 31, 2006

Principal	Amount (000)	Description (1)	Option	Provisio
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Consumer Discretionary □ 2.2% (1.5% of Total Investments)

\$	220	Baltimore, Maryland, Pollution Control Revenue Bonds, General Motors Corporation, Series 1993, 5.350%, 4/01/08	No O
	1,000	Baltimore, Maryland, Senior Lien Convention Center Hotel Revenue Bonds, Series 2006A, 5.250%, 9/01/39 □ XLCA Insured	9/16 at
	380	Baltimore, Maryland, Subordinate Lien Convention Center Hotel Revenue Bonds, Series 2006B, 5.875%, 9/01/39	9/16 at
	1,600	Total Consumer Discretionary	

Consumer Staples □ 3.5% (2.4% of Total Investments)

	2,695	Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Refunding Bonds, Series 2002, 5.375%, 5/15/33	5/12 at
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Education and Civic Organizations □ 15.3% (10.3% of Total Investments)

	225	Anne Arundel County, Maryland, Economic Development Revenue Bonds, Community College Project, Series 2002, 5.125%, 9/01/22	9/12 at
	625	Frederick County, Maryland, Educational Facilities Revenue Bonds, Mount Saint Mary's College, Series 2006, 5.625%, 9/01/38	9/16 at
		Frederick County, Maryland, Educational Facilities Revenue Bonds, Mount St. Mary's College, Series 2001A:	
	100	5.750%, 9/01/25	3/10 at
	100	5.800%, 9/01/30	3/10 at
	690	Hartford County, Maryland, Economic Development Revenue Bonds, Battelle Memorial Institute, Series 2004, 5.250%, 4/01/34	4/14 at
	625	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, Goucher College, Series 2004, 5.125%, 7/01/34	7/14 at
	1,000	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, Johns Hopkins University, Series 2002A, 5.000%, 7/01/32	7/12 at
	525	Maryland Industrial Development Financing Authority, Revenue Bonds, Our Lady of Good Counsel High School, Series 2005A, 6.000%, 5/01/35	5/15 at
	710	Montgomery County Revenue Authority, Maryland Lease Revenue Bonds, Montgomery College Arts CenterProject, Series 2005A, 5.000%, 5/01/18	5/15 at
	1,000	Morgan State University, Maryland, Student Tuition and Fee Revenue Bonds, Academic Fees and Auxiliary Facilities, Series 2003A, 5.000%, 7/01/32 □ FGIC Insured	7/13 at
	985	University of Maryland, Auxiliary Facility and Tuition Revenue Bonds, Series 2001B, 4.625%, 4/01/21	4/11 at
	2,000	University of Maryland, Auxiliary Facility and Tuition Revenue Bonds, Series 2002A, 5.125%, 4/01/22	4/12 at
		University of Maryland, Auxiliary Facility and Tuition Revenue Bonds, Series 2003A:	
	1,000	5.000%, 4/01/15	4/13 at
	1,000	5.000%, 4/01/19	4/13 at
	800	University of Maryland, Auxiliary Facility and Tuition Revenue Bonds, Series 2006A, 5.000%, 10/01/22	10/16 at
	11,385	Total Education and Civic Organizations	

Health Care □ 17.8% (11.9% of Total Investments)

