MUNICIPAL MORTGAGE & EQUITY LLC
Form 10-Q/A
September 24, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2004

Commission File Number: 001-11981

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

Delaware	**52-1449733**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

621 E. Pratt Street, Suite 300	
Baltimore, Maryland	**21202-3140**
(Address of principal executive offices)	(Zip Code)

(443) 263-2900
(Registrant s telephone number, including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **[x]** Yes [ ]_No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). **[x]** Yes [ ]_No

The Registrant had 34,784,093 common shares outstanding as of April 30, 2004.

MUNICIPAL MORTGAGE & EQUITY, LLC
INDEX TO FORM 10-Q/A

Explanatory Note

The purpose of this Amendment No. 1 to Municipal Mortgage & Equity, LLC s (MuniMae and together with its subsidiaries the Company) Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (the Form 10-Q/A) is to restate the Company s consolidated financial statements for the period ended March 31, 2004. The restatement also affected the period ended June 30, 2004.

This Form 10-Q/A has not been updated for changes in events, estimates or other developments subsequent to May 6, 2004, the date of filing of the Quarterly Report on Form 10-Q for the period ended March 31, 2004, except as required to reflect the effects of the restatement. Accordingly, this Form 10-Q/A should be read in conjunction with the Company s filings made subsequent to the filing of the original Form 10-Q, including any amendments to those filings. For a discussion of these subsequent events and developments as well as revisions to prior estimates, please refer to the Company s Form 10-Q filed on August 6, 2004 and Form 10-Q/A filed on September 23, 2004, each for the period ended June 30, 2004.

This Form 10-Q/A amends and restates Items 1, 2 and 4 of Part I and Item 6 of Part II of the original Form 10-Q as well as information set forth under Forward-Looking Information . No other information included in the original Form 10-Q is amended hereby. All referenced amounts in this Form 10-Q/A for prior period comparisons reflect the balances and amounts on a restated basis.

The financial statements have been restated in order to properly reflect costs relative to an employee deferred compensation arrangement executed during the first quarter of 2004. A copy of the employment agreement had been publicly disclosed on March 12, 2004 as Exhibit 10.3 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2003. Additional detail regarding the restatement is included in Note 1A of the Notes to the Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q/A.

Forward-Looking Information

This Quarterly Report on Form 10-Q/A contains forward-looking statements, which involve certain risks and uncertainties. Assumptions contained in various portions of this Quarterly Report on Form 10-Q/A involve judgments with respect to, among other things, future economic market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking information included herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that such forward-looking information will prove to be accurate. In light of the significant uncertainties inherent in forward-looking information, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

PART I.
FINANCIAL INFORMATION

Item 1. Restated Financial Statements.

MUNICIPAL MORTGAGE & EQUITY, LLC

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)
(unaudited)

	Restated March 31, 2004	December 31, 2003
ASSETS		
Investment in tax-exempt bonds, net (Note 2)	$1,097,764	$ 1,043,973
Loans receivable, net (Note 3)	541,516	497,884
Loans receivable held for sale (Note 3)	22,933	54,492
Investment in partnerships (Note 4)	1,624,073	282,492
Investments in derivative financial instruments (Note 5)	2,630	2,563
Cash and cash equivalents	40,527	50,826
Interest receivable	17,790	16,843
Restricted assets (Note 6)	195,016	75,525
Other assets	69,610	79,390
Mortgage servicing rights, net	10,631	10,967
Goodwill	107,505	107,505
Other intangibles	25,980	27,159
Total assets	$3,755,975	$ 2,249,619
LIABILITIES AND SHAREHOLDERS EQUITY		
Notes payable (Note 7)	$ 867,478	$ 646,096
Short-term debt (Note 7)	374,376	371,881
Long-term debt (Note 7)	186,792	190,090
Preferred shares subject to mandatory redemption (Note 8)	168,000	168,000
Tax credit equity guarantee liability (Note 9)	136,322	151,326
Investments in derivative financial instruments (Note 5)	17,709	15,287
Accounts payable and accrued expenses	10,641	17,506
Interest payable	10,610	9,581
Unearned revenue and other liabilities	34,139	37,986
Total liabilities	1,806,067	1,607,753

