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AMERICAN MORTGAGE ACCEPTANCE CO  
Form 10-K  
March 24, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
----- EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

OR

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

Commission File Number 0-23972

AMERICAN MORTGAGE ACCEPTANCE COMPANY  
(Formerly American Mortgage Investors Trust)

-----  
(Exact name of registrant as specified in its charter)

----- Massachusetts ----- (State or other jurisdiction of incorporation or organization)	----- 13-6972380 ----- (I.R.S. Employer Identification No.)
----- 625 Madison Avenue, New York, New York ----- (Address of principal executive offices)	----- 10022 ----- (Zip Code)

Registrant's telephone number, including area code (212) 421-5333

Securities registered pursuant to Section 12(b) of the Act:  
None

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

Shares of Beneficial Interest, par value \$.10 per share

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 X No  
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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. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes X No

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The approximate aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of June 28, 2002 was \$83,580,115, based on a price of \$13.40 per share, the closing sales price for the Registrant's shares of beneficial interest on the American Stock Exchange on that date.

As of March 14, 2003 there were 6,363,630 outstanding shares of the Registrant's shares of beneficial interest.

## DOCUMENTS INCORPORATED BY REFERENCE

Part III: Those portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on June 11, 2003, which are incorporated into Items 10, 11, 12 and 13.

Index to exhibits may be found on page 42  
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## CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

WHEN USED IN THIS ANNUAL REPORT ON FORM 10-K, THE WORDS "BELIEVES", "ANTICIPATES", "EXPECTS" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. STATEMENTS LOOKING FORWARD IN TIME ARE INCLUDED IN THIS ANNUAL REPORT ON FORM 10-K PURSUANT TO THE "SAFE HARBOR" PROVISION OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. SUCH STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY, INCLUDING, BUT NOT LIMITED TO, THOSE SET FORTH IN "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS". READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF.

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## PART I

Item 1. Business.

General

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American Mortgage Acceptance Company (the "Company") was formed on June 11, 1991 as a Massachusetts business trust. The Company elected to be treated as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code").

Effective April 26, 1999, upon authorization by the Company's board of trustees, the Company's name was changed from American Mortgage Investors Trust to American Mortgage Acceptance Company. The Company's shares of beneficial interest (the "Shares") commenced trading on the American Stock Exchange on July 1, 1999 under the symbol "AMC". As of December 31, 2002, there were 6,363,630 Shares outstanding.

The Company's business plan focuses on originating and acquiring mortgages

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secured by multi-family properties, which may take the form of government insured first mortgages and uninsured mezzanine loans, construction loans, and bridge loans. Additionally, the Company has indirectly invested in subordinate commercial mortgage-backed securities and may invest in other real estate assets, including non-multi-family mortgages, issues guarantees of construction and permanent financing, and makes standby and forward loan commitments.

The Company is governed by a board of trustees comprised of three independent trustees and two trustees who are affiliated with Related Capital Company ("Related"). The Company has engaged Related AMI Associates, Inc. (the "Advisor"), an affiliate of Related, to manage its day-to-day affairs. The Advisor has subcontracted with Related to provide the services contemplated. Through the Advisor, Related offers the Company a core group of experienced staff and executive management providing the Company with services on both a full and part-time basis. These services include, among other things, acquisition, financial, accounting, tax, capital markets, asset monitoring, portfolio management, investor relations and public relations services. The Company believes that it benefits significantly from its relationship with Related, since Related provides the Company with resources that are not generally available to smaller-capitalized, self-managed companies.

The consolidated financial statements include the accounts of the Company and three wholly-owned subsidiaries which it controls: AMAC Repo Seller, AMAC/FM Corporation ("AMAC/FM") and AMAC Credit Facility, LLC. All intercompany accounts and transactions have been eliminated in consolidation, unless otherwise indicated. The "Company" as hereinafter used, refers to American Mortgage Acceptance Company and its subsidiaries.

### Investment Strategy

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Since the Company's 1999 listing on the American Stock Exchange, the Company's goal has been to attempt to maximize the return on the Company's asset base by investing in higher yielding assets while managing risk by maintaining a portion of its investments in government agency guaranteed or insured assets and by maintaining a conservative capital structure.

The Company seeks asset diversification, capital appreciation and income for distribution to its shareholders primarily through the acquisition and origination of mortgages secured by multifamily properties. These investments may take the form of first mortgages, mezzanine loans, construction loans and bridge loans. The Company also indirectly invests in subordinate commercial mortgage-backed securities and may invest in other real estate assets.

The Company invests in the following types of assets:

#### Government Insured and Guaranteed Investments

Generally, the Company seeks to maintain a minimum of 40% of its mortgage investments in government insured or guaranteed investments, primarily through the acquisition or origination of mortgage loans on multi-family properties, the principal of which is insured by the Federal Housing Authority ("FHA"), and the acquisition of Government National Mortgage Association ("GNMA") mortgage-backed securities and pass-through certificates. The Company believes that government agency insured lending offers safety, liquidity and moderate yields, while also providing a strong asset base for collateralized borrowing on favorable terms.