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1,000	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, Anne Arundel Medical Center, Series 1998, 5.125%, 7/01/33 ☐ FSA Insured	7/08 at
775	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, Calvert Memorial Hospital, Series 2004, 5.500%, 7/01/36	7/14 at
1,250	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, Carroll County General Hospital, Series 2002, 5.800%, 7/01/32	7/12 at
870	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, Civista Medical Center, Series 2005, 5.000%, 7/01/37 ☐ RAAI Insured	7/14 at
700	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, Frederick Memorial Hospital, Series 2002, 5.125%, 7/01/35	7/12 at
800	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, Greater Baltimore Medical Center, Series 2001, 5.000%, 7/01/34	7/11 at
1,000	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, Johns Hopkins Hospital, Series 2001, 5.000%, 5/15/21	5/11 at
1,000	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, Kennedy Krieger Institute, Series 2003, 5.500%, 7/01/33	7/13 at
725	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, LifeBridge Health System, Series 2004A, 5.125%, 7/01/34	7/14 at
900	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, MedStar Health, Series 2004, 5.375%, 8/15/24	8/14 at
650	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, Mercy Medical Center, Series 2001, 5.625%, 7/01/31	7/11 at
1,845	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, Union Hospital of Cecil County, Series 2002, 5.625%, 7/01/32	7/12 at
775	Maryland Health and Higher Educational Facilities Authority, Revenue Refunding Bonds, Adventist Healthcare, Series 2003A, 5.750%, 1/01/25	1/13 at
	Prince George's County, Maryland, Revenue Bonds, Dimensions Health Corporation, Series 1994:	
350	5.375%, 7/01/14	1/07 at
900	5.300%, 7/01/24	1/07 at

13,540 Total Health Care

Housing/Multifamily ☐ 14.6% (9.8% of Total Investments)

980	Maryland Community Development Administration, Housing Revenue Bonds, Series 2002B, 4.950%, 7/01/32 (Alternative Minimum Tax)	7/12 at
1,250	Maryland Economic Development Corporation, Senior Lien Student Housing Revenue Bonds, University of Maryland ☐ Baltimore, Series 2003A, 5.625%, 10/01/23	10/13 at
	Maryland Economic Development Corporation, Student Housing Revenue Bonds, Sheppard Pratt University Village, Series 2001:	
20	5.875%, 7/01/21 ☐ ACA Insured	7/11 at
150	6.000%, 7/01/33 ☐ ACA Insured	7/11 at
475	Maryland Economic Development Corporation, Student Housing Revenue Refunding Bonds, University of Maryland College Park Projects, Series 2006, 5.000%, 6/01/33 ☐ CIFG Insured	6/16 at
	Montgomery County Housing Opportunities Commission, Maryland, Multifamily Housing Development Bonds, Series 2002B:	
515	5.100%, 7/01/33 (Alternative Minimum Tax)	7/12 at
3,000	5.200%, 7/01/44 (Alternative Minimum Tax)	7/12 at
4,860	Prince George's County Housing Authority, Maryland, GNMA Collateralized Mortgage Revenue	11/12 at

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Bonds, Fairview and Hillside Projects, Series 2002A, 4.700%, 11/20/22

11,250 Total Housing/Multifamily

Housing/Single Family □ 3.4% (2.3% of Total Investments)

600	Maryland Community Development Administration, Department of Housing and Community Development, Residential Revenue Bonds, Series 2006F, 4.900%, 9/01/26 (Alternative Minimum Tax)	9/15 at
1,200	Maryland Community Development Administration, Department of Housing and Community Development, Residential Revenue Bonds, Series 2006I, 4.875%, 9/01/26 (Mandatory put 9/13/24) (Alternative Minimum Tax)	3/16 at
815	Maryland Community Development Administration, Department of Housing and Community Development, Residential Revenue Bonds, Series 2006L, 4.900%, 9/01/31 (WI/DD, Settling 9/14/06) (Alternative Minimum Tax)	9/16 at

2,615 Total Housing/Single Family

Industrials □ 1.3% (0.9% of Total Investments)

1,000	Northeast Maryland Waste Disposal Authority, Baltimore, Resource Recovery Revenue Bonds, RESCO Retrofit Project, Series 1998, 4.750%, 1/01/12 (Alternative Minimum Tax)	1/09 at
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Long-Term Care □ 0.5% (0.4% of Total Investments)

400	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, Edenwald, Series 2006A, 5.400%, 1/01/31	7/16 at
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Tax Obligation/General □ 23.5% (15.7% of Total Investments)