Commitments and contingencies (Note 10)		
Minority interest in subsidiary companies (Note 1)	1,274,458	31
Shareholders equity:		
Common shares, par value $0 (38,071,099 shares authorized, including 34,854,393 shares issued and outstanding, and 41,651 deferred shares at March 31, 2004 and 35,926,099 shares authorized, including 32,592,093 shares issued and outstanding, and 39,701 deferred shares at December 31, 2003)	692,786	654,700
Less common shares held in treasury at cost (124,715 at March 31, 2004 and December 31, 2003)	(2,615)	(2,615)
Less unearned compensation (deferred shares) (Note 12)	(4,067)	(3,992)
Accumulated other comprehensive loss	(10,654)	(6,258)
Total shareholders equity	675,450	641,835
Total liabilities and shareholders equity	$3,755,975	$ 2,249,619

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

MUNICIPAL MORTGAGE & EQUITY, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)
(unaudited)

	For the three months ended March 31,	
	Restated 2004	**2003**
INCOME:		
Interest income		
Interest on bonds and residual interests in bond securitizations	$ 19,178	$ 15,985
Interest on loans	10,283	9,503
Interest on short-term investments	223	192
Total interest income	29,684	25,680
Fee income		
Syndication fees	3,751	1,411
Origination fees	917	698
Loan servicing fees	1,881	1,909
Asset management and advisory fees	6,166	1,076
Guarantee fees	1,853	111
Other income	1,837	2,086
Total fee income	16,405	7,291
Net gain on sales	3,307	1,278
Total income	49,396	34,249
EXPENSES:		
Interest expense	14,880	10,368
Interest expense on preferred shares (Note 8)	3,046	
Salaries and benefits	15,584	5,966
General and administrative	3,920	1,656
Professional fees	1,494	989
Amortization of intangibles	1,612	389

Total expenses	40,536	19,368
Net holding gains (losses) on derivatives	(2,355)	2,873
Impairments and valuation allowances related to investments	(300)	
Net losses from equity investments in partnerships	(10,511)	(747)
Net (loss) income before income taxes, income allocated to preferred shareholders in a subsidiary company and cumulative effect of a change in accounting principle	(4,306)	17,007
Income tax benefit (expense)	2,510	(68)
Net (loss) income before income allocated to preferred shareholders in a subsidiary company and cumulative effect of a change in accounting principle	(1,796)	16,939
Income allocable to preferred shareholders in a subsidiary company		(2,994)
Net (loss) income before cumulative effect of a change in accounting principle	(1,796)	13,945
Cumulative effect of a change in accounting principle	520	
Net (loss) income	$ (1,276)	$ 13,945
Basic (loss) earnings per common share:		
(Loss) earnings before cumulative effect of accounting change	$ (0.06)	$ 0.51
Cumulative effect of a change in accounting principle	0.02	
Basic (loss) earnings per common share	$ (0.04)	$ 0.51
Weighted average common shares outstanding	33,301,337	27,342,870
Diluted (loss) earnings per common share:		
(Loss) earnings before cumulative effect of accounting change	$ (0.06)	$ 0.50
Cumulative effect of a change in accounting principle	0.02	
Diluted (loss) earnings per common share	$ (0.04)	$ 0.50
Weighted average common shares outstanding	33,301,337	27,681,511

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

3

MUNICIPAL MORTGAGE & EQUITY, LLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(unaudited)

	For the three months ended March 31,	
	Restated 2004	2003
Net income	$(1,276)	$13,945
Other comprehensive income (loss):		
Unrealized gains (losses) on investments:		
Unrealized holding gains (losses) arising during the period	(4,204)	4,576
Reclassification adjustment for gains included in net income	(192)	
Other comprehensive income (loss)	(4,396)	4,576
Comprehensive income (loss)	$(5,672)	$18,521