#### Mezzanine Loans

Mezzanine loans are subordinate to senior mortgages and may include a participating component, such as a right to a portion of the cash flow and proceeds generated from the refinancing and sale of the underlying properties.

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The Company seeks to capitalize on attractive yields available through the funding of mezzanine debt in combination with origination of government insured, multi-family first mortgages. The Company believes that it is one of the few lenders in the country who offer mezzanine loans in conjunction with agency-insured first mortgage loans.

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The Company's mezzanine loans typically finance newly constructed or rehabilitated market-rate multi-family properties and generally have terms of 40 years with an option to call the loan on 12 months notice at any time after the tenth anniversary of the completion of the construction or rehabilitation. These loans are typically in a subordinated mortgage position, are also secured by equity interests in the borrower and have limited recourse to the borrower for the three years from the date of loan. The Company seeks properties in growing real estate markets with well capitalized developers or guarantors. The Company leverages the expertise of its Advisor and its affiliates in both the initial underwriting of the property, as well as in the ongoing monitoring of the property through construction, lease-up and stabilization.

### Bridge Loans

The Company has two bridge loan programs. In the first, the Company's bridge loans are typically funded in connection with the development of multi-family properties which benefit from the Low Income Housing Tax Credit program under Section 42 of the Internal Revenue Code ("LIHTC program"). Due to the equity payment schedule typically associated with the LIHTC program, there can be periods in a construction cycle where a developer needs short-term capital. To capitalize on this demand, the Company will offer bridge loans to developers with typical terms of approximately 12 months and which are collateralized by the equity interests in the property owner. In the second program, the Company provides bridge loans for properties undergoing rehabilitation by new owners when the rehabilitation process will add significant value to the property and reduce the effective loan-to-value ratio and risk of loss. The Company's loans may finance the initial purchase and/or the subsequent rehabilitation of a property.

During October 2002, the Company entered into a mortgage warehouse line of credit (the "Fleet Warehouse Facility") with Fleet National Bank ("Fleet"), in the amount of \$40 million. Advances under the Fleet Warehouse Facility, up to 83% of the total loan package, will be used to fund first mortgage loans, which the Company will make for the acquisition/refinancing and minor renovation of existing, lender-approved multi-family properties located in stable sub-markets. As of December 31, 2002, the Company had approximately \$8.8 million in loans outstanding under this program.

### Commercial Mortgage-Backed Securities ("CMBS")

The Company may invest in subordinated CMBS, which offer the advantage of significantly higher yields than government insured and guaranteed investments. The market values of subordinated interest in CMBS and other subordinated securities tend to be more sensitive to changes in economic conditions than senior, rated classes. As a result of these and other factors, subordinated interest generally are not actively traded and may not provide holders with liquidity of investment.

The Company currently invests indirectly in CMBS through a convertible preferred equity investment in ARCap Investors, LLC ("ARCap"). ARCap specializes in, and is a recognized industry leader in investing in, non-investment grade and unrated subordinated CMBS. The CMBS which comprise ARCap's portfolio are

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collateralized by a diverse range of underlying properties including multi-family, retail, office and hotel.

### Standby Loan Commitments

The Company issues standby bridge loan and permanent loan commitments for projects involved with the construction or rehabilitation of multi-family apartment complexes in various locations. In return, the Company receives a fee for issuing these commitments.

### Construction Guarantees

The Company has entered into an agreement with Wachovia Bank, National Association ("Wachovia"), to provide stabilization guarantees for the benefit of Wachovia for new construction of multi-family properties under the LIHTC program. Wachovia already provides construction and stabilization guarantees to Fannie Mae, for loans Wachovia originates under the Fannie Mae LIHTC forward commitment loan program, but only for loans within regions of the country Wachovia has designated to be within its territory. For loans outside Wachovia's territory, the Company has agreed to issue a stabilization guarantee, for the benefit of Wachovia. The Company is guarantying that properties which have completed construction will stabilize and will convert to permanent Fannie Mae loans. The Company receives origination and guarantee fees from the developers for providing the guarantees. If the properties do not stabilize with enough Net Operating Income for Fannie Mae to fully fund their commitment, AMAC may be required to purchase the construction loan from Wachovia or to fund the difference between the construction loan amount and the reduced Fannie Mae Permanent Loan Amount.

### Portfolio

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At December 31, 2002, the Company had total assets of approximately \$195.1 million of which approximately \$22.4 million represented mortgage or mortgage-related investments. At December 31, 2002, the Company owned approximately \$114 million in GNMA certificates and had invested approximately \$8.3 million in a FHA insured first mortgage loan (repaid subsequent to year end) aggregating approximately \$122.3 million, or approximately 62.7% of the Company's assets. The Company generally seeks to maintain at least 40% of its mortgage investments in government insured or guaranteed investments.