1,000	Annapolis, Maryland, General Obligation Public Improvement Refunding Bonds, Series 2002, 4.375%, 4/01/17	4/12 at
	Anne Arundel County, Maryland, General Obligation Bonds, Series 2006:	
845	5.000%, 3/01/21	3/16 at
650	5.000%, 3/01/21	3/16 at
1,000	Calvert County, Maryland, General Obligation Public Improvement Bonds, Series 2002, 4.500%, 1/01/16	1/12 at
380	Carroll County, Maryland, Consolidated Public Improvement Bonds, Series 2005A, 5.000%, 12/01/16	12/15 at
1,260	Charles County, Maryland, Consolidated General Obligation Public Improvement Bonds, Series 2002, 4.400%, 1/15/16	1/12 at
500	Frederick County, Maryland, General Obligation Public Facilities Bonds, Series 2006, 5.000%, 11/01/20	No O
245	Frederick County, Maryland, Special Obligation Bonds, Villages of Lake Linganore Community Development Authority, Series 2001A, 5.600%, 7/01/20 □ RAAI Insured	7/10 at
	Frederick, Maryland, General Obligation Bonds, Series 2005:	
710	5.000%, 8/01/16 □ MBIA Insured	8/15 at
535	5.000%, 8/01/17 □ MBIA Insured	8/15 at
1,000	Maryland National Capital Park Planning Commission, Prince George's County, General Obligation Bonds, Park Acquisition and Development, Series 2004EE-2, 5.000%, 1/15/17	1/14 at
1,500	Maryland, General Obligation Bonds, Series 2005, 5.000%, 8/01/17	8/15 at
1,440	Montgomery County, Maryland, Consolidated General Obligation Public Improvement Bonds, Series 2005A, 5.000%, 7/01/15	No O
1,000	Prince George's County, Maryland, General Obligation Consolidated Public Improvement Bonds,	10/13 at

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	Series 2003A, 5.000%, 10/01/17	
1,000	Prince George's County, Maryland, General Obligation Consolidated Public Improvement Bonds, Series 2004C, 5.000%, 12/01/11	No O
1,000	St. Mary's County, Maryland, General Obligation Hospital Bonds, Series 2002, 5.000%, 10/01/12	No O
25	Washington Suburban Sanitary District, Montgomery and Prince George's Counties, Maryland, General Obligation Construction Bonds, Second Series 2001, 5.000%, 6/01/17	6/11 at
1,000	Washington Suburban Sanitary District, Montgomery and Prince George's Counties, Maryland, Sewerage Disposal Bonds, Series 2004, 5.000%, 6/01/13	No O
1,000	Washington Suburban Sanitary District, Montgomery and Prince George's Counties, Maryland, Sewerage Disposal Bonds, Series 2005, 5.000%, 6/01/16	6/15 at
1,000	Washington Suburban Sanitary District, Montgomery and Prince George's Counties, Maryland, Water Supply Bonds, Series 2005, 5.000%, 6/01/16	6/15 at

17,090 Total Tax Obligation/General

Tax Obligation/Limited ☐ 32.9% (22.0% of Total Investments)