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

MUNICIPAL MORTGAGE & EQUITY, LLC
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(In thousands, except share data)
(unaudited)

	Common Shares	Treasury Shares	Unearned Compensation	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2004	$654,700	$(2,615)	$ (3,992)	$ (6,258)	$641,835
Net loss	(1,276)				(1,276)
Unrealized gains on investments, net of reclassifications				(4,396)	(4,396)
Distributions	(14,770)				(14,770)
Purchase of treasury shares					
Options exercised	758				758
Issuance of common shares	52,475				52,475
Deferred shares issued under the Non-Employee Directors Share Plans	47				47
Deferred share grants			(638)		(638)
Forfeiture of deferred shares					
Amortization of deferred compensation	852		563		1,415
Tax benefit from exercise of options and vesting of deferred shares					
Balance, March 31, 2004 as Restated	$692,786	$(2,615)	$ (4,067)	$ (10,654)	$675,450

	Common Shares	Treasure Shares
SHARE ACTIVITY:		
Balance, January 1, 2004	32,507,079	124,715
Options exercised	41,000	
Purchase of treasury shares		
Issuance of common shares	2,145,351	
Issuance of common shares under employee share incentive plans	75,949	
Deferred shares issued under the Non-Employee Directors Share Plans	1,950	
Balance, March 31, 2004	34,771,329	124,715

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

MUNICIPAL MORTGAGE & EQUITY, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(unaudited)

	For the three months ended March 31,	
	Restated 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ (1,276)	$ 13,945
Adjustments to reconcile net income to net cash provided by operating activities:		
Income allocated to preferred shareholders		2,994
Cumulative effect of a change in accounting principle	(520)	
Net holding (gains) losses on trading securities	2,355	(2,873)
Impairments and valuation allowances related to investments	300	
Amortization of guarantee liability	(1,075)	
Net gain on sales	(3,307)	(1,278)
Loss from investments in partnerships	10,511	747
Distributions received from investments in partnerships	1,887	1,714
Net amortization of premiums, discounts and fees on investments	(106)	(116)
Depreciation and amortization	2,936	531
Tax benefit from deferred share compensation		313
Deferred share compensation expense	777	444
Common and deferred shares issued under the Non-Employee Directors Share Plans	56	67
Net change in assets and liabilities:		
Increase in interest receivable	(947)	(2,555)
(Increase) decrease in other assets and goodwill	(22,434)	16,275
Decrease in accounts payable, accrued expenses and other liabilities	(8,202)	(5,305)
Decrease in loans receivable held for sale	32,168	38,816
Net cash provided by (used in) operating activities	13,123	63,719
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of tax-exempt bonds and residual interests in bond securitizations	(67,000)	(27,345)
Loan originations	(90,504)	(76,248)
Purchases of property and equipment	(419)	(78)
Net (investment) in restricted assets	9,190	(3,264)
Principal payments received	47,465	60,671
Proceeds from the sale of investments	8,168	
Investments in partnerships	(43,433)	(19,770)
Return of capital invested in partnerships	60,369	18,617

Net cash used in investing activities	(76,164)	(47,417)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from credit facilities	280,438	167,522
Repayment of credit facilities	(267,711)	(237,373)
Proceeds from tax credit syndication investors	2,364	
Proceeds from short-term debt	2,495	
Repayment of short-term debt		(355)
Proceeds from long-term debt	1,140	
Repayment of long-term debt	(4,438)	(370)
Issuance of common shares	52,466	71,944
Proceeds from stock options exercised	758	188
Distributions to common shares	(14,770)	(11,335)
Distributions to preferred shareholders in a subsidiary company		(2,994)
Net cash provided by financing activities	52,742	(12,773)
Net increase (decrease) in cash and cash equivalents	(10,299)	3,529
Cash and cash equivalents at beginning of period	50,826	43,745
Cash and cash equivalents at end of period	$ 40,527	$ 47,274
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 24,492	$ 10,238
Income taxes paid	$ 1,146	$ 64
Non-cash activity resulting from consolidation of VIEs under FIN 46 (Note 1):		
Investment in partnership	1,382,800	
Restricted assets	133,107	
Other assets	(27,398)	
Notes Payable	208,655	
Accounts payable, accrued expenses and other liabilities	4,740	
Minority interest in subsidiary companies	1,274,533	
Accumulated other comprehensive income	61	