At December 31, 2002, the Company owned approximately \$12.4 million in mezzanine loans and approximately \$26 million in bridge loans funded in connection with the development of multi-family properties which benefit from the LIHTC program. The Company also owned an indirect investment in CMBS through the Company's \$20.2 million preferred equity interest in ARCap.

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### GNMA Certificates

As of December 31, 2002, the Company's portfolio included twelve GNMA certificates.

GNMA is a wholly owned United States government corporation within the Department of Housing and Urban Development ("HUD") created to support a secondary market in government-insured and guaranteed mortgage loans. GNMA guarantees the timely payment of principal and interest on its securities, which are backed by pools of FHA and other government agency insured or guaranteed mortgages. GNMA certificates are backed by the full faith and credit of the United States government. GNMA's are widely held and traded mortgage-backed

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securities and therefore provide a high degree of liquidity.

The yield on the GNMA certificates will depend, in part, upon the rate and timing of principal prepayments on the underlying mortgages. Generally, as market interest rates decrease, mortgage prepayment rates increase and the market value of interest rate sensitive obligations like the GNMA certificates increases. As market interest rates increase, mortgage prepayment rates tend to decrease and the market value of interest rate sensitive obligations like the GNMA tend to decrease. The effect of prepayments on yield is greater the earlier a prepayment of principal is received. Certain of the Company's GNMA are collateralized by mortgage loans on multi-family properties.

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### Investments in GNMA Certificates - Available for Sale

Information relating to GNMA certificates owned by the Company as of December 31, 2002 is as follows:  
(Dollars in thousands)

	Final Certificate Number	Date Purchased/ Payment Date	Stated Interest Rate	Principal at December 31, 2002	Amortized Cost at December 31, 2002
Western Manor (1)	0355540	7/27/94 3/15/29	7.125%	\$ 2,460	\$ 2,470
Copper Commons (1)	0382486	7/28/94 8/15/29	8.500%	2,088	2,158
SunCoast Capital Group, Ltd. (1)	G002412	6/23/97 4/20/27	7.000%	546	547
Hollows Apts. (2)	511909	5/29/01	--	--	--
Elmhurst Village (1)	549391	6/28/01 1/1/42	7.745%	21,677	21,677
Reserve at Autumn Creek (1)	448748	6/28/01 1/1/42	7.745%	16,023	16,023
Casitas at Montecito (1) (3)	519289	3/11/02 10/15/42	7.300%	5,787	6,178
Village at Marshfield (1)	519281	3/11/02 1/15/42	7.475%	19,869	21,493
Cantera Crossing (1)	532662	3/28/02 6/1/29	6.500%	5,555	5,489
Fillmore Park (1)	536739	3/28/02	6.700%	1,189	1,203

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		10/15/42			
Northbrooke (1)	548972	5/24/02 8/1/43	7.080%	10,475	10,625
Ellington Plaza (1)	585494	7/26/02 6/1/44	6.835%	10,501	10,559
Burlington (1)	595515	11/1/02 4/15/31	5.900%	6,824	6,909
				-----	-----
Total				\$102,994	\$105,331
				=====	=====

- (1) These GNMA certificates are partially or wholly pledged as collateral for borrowings under the repurchase facility - See Note 7.  
 (2) This GNMA certificate was sold March 25, 2002, resulting in a gain of approximately \$614,000.  
 (3) This GNMA certificate was repaid in March 2003.

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Bridge Loans

The portfolio of bridge loans as of December 31, 2002 is summarized in the table below:  
 (Dollars in thousands)

Property	Location	Number of Apartment Units	Outstanding Principal Balance	Unamortized Costs and Fees	Carrying Amount	Remaining Comm Bal to
Alexandrine (3)	Detroit, MI	30	\$ 214	\$ --	\$ 214	\$
Concord at Palm (3) (6)	Houston, TX	360	3,850	18	3,832	
Parwood (3)	Long Beach, CA	528	3,022 (1)	25	2,997	1,
Concord at Little York	Houston, TX	276	3,500	25	3,475	
Concord at Gulfgate	Houston, TX	288	3,500	47	3,453	
Reserve at Fox River	Yorkville, IL	132	1,350	11	1,339	
Del Mar Villas (4)	Dallas, TX	260	5,554	42	5,512	

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Mountain Valley (4)	Dallas, TX	312	5,242	67	5,175	1,
Total		2,186	\$26,232	\$ 235	\$25,997	\$ 2,

- (1) Funded on an as needed basis.
- (2) To be funded for rehabilitation.
- (3) These loans are to limited partnerships whose general partners are affiliates of the Advisor.
- (4) Pledged as collateral in connection with warehouse facility with Fleet National Bank (see Note 8 of the accompanying consolidated financial statements).
- (5) Consists of two notes that mature in November 2002. One note, in the approximate amount of \$207,000, has been repaid January 2003. The remaining note, in the amount of \$6,800, remains unpaid.
- (6) The Concord of Palm bridge loan was repaid in full in March 2003.