750	Annapolis, Maryland, Special Obligation Bonds, Park Place Project, Series 2005A, 5.350%, 7/01/34	1/15 at
1,000	Baltimore Board of School Commissioners, Maryland, Revenue Bonds, City Public School System, Series 2003A, 5.000%, 5/01/15	5/13 at
600	Baltimore, Maryland, Project Revenue Bonds, Series 2006, 5.000%, 7/01/31 ☐ AMBAC Insured	7/16 at
450	Hyattsville, Maryland, Special Obligation Bonds, University Town Center Project, Series 2004, 5.750%, 7/01/34	7/14 at
5,000	Maryland Department of Transportation, Consolidated Transportation Revenue Bonds, Series 2002, 5.500%, 2/01/16	No O
1,000	Maryland Department of Transportation, Consolidated Transportation Revenue Bonds, Series 2004, 5.000%, 5/01/13	No O
2,200	Maryland Economic Development Corporation, Lease Revenue Bonds, Department of Transportation Headquarters Building, Series 2002, 4.750%, 6/01/22	6/12 at
450	Maryland Economic Development Corporation, Lease Revenue Bonds, Montgomery County Town Square Parking Garage, Series 2002A, 5.000%, 9/15/13	9/12 at
2,935	Maryland Economic Development Corporation, Lease Revenue Bonds, Montgomery County Wayne Avenue Parking Project, Series 2002A, 5.250%, 9/15/16	9/12 at
	Maryland Stadium Authority, Lease Revenue Bonds, Montgomery County Conference Center Facilities, Series 2003:	
1,465	5.000%, 6/15/21	6/13 at
1,620	5.000%, 6/15/23	6/13 at
460	Prince George's County, Maryland, Special Obligation Bonds, National Harbor Project, Series 2005, 5.200%, 7/01/34	7/15 at
575	Prince George's County, Maryland, Special Tax District Bonds, Victoria Falls Project, Series 2005, 5.250%, 7/01/35	7/13 at
	Puerto Rico Public Buildings Authority, Guaranteed Government Facilities Revenue Bonds, Series 2002G:	
1,000	5.250%, 7/01/17	7/12 at
1,205	5.250%, 7/01/20	7/12 at
1,275	5.250%, 7/01/21	7/12 at
1,000	Puerto Rico Public Finance Corporation, Commonwealth Appropriation Bonds, Series 1998A, 5.125%, 6/01/24 ☐ AMBAC Insured	No O

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235	Puerto Rico Public Finance Corporation, Commonwealth Appropriation Bonds, Series 2002E, 5.500%, 8/01/29	2/12 at
700	Puerto Rico, Highway Revenue Bonds, Highway and Transportation Authority, Series 2003AA, 5.500%, 7/01/19 ☐ MBIA Insured	No O

23,920 Total Tax Obligation/Limited

Transportation ☐ 0.5% (0.3% of Total Investments)

Maryland Health and Higher Educational Facilities Authority, Parking Facilities Revenue Bonds, Johns Hopkins Medical Institution, Series 2004B:

190	5.000%, 7/01/13 ☐ AMBAC Insured	No O
175	5.000%, 7/01/14 ☐ AMBAC Insured	No O

365 Total Transportation

U.S. Guaranteed ☐ 22.6% (15.1% of Total Investments) (4)

10	Anne Arundel County, Maryland, General Obligation Bonds, Consolidated General Improvements, Series 1999, 5.000%, 5/15/19 (Pre-refunded 5/15/09)	5/09 at
100	Frederick County, Maryland, General Obligation Public Facilities Bonds, Series 1999, 5.250%, 7/01/17 (Pre-refunded 7/01/09)	7/09 at
Frederick County, Maryland, General Obligation Public Facilities Bonds, Series 2002:		
1,830	5.000%, 11/01/20 (Pre-refunded 11/01/12)	11/12 at
2,035	5.000%, 11/01/21 (Pre-refunded 11/01/12)	11/12 at
2,500	5.000%, 11/01/22 (Pre-refunded 11/01/12)	11/12 at
1,210	Howard County, Maryland, Consolidated Public Improvement Bonds, Series 2001A, 4.750%, 2/15/19 (Pre-refunded 2/15/09)	2/09 at
280	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, Collington Episcopal Life Care Community Inc., Series 2001A, 6.750%, 4/01/23 (Pre-refunded 4/01/11)	4/11 at
285	Maryland Health and Higher Educational Facilities Authority, Revenue Bonds, Helix Health, Series 1997, 5.000%, 7/01/17 ☐ AMBAC Insured (ETM)	No O
1,010	Maryland Transportation Authority, Revenue Refunding Bonds, Transportation Facilities Projects, First Series 1978, 6.800%, 7/01/16 (ETM)	No O
2,000	Montgomery County, Maryland, Consolidated General Obligation Public Improvement Bonds, Series 2002A, 5.000%, 2/01/20 (Pre-refunded 2/01/12)	2/12 at
3,500	Puerto Rico Infrastructure Financing Authority, Special Obligation Bonds, Series 2000A, 5.500%, 10/01/40	10/10 at
700	Puerto Rico Public Finance Corporation, Commonwealth Appropriation Bonds, Series 2002E, 5.500%, 8/01/29 (Pre-refunded 2/01/12)	2/12 at
880	Puerto Rico, General Obligation and Public Improvement Bonds, Series 2001, 5.125%, 7/01/30 (Pre-refunded 7/01/11) ☐ FSA Insured	7/11 at