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

MUNICIPAL MORTGAGE & EQUITY, LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 BASIS OF PRESENTATION

Municipal Mortgage & Equity, LLC (**MuniMae** and, together with its subsidiaries, the **Company**) provides debt and equity financing to developers of multifamily housing and other real estate investments. The Company invests in tax-exempt bonds, or interests in bonds, issued by state and local governments or their agencies or authorities to finance multifamily housing developments. These tax-exempt bonds are not general obligations of state and local governments, or the agencies or authorities that issue the bonds. The multifamily housing developments, as well as the rents paid by the tenants, typically secure these investments. The Company also invests in other housing-related debt and equity investments, including equity investments in real estate operating partnerships; tax-exempt bonds, or interests in bonds, secured by student housing or assisted living developments; and tax-exempt bonds issued by community development districts to finance the development of community infrastructure supporting single-family housing or commercial developments and secured by specific payments or assessments pledged by the local improvement district that issues the bonds (**CDD bonds**). Interest income derived from the majority of the Company s bond investments is exempt income for Federal income tax purposes.

The Company is also a tax credit syndicator and a mortgage banker. As a syndicator, the Company acquires and sells to investors interests in partnerships that receive and distribute to investors low-income housing tax credits. The Company earns syndication fees on the placement of these interests with investors. The Company also earns fees for providing guarantees on certain tax credit funds and for managing the low-income housing tax credit funds it has syndicated. Mortgage banking activities include the origination of, investment in and servicing of investments in multifamily housing, both for its own account and on behalf of third parties. These investments generate taxable income.

MuniMae was organized in 1996 as a Delaware limited liability company. As a limited liability company, the Company combines many of the limited liability, governance and management characteristics of a corporation with the pass-through income features of a partnership. Since MuniMae is classified as a partnership for Federal income tax purposes, MuniMae is not itself subject to Federal and, in most cases, state and local income taxes. Instead, each shareholder must include his or her distributive share of MuniMae s income, deductions and credits on the shareholder s income tax return. Most of the Company s mortgage banking and tax credit syndication activities are conducted through subsidiaries classified as corporations for Federal income tax purposes, which do not have the pass-through income features of a partnership.

On July 1, 2003, the Company acquired the Housing and Community Investing (**HCI**) business of Lend Lease Corporation Limited for $102.0 million in cash. HCI is a syndicator of low income housing tax credit equity investments. The acquisition of this affordable housing tax credit syndication operation has enhanced the Company s competitive position, and as a result the Company is one of the nation s leaders in the affordable housing industry. The HCI business is owned by MMA Financial TC Corp. (**TC Corp**), a wholly owned subsidiary of the Company, and the Company s results for the first quarter of 2004 reflect a full quarter of activity from TC Corp.