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Investments in Mortgage Loans

Information relating to the Company's investments in mortgage loans as of December 31, 2002 is as follows:  
(Dollars in thousands)

Property	Description	Final Maturity Date	Call Date(A)	Interest Rate
<b>First Mortgage Loans</b>				
Stony Brook II (E) (M) (P) East Haven, CT	125 Units	6/37	12/06	7.625%
Sunset Gardens Eagle Pass, TX	60 Units	9/03	N/A	11.50%
Northbrooke Harris County, TX	240 Units	8/43	N/A	7.45%
Alexandrine Detroit, MI	30 Units	12/03	N/A	11.00%

Subtotal First Mortgage Loans

Mezzanine Loans (G):

Stabilized Properties

Stony Brook II (J) (N) (P)



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East Haven, CT	125 Units	6/37	12/06	15.33%
Plaza at San Jacinto (K) (N) Houston, TX	132 Units	1/43	6/11	11.40%
Subtotal Stabilized Mezzanine Loans				
Properties in Lease-Up				
-----				
The Hollows (K) (N) Greenville, NC	184 Units	1/42	1/12	10.00%
Elmhurst Village (J) (N) Oveido, FL	313 Units	1/42	3/19	10.00%
The Reserve at Autumn Creek (J) (N) Friendswood, TX	212 Units	1/42	9/14	10.00%
Subtotal Properties in Lease-Up				
Properties in Construction				
-----				
Club at Brazos (I) (N) (K) Rosenberg, TX	200 Units	5/43	TBD	10.00%
Northbrooke (J) (N) Harris County, TX	240 Units	8/43	TBD	11.50%
Del Mar Villas Dallas, TX	260 Units	4/04	N/A	LIBOR+4.625%
Mountain Valley Dallas, TX	312 Units	11/04	N/A	LIBOR+4.750%
Subtotal Properties in Construction				
Subtotal Mezzanine Loans				
Total Mortgage Loans				

Property	Share of Excess Sale or Refinancing Proceeds	Periodic Payment Terms	Prior Liens	Outstanding Face Amount of Mortgages (C
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First Mortgage Loans:

Stony Brook II (E) (M) (P)					
East Haven, CT	N/A	(F)	--	\$	8,285
Sunset Gardens					
Eagle Pass, TX	N/A	(H)	--		1,323
Northbrooke					
Harris County, TX	N/A	(L)	--		--
Alexandrine					
Detroit, MI	N/A	(H)	--		342

Subtotal First Mortgage Loans 9,950

Mezzanine Loans (G):

Stabilized Properties					
-----					
Stony Brook II (J) (N) (P)					
East Haven, CT	35%	(H)	\$	8,285	764
Plaza at San Jacinto (K) (N)					
Houston, TX	50%	(H)		6,522	1,250

Subtotal Stabilized Mezzanine Loans 2,014

Properties in Lease-Up

-----					
The Hollows (K) (N)					
Greenville, NC	25%	(H)		8,915	1,549
Elmhurst Village (J) (N)					
Oveido, FL	25%	(H)		21,677 (L)	2,874
The Reserve at Autumn Creek (J) (N)					
Friendswood, TX	25%	(H)		16,023 (L)	1,987

Subtotal Properties in Lease-Up 6,410

Properties in Construction

-----					
Club at Brazos (I) (N) (K)					
Rosenberg, TX	25%	(H)		13,436	1,962
Northbrooke (J) (N)					
Harris County, TX	50%	(H)		10,475 (L)	1,500
Del Mar Villas					
Dallas, TX	N/A	(H)		5,554	765
Mountain Valley					
Dallas, TX	N/A	(H)		5,242	776

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Subtotal Properties in Construction	5,003
Subtotal Mezzanine Loans	13,427
Total Mortgage Loans	\$ 23,377

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- (A) Loans are subject to mandatory prepayment at the option of the Company ten years after construction completion, with one year's notice. Loans with a call date of "TBD" are still under construction.
- (B) Interest on the mezzanine loans is based on a fixed percentage of the unpaid principal balance of the related first mortgage loan (prior liens). The amount shown is the approximate effective rate earned on the balance of the mezzanine loan. The mezzanine loans also provide for payments of additional interest based on a percentage of cash flow remaining after debt service and participation in sale or refinancing proceeds and certain provisions that cap the Company's total yield, including additional interest and participations, over the term of the loan.
- (C) No principal amounts of mortgage loans are subject to delinquent interest as of December 31, 2002.
- (D) Carrying amounts of the loans are net of unamortized origination costs and fees and loan discounts.
- (E) Interest and principal payments on this first mortgage loan are insured by the U.S. Department of Housing and Urban Development.
- (F) Requires monthly payments of principal and interest based on a 40-year amortization period. Loan is subject to five-year lockout against prepayments, as well as a prepayment penalty structure during the second five-year term of the loan.
- (G) The principal balance of the mezzanine loans is secured by the partnership interests of the entity that owns the underlying property and a third mortgage deed of trust. Interest payments on the mezzanine loans are secured by a second mortgage deed of trust and are guaranteed for the first 36 months after construction completion by an entity related to the general partner of the entity that owns the underlying property.
- (H) Interest only payments are due monthly, with loan balance due at maturity.
- (I) The funding of this mezzanine loan is based on property level operational achievements.
- (J) The Company has an interest in the first lien position relating to this mezzanine loan.
- (K) The Company does not have an interest in the first lien position relating to this mezzanine loan.
- (L) The first mortgage loans related to those properties were converted from participations in FHA loans to ownership of the GNMA certificates and are held by the Company.