16,340 Total U.S. Guaranteed

Utilities ☐ 7.0% (4.7% of Total Investments)

1,250	Maryland Energy Financing Administration, Revenue Bonds, AES Warrior Run Project, Series 1995, 7.400%, 9/01/19 (Alternative Minimum Tax)	9/07 at
4,025	Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2000HH, 5.250%, 7/01/29 ☐ FSA Insured	7/10 at

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5,275 Total Utilities

Water and Sewer □ 4.1% (2.7% of Total Investments)

2,570 Baltimore, Maryland, Revenue Refunding Bonds, Wastewater Projects, Series 2002A, 5.125%, 7/01/42 □ FGIC Insured 7/12 at

430 Maryland Water Quality Financing Administration, Revolving Loan Fund Revenue Bonds, Series 2005A, 5.000%, 9/01/15 No O

3,000 Total Water and Sewer

\$ 110,475 Total Investments (cost \$113,865,197) □ 149.2%

Other Assets Less Liabilities □ 0.6%

Preferred Shares, at Liquidation Value □ (49.8)%

Net Assets Applicable to Common Shares □ 100%

- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.
- (2) Optional Call Provisions: Dates (month and year) and prices of the earliest optional call or redemption. There may be other call provisions at varying prices at later dates. Certain mortgage-backed securities may be subject to periodic principal paydowns.
- (3) Ratings: Using the higher of Standard & Poor's or Moody's rating. Ratings below BBB by Standard & Poor's Group or Baa by Moody's Investor Service, Inc. are considered to be below investment grade.
- (4) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.

N/R Not rated.

WI/DD Purchased on a when-issued or delayed delivery basis.

(ETM) Escrowed to maturity.

Income Tax Information

The following information is presented on an income tax basis. Differences between amounts for financial statement and federal income tax purposes are primarily due to the treatment of paydown gains and losses, timing differences in recognizing taxable market discount and timing differences in recognizing certain gains and losses on investment transactions.

At August 31, 2006, the cost of investments was \$113,956,580.

Gross unrealized appreciation and gross unrealized depreciation of investments at August 31, 2006, were as follows:

Gross unrealized:

Appreciation	\$3,161,353
Depreciation	(327,783)

Net unrealized appreciation (depreciation) of investments

\$2,833,570

Item 2. Controls and Procedures.

- a. The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rule 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934 (17 CFR 240.13a-15(b) or 240.15d-15(b)).
- b. There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

File as exhibits as part of this Form a separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the 1940 Act (17 CFR 270.30a-2(a)), exactly as set forth below: EX-99 CERT Attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Nuveen Maryland Dividend Advantage Municipal Fund 3

By (Signature and Title)* /s/ Jessica R. Droeger
 Jessica R. Droeger
 Vice President and Secretary

Date October 27, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)* /s/ Gifford R. Zimmerman
 Gifford R. Zimmerman
 Chief Administrative Officer (principal executive officer)

Date October 27, 2006

By (Signature and Title)* /s/ Stephen D. Foy
 Stephen D. Foy
 Vice President and Controller (principal financial officer)

Date October 27, 2006

* Print the name and title of each signing officer under his or her signature.