In 1999, the Company placed a substantial portion of its tax-exempt bonds and residual interests in bond securitizations in an indirect subsidiary of the Company, MuniMae TE Bond Subsidiary, LLC (**TE Bond Sub**). TE Bond Sub sold Series A, Series B and Series A-1 and Series B-1 Cumulative Preferred Shares (collectively, the **TE Bond Sub Preferred Shares**) to institutional investors in May 1999, June 2000 and October 2001, respectively. The TE Bond Sub Preferred Shares have a senior claim to the income derived from the investments owned by TE Bond Sub. Any income from TE Bond Sub available after payment of the cumulative distributions of the TE Bond Sub Preferred Shares is allocated to the Company, which holds all of the common equity interests. **As a result, the assets of TE Bond Sub and its subsidiaries, while indirectly controlled by MuniMae and thus included in the consolidated financial statements of the Company, are legally owned by TE Bond Sub and are not available to the creditors of the Company.** The Company s common equity interest in TE Bond Sub was $268.8 million and $267.0 million at March 31, 2004 and December 31, 2003, respectively. The common equity interest in TE Bond Sub held by MuniMae is subject to the claims of the creditors of MuniMae and in certain circumstances could be foreclosed.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and in the opinion of management contain all adjustments (consisting of only normal recurring accruals) necessary to present a fair statement of the results for the periods presented. These results have been determined on the basis of accounting principles and policies discussed in Note 1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2003 (the **Company s 2003 Form 10-K**). Certain information and footnote disclosures normally included in financial statements presented in accordance with generally accepted accounting principles (**GAAP**) have been condensed or omitted. The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s 2003 Form 10-K. Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (**FASB**) approved Financial Interpretation No. 46, Consolidation of Variable Interest Entities (**FIN 46**). FIN 46 requires the consolidation of a company s equity investment in a variable interest entity (**VIE**) if the company is the primary beneficiary of the VIE and if risks are not effectively dispersed among the owners of the VIE. The company is considered to be the primary beneficiary of the VIE if the company absorbs the majority of the losses of the VIE. FIN 46 is effective for VIEs created after January 31, 2003. For any VIE in which the Company held an interest that it acquired before February 1, 2003, FIN 46 was effective for the first interim reporting period beginning after June 15, 2003. In December 2003, FASB approved various amendments to FIN 46 and released a revised version of FIN 46 (**FIN 46-R**). In addition, FASB extended the effective date of FIN 46 until the first reporting period ending after March 15, 2004 for VIEs which are not special purpose entities, and the Company elected to defer adoption of that portion of FIN 46 until that time.

The Company s residual interests in bond securitizations represent equity interests in VIEs, and the Company is the primary beneficiary of those VIEs. The Company determined that its residual interests in bonds were special purpose entities and did not qualify for the deferral. Therefore, these securitization trusts were consolidated at December 31, 2003.

The Company has general partner interests in low-income housing tax credit equity funds where the respective funds have one or more limited partners. The determination of whether the Company is the primary beneficiary of (and must consequently consolidate) a given tax credit equity fund depends on a number of factors, including the number of limited partners and the rights and obligations of the general and limited partners in that fund. Upon adoption of FIN 46 in March 2004, the Company determined that it is the primary beneficiary in certain of the funds it originates where there are multiple limited partners. As a result, the Company consolidated these equity investments at March 31, 2004. The Company s general partner interests typically represent a one percent or less interest in each fund. For those funds which it consolidates, the Company reports the net assets of the funds, consisting primarily of restricted cash, investments in partnerships and notes payable, in the Company s consolidated balance sheet. In addition, the limited partnership interests in the funds, owned by third party investors, are reported as a minority interest. The net income (loss) from these tax credit equity funds is reported in the appropriate line items of the Company s consolidated statement of income. An adjustment for the income (loss) allocable to the limited partners (investors) in the funds is recorded through minority interest expense (income) in the Company s consolidated statements of income. At March 31, 2004, the Company recorded net assets of these tax credit equity funds of $1.3 billion, consisting primarily of $1.4 billion in investment in partnerships, $133.1 million in restricted assets and $208.7 million in notes payable, which are non-recourse to the Company. The Company recorded $1.3 billion in minority interest in subsidiary companies. As of March 31, 2004, the Company also recorded a $0.5 million cumulative effect of a change in accounting principle as a result of recording the net equity allocable to the Company s general partner interest in the funds. The Company also has a general partner interest in certain other low-income housing tax credit equity funds where it has concluded that it is not the primary beneficiary. Accordingly, funds with assets of $970.3 million and liabilities of $90.8 million at March 31, 2004 have not been consolidated and continue to be accounted for using the equity method of accounting.