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- (M) This first mortgage loan is pledged to secure the Company's obligation under a first loss protection agreement with Fannie Mae - see Note 14 in the accompanying consolidated financial statements.
- (N) Lifetime interest cap represents the maximum annual return, including interest, fees and participations, that can be earned by the Company over the life of the mezzanine loan, computed as a percentage of the balance of the first mortgage loan plus the mezzanine loan.
- (O) Interest cap on these loans is the maximum rate permitted by law.
- (P) The Stony Brook II first mortgage loan and mezzanine loan were repaid in January 2003 - See Note 14 in the accompanying consolidated financial statements.

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### Commercial Mortgage-Backed Security-Related Investment and Short Sale;

#### ----- Investment in ARCap -----

On September 30, 1999, the Company acquired from ARCap, a "BB+" rated subordinated CMBS from a Chase Manhattan Bank-First Union National Bank commercial mortgage trust. The CMBS investment, which was purchased for \$35,622,358, had a face amount of \$50,399,711 and an annual coupon rate of 6.4%. The Company purchased the CMBS investment using cash and debt provided through the Bear Stearns repurchase facility (see Repurchase Facilities below). In connection with this acquisition, the Company entered into an agreement (the "Agreement") with ARCap. Under the Agreement, the Company had the right to sell the CMBS investment to ARCap and purchase a preferred equity position in ARCap, all based on the then fair value of the CMBS investment. ARCap invests primarily in subordinated CMBS.

On September 30, 1999, in order to mitigate the potential income statement effect of changes in the fair value of its CMBS investment caused by changes in interest rates, the Company entered into a short sale involving the sale of a U.S. Treasury Note with a face amount of \$39,327,000 and an annual coupon rate of 5.625% borrowed from Bear Stearns & Co., Inc. ("Bear Stearns"). On March 16, 2000, the Company replaced the borrowed security by purchasing such security through Bear Stearns, and entered into an additional short sale contract involving the sale of a U.S. Treasury Note with a face amount of \$34,512,000 and an annual coupon rate of 6.0% borrowed from Bear Stearns. On November 1, 2000, the Company terminated the short sale in connection with its sale of the associated CMBS investment.

On November 1, 2000, the Company, in accordance with the Agreement, sold the CMBS investment to ARCap and repaid its borrowing under the Bear Stearns repurchase facility, closed out its short sale position (see below), and purchased a preferred equity interest in ARCap in the face amount of \$20,000,000, with a preferred dividend rate of 12%. This preferred equity interest was recorded at \$19,640,637, representing the fair value of the CMBS investment at the date of the transaction, less the Bear Stearns repurchase facility repayment plus approximately \$3.5 million in cash paid to ARCap.

The Company owns 800,000 preferred equity units of ARCap, with a face amount of \$25 per unit, representing a 7.27% ownership and voting interest. The preferred equity units are convertible, at the Company's option, into ARCap common units. If converted into common units, the conversion price is equivalent to \$25 per unit, subject to certain adjustments. Also, if not already converted, for a

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period of sixty days following the fifth anniversary of the first closing date, which will be August 4, 2005, the preferred equity units are convertible, at the Company's option, into a three-year note bearing interest at 12% that would be junior to all of ARCap's then existing indebtedness. The preferred equity units are also redeemable, at the option of ARCap, up until the fifth anniversary of the first closing date.

Through the Company's convertible preferred membership interests in ARCap, it has a substantial indirect investment in CMBS owned by ARCap. ARCap was formed in January 1999 by REMICap, an experienced CMBS investment manager, and Apollo Real Estate Investors, the real estate arm of one of the country's largest private equity investors. In conjunction with a preferred equity offering, REMICap and ARCap merged, making ARCap the only internally managed investment vehicle exclusively investing in subordinated CMBS. As of December 31, 2002, ARCap had \$823 million in assets, including investments in \$799 million of CMBS. Multi-family properties underlie approximately one-third of ARCap's CMBS.

The Company's equity in the earnings of ARCap will generally be equal to the preferred equity rate of 12% , unless ARCap does not have earnings and cash flows adequate to meet this distribution requirement. ARCap has met its distribution requirements to the Company to date. Yields on CMBS depend, among other things, on the rate and timing of principal payments, the pass-through rate, interest rate fluctuations and defaults on the underlying mortgages. The Company's interest in ARCap is illiquid and the Company would need to obtain the consent of the board of managers of ARCap before it could transfer its interest in ARCap to any party other than a current member. The carrying amount of the investment in ARCap is not necessarily representative of the amount the Company would receive upon a sale of the interest.