NOTE 1A RESTATEMENT

The consolidated financial statements have been restated in order to reflect certain adjustments to the Company s consolidated financial statements that were previously reported in the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 filed on May 6, 2004 (the Form 10-Q). The restatement also affects the three- and six-month periods ended June 30, 2004.

Subsequent to the filing of the Form 10-Q, management determined that the Company had not properly accounted for certain compensation costs associated with an employee compensation arrangement executed during the first quarter of 2004. Accordingly, the Company has restated the Form 10-Q to recognize the appropriate amount of compensation cost of approximately $2.5 million for the three months ended March 31, 2004, within salaries and benefits in the income statement and accounts payable and accrued expenses in the balance sheet. Corresponding adjustments were made to shareholders equity, earnings (loss) per share and cashflows accordingly. This restatement had no effect on the Company s income tax benefit (expense). No other types of adjustments to the Company s consolidated financial statements were made in association with the restatement.

A summary of the significant effects of the restatement is as follows:

	For the period ending March 31, 2004	
(in thousands, except per share amounts):	**As reported**	**Restated**
Consolidated income statement data:		
Salaries and benefits	$13,059	$15,584
Net loss before income taxes, income allocated to preferred shareholders in a subsidiary company and cumulative effect of a change in accounting principle	$ (1,781)	$ (4,306)
Net income (loss) before income allocated to preferred shareholders in a subsidiary company and cumulative effect of a change in accounting principle	$ 729	$ (1,796)
Net income (loss) before cumulative effect of a change in accounting principle	$ 729	$ (1,796)
Net income (loss)	$ 1,249	$ (1,276)
Earnings (loss) per share:		
Basic	$ 0.04	$ (0.04)
Diluted	$ 0.04	$ (0.04)

	As of March 31, 2004	
Consolidated balance sheet data:		
Accounts payable and accrued expenses	$ 8,116	$ 10,641
Total liabilities	$1,803,542	$1,806,067
Shareholders equity	$ 677,975	$ 675,450

NOTE 2 INVESTMENT IN TAX-EXEMPT BONDS

The Company originates investments in tax-exempt bonds and taxable loans primarily to the affordable multifamily housing industry. Tax-exempt bonds are issued by state and local government authorities to finance multifamily housing developments or other real estate financings. The bonds are typically secured by nonrecourse mortgage loans on the underlying properties.

The Company invests in other housing-related securities, including tax-exempt bonds issued by community development districts, to finance the development of infrastructure supporting single-family housing or commercial developments and secured by specific payments or assessments pledged by the local improvement district that issues the bonds. The Company also invests in tax-exempt bonds, or interests in bonds, secured by student housing or assisted living developments.

The Company s sources of capital to fund these lending activities include proceeds from equity and debt offerings, securitizations, notes and warehousing facilities with various pension funds and commercial banks, and draws on lines of credit. The Company earns interest income from its investment in tax-exempt bonds and taxable loans. The Company also earns origination and construction administration fees, through subsidiaries classified as corporations for Federal income tax purposes, for originating and servicing the bonds during the construction period.

For a further discussion of the general terms of tax-exempt bonds see Note 1 to the Company s 2003 Form 10-K.

As of March 31, 2004 and December 31, 2003, the Company held $1,097.8 million and $1,044.0 million of tax-exempt bonds, respectively. The following tables summarize the tax-exempt bonds by type.

(in thousands)	March 31, 2004			
	Face Amount	**Amortized Cost**	**Unrealized Gain (Loss)**	**Fair Value**
Non-participating bonds	$976,257	$955,818	$(26,712)	$929,106
Participating bonds	101,503	100,606		