ARCap has informed its members that it intends to shift its focus to CMBS fund management, whereby ARCap will manage CMBS investment funds raised from third-party investors. ARCap will generally be a minority investor in these funds. ARCap thereby intends to diversify its revenue base by increasing its proportion of revenue derived from fees as opposed to interest income.

### Loan Origination Program with Fannie Mae

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The Company entered into a loan program with Fannie Mae, which agreed to fully fund the origination of \$250 million of Delegated Underwriter and Servicer loans for apartment properties that qualify for tax credits under the LIHTC program. Under the loan program, the Company intended to originate and contract for individual loans of up to \$6 million each over a two-year period in conjunction with American Property Financing, an unaffiliated third party, which would underwrite and service the loans for Fannie Mae. The Company guarantees a first loss position of up to \$21.25 million, depending on the aggregate principal amount of the loans the Company originates under this program and would receive guaranty, loan origination and other fees. The Company also guarantees construction loans for which it has issued a forward commitment to originate a loan under the Fannie Mae program, with respect to which it guarantees repayment of 100% of such construction loans. As of December 31, 2002, the Company has originated loans totaling approximately \$3.3 million under the Fannie Mae program and has made forward commitments for an additional approximate \$4.0 million. The Company's maximum guaranty at December 31, 2002 was \$7.3 million.

In order to conduct the program, the Company formed AMAC/FM Corporation, which, as of January 1, 2001, was a wholly owned Delaware corporation. From time to time, the Company expects to make capital contributions or loans to AMAC/FM in order to ensure that it has sufficient net worth to satisfy its obligations under the Fannie Mae program. On April 4, 2000, the Company transferred the Stony Brook Village II Apartments FHA first mortgage loan, with a principal balance at December 31, 2001 of \$8.3 million, to AMAC/FM. As of January 1, 2001,

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AMAC/FM is treated, for federal income tax purposes, as a taxable REIT subsidiary.

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During August 2002, the Company purchased one first mortgage loan in the amount of \$342,000 due to a default on a construction loan that was 100% guaranteed by the Company under the Fannie Mae program. The loan defaulted due to problems relating to construction issues of Alexandrine Square, a 30-unit apartment complex in Detroit, Michigan.

Subsequent to creating this program, the level of loan origination competition has increased, reducing the program's projected financing value and profitability. As a result, the Company decided in the first quarter of 2002 to discontinue this program. The Company has reached an agreement in principle to terminate this program and transfer its rights and obligations to a third party. There can be no assurance, however, that this agreement will be consummated. Accordingly, during the first quarter of 2002, the Company wrote off the balance of unamortized deferred costs relating to this program. This write-off totaled approximately \$358,000 and is included in Fannie Mae loan program expenses in the Consolidated Statement of Income.

The Fannie Mae loan program has not had, and its discontinuance is not anticipated to have, a significant impact on the Company's financial condition or results of operations.

The following table provides information relating to the loans originated and forward commitments made on Fannie Mae's behalf.

(Dollars in thousands)

### Loans Originated

Property	Location	Number of Apartment Units	Loan Amount	Loss Sharing Fee (annual rate)
Valley View	Cedar Rapids, IA	96	\$2,187	0.36%
Maple Ridge Apartments	Jackson, MI	69	1,137	0.52%
Total		165	\$3,324	

### Forward Commitments

Property	Location	Number of Apartment Units	Loan Amount	Loss Sharing Fee (annual rate)
Cameron Creek Apartments	Dade Country, FL	148	\$3,000	0.35%
Desert View Apartments	Coolidge, AZ	372	1,011	0.52%
Total		520	\$4,011	

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## Competition

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The Company competes with various financial institutions in each of its lines of business. The Company competes with banks and quasi-governmental agencies such as Fannie Mae, Freddie Mac and HUD, as well as their designated mortgagees, for multi-family loan product. For CMBS investments, competitors include major financial institutions that sponsor CMBS conduits, pension funds, REITs and finance companies that specialize in CMBS investment management.

The Company's business is also affected by competition to the extent that Underlying Properties from which it derives interest and, ultimately, principal payments may be subject to rental rates and relative levels of amenities from comparable neighboring properties.

## Employees and Management

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The Company does not directly employ anyone. All services are performed for the Company by the Advisor and its affiliates. The Advisor receives compensation in connection with such activities as set forth in Item 8, Financial Statements and Supplementary Data, Item 11, Executive Compensation and Item 13, Certain Relationships and Related Transactions. In addition, the Company reimburses the Advisor and certain of its affiliates for expenses incurred in connection with the performance by their employees of services for the Company in accordance with the Declaration of Trust.

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## Item 2. Properties.

The Company does not own or lease any properties.

## Item 3. Legal Proceedings.

The Company is not a party to any material pending legal proceedings.

## Item 4. Submission of Matters to a Vote of Shareholders.

None.

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## PART II

## Item 5. Market for the Registrant's Common Equity and Related Shareholder Matters.

As of March 20, 2003, there were 243 registered shareholders owning 6,363,630 Shares. The Company's Shares have been listed on the American Stock Exchange since July 1, 1999, under the symbol "AMC". Prior to July 1, 1999, there was no established public trading market for the Company's Shares.

The high and low common share prices for each quarterly period in the past two fiscal years in which the Shares were traded is as follows:

	2002	2002	2001	2001
Quarter Ended	Low	High	Low	High

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March 31	\$ 12.60	\$ 14.70	\$ 7.50	\$ 11.25
June 30	\$ 12.70	\$ 14.09	\$ 9.60	\$ 12.00
September 30	\$ 10.05	\$ 13.60	\$ 10.93	\$ 15.50
December 31	\$ 11.50	\$ 14.09	\$ 12.60	\$ 14.80

The last reported sale price of Shares on the American Stock Exchange on March 20, 2003 was \$15.62.

On February 25, 2002, the Company completed a public offering of 2.5 million common shares at a price of \$13.50 per share. The net proceeds from this offering, approximately \$31 million, net of underwriter's discount and expenses, were used to fund investments.

### Incentive Share Option Plan

The Company adopted an incentive share option plan (the "Incentive Share Option Plan") to attract and retain qualified persons as trustees and officers and to provide incentive to and more closely align the financial interests of the Advisor and its employees and officers with the interests of the Company's shareholders by providing the Advisor with substantial financial interest in the Company's success. The compensation committee (the "Compensation Committee"), which is comprised of Messrs. Peter T. Allen and Arthur P. Fisch, administers the Incentive Share Option Plan. Pursuant to the Incentive Share Option Plan, if the Company's distributions per share in the immediately preceding calendar year exceed \$1.45 per share, the Compensation Committee has the authority to issue options to purchase, in the aggregate, that number of shares which is equal to three percent of the shares outstanding as of December 31 of the immediately preceding calendar year (or in the initial year, as of December 31, 1999), provided that the Compensation Committee may only issue, in the aggregate, options to purchase a maximum number of shares over the life of the Incentive Share Option Plan equal to 383,863 shares (i.e. 10% of the shares outstanding on December 31, 2001). If the Compensation Committee does not grant the maximum number of options in any year, then the excess of the number of authorized options over the number of options granted in such year will be added to the number of authorized options in the succeeding year and will be available for grant by the Compensation Committee in such succeeding year. All options granted by the Compensation Committee will have an exercise price equal to or greater than the fair market value of the share on the date of the grant. The maximum option term is ten years from the date of grant. All share options granted pursuant to the Incentive Share Option Plan may vest immediately upon issuance or in accordance with the determination of the Compensation Committee. No options have been granted under this plan as of December 31, 2002.

### Distribution Information

Cash distributions per share for the years ended December 31, 2002 and 2001 are as set forth in the following table:

(Dollars in thousands, except per share amounts)

Cash Distribution for Quarter Ended	Date Paid	Per Share	Total Amount Distributed



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March 31, 2002	5/15/02	\$ .3625	\$ 2,308
June 30, 2002	8/14/02	.3750	2,386
September 30, 2002	11/14/02	.3750	2,386
December 31, 2002	2/14/03	.4000	2,545
		-----	-----
Total for 2002		\$ 1.5125	\$ 9,625
		=====	=====
March 31, 2001	5/15/01	\$ .3625	\$ 1,391
June 30, 2001	8/14/01	.3625	1,391
September 30, 2001	11/14/01	.3625	1,392
December 31, 2001	2/14/02	.3625	1,392
		-----	-----
Total for 2001		\$ 1.4500	\$ 5,566
		=====	=====

There are no material legal restrictions upon the Company's present or future ability to make distributions in accordance with the provisions of the Declaration of Trust. Future distributions paid by the Company will be at the

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discretion of the Trustees and will depend on the actual cash flow of the Company, its financial condition, capital requirements and such other factors as the Trustees deem relevant.

In order to qualify as a REIT under the Internal Revenue Code, as amended, the Company must, among other things, distribute at least 90% of its taxable income to shareholders. The Company believes that it is in compliance with the REIT-related provisions of the Code.

Of the total distributions of \$9,624,992 and \$5,566,015 for the years ended December 31, 2002 and 2001, respectively, the year ended December 31, 2002 had no return of capital and for 2001, \$378,952 (\$.10 per share or 6.81%) represented a return of capital determined in accordance with generally accepted accounting principles. As of December 31, 2002, the aggregate amount of the distributions made since the commencement of the initial public offering representing a return of capital, in accordance with generally accepted accounting principles, totaled \$14,462,307. The portion of the distributions which constituted a return of capital was made in order to maintain level distributions to shareholders.

### Item 6. Selected Financial Data.

The information set forth below presents selected financial data of the Company. Additional financial information is set forth in the audited financial statements and footnotes thereto contained in Item 8, Financial Statements and Supplementary Data.

(Dollars in thousands except per share amounts)

	Year Ended December 31,			
OPERATIONS	2002	2001	2000	1999
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Total revenues	\$ 10,458	\$ 5,698	\$ 7,910	\$ 5,507
Total expenses	3,812	2,660	4,766	2,301
Income before other gain	6,646	3,038	3,144	3,206
Total other gain	3,014	2,149	174	3,054
Net income	\$ 9,660	\$ 5,187	\$ 3,318	\$ 6,260
Net income per share (basic and diluted)	\$ 1.61	\$ 1.35	\$ .86	\$ 1.63
Weighted average shares outstanding (basic and diluted)	6,017,740	3,838,630	3,838,630	3,841,931

	December 31,			
FINANCIAL POSITION	2002	2001	2000	1999
Total assets	\$ 195,063	\$ 101,982	\$ 70,438	\$ 115,565
Repurchase facility payable	\$ 87,880	\$ 43,610	\$ 12,656	\$ 19,127
Warehouse facility payable	\$ 8,788	--	--	--
Total liabilities	\$ 100,725	\$ 46,703	\$ 15,362	\$ 58,474
Total shareholders' equity	\$ 94,338	\$ 55,279	\$ 55,076	\$ 57,091
DISTRIBUTIONS				
Distributions to shareholders	\$ 9,625	\$ 5,566	\$ 5,566	\$ 5,544
Distribution per share	\$ 1.513	\$ 1.450	\$ 1.450	\$ 1.444

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Comparison of Years Ended December 31, 2002 and 2001

Interest income from mortgage loans decreased approximately \$723,000 for the

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year ended December 31, 2002 as compared to 2001 due to the sale of the Columbiana mortgage during 2001 offset by additional construction period interest received from the Club at Brazos and Northbrooke. The decrease can also be attributed to the conversion of the Hollows, Elmhurst Village and Autumn Creek mortgages to GNMA certificates; the interest income on these assets was included in interest income from mortgage loans prior to conversion and in interest income from GNMA certificates after the conversion. Conversely, interest income from GNMA certificates increased approximately \$3.5 million for the year ended December 31, 2002 as compared to 2001 primarily due to the conversion of these three mortgage loans to GNMA certificates and the purchase of an additional six GNMA certificates in 2002 offset by the loss of interest income from the Hollows GNMA certificate which was sold in March of 2002. The increase in interest income from GNMA certificates and the decrease in interest income from mortgage loans were, in part, a result of the interest income earned by these loans converted to GNMA certificates subsequent to the conversion. No gains or losses resulted from the conversion.

Interest income from notes receivable increased approximately \$1.8 million, for the year ended December 31, 2002 as compared to 2001, primarily due to the addition of nine notes receivable during 2001 and 2002 offset by the paydown of the Sunset Bay note.

Other income increased approximately \$212,000, for the year ended December 31, 2002 as compared to 2001, primarily due to the collection of loan extension fees from Autumn Creek during 2002.

Interest expense decreased approximately \$178,000, for the year ended December 31, 2002 as compared to 2001, primarily due to the net effect of lower interest rates on repurchase facility borrowings and increased leverage.

General and administrative expenses increased approximately \$45,000, for the year ended December 31, 2002 as compared to 2001, primarily due to an increase in the write-off of deferred loan origination costs associated with the pursuit of investments that were not completed, higher accounting fees and legal expenses offset by a decrease in unused Nomura Asset Capital Corporation fees and amortization.

Fees to manager increased approximately \$927,000, for the year ended December 31, 2002 as compared to 2001, due to an increase in the Company's assets and an increase in the reimbursements of certain administrative and other costs incurred by the Advisor on behalf of the Company. The Company also paid to the Advisor an incentive management fee of approximately \$235,000 for 2002; no such fee was paid in 2001.

During the year ended December 31, 2002, the Company recognized approximately \$358,000 in Fannie Mae loan program expenses associated with the write-off of the unamortized deferred costs related to this program, which is being discontinued. The Company has not recognized significant fee income from this program. Except for the write-off of the program costs, this program has not, and its discontinuance is not anticipated to have a significant impact on the Company's financial position or results of operation.

A gain on the sale or repayment of GNMA's and mortgage loans increased approximately \$865,000, for the year ended December 31, 2002 as compared to 2001, primarily due to the sale of the Hollows GNMA in March of 2002 versus the loss on repayment of the Columbiana loans in 2001. Although the Company intends to hold its GNMA certificates until maturity, it elected "available for sale" designation under SFAS 115 to give it the flexibility to liquidate those asset if business conditions require. The Company decided to sell the Hollows GNMA when it received an unsolicited offer at an extremely favorable price.

Comparison of Years Ended December 31, 2001 and 2000

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Interest income from mortgage loans increased approximately \$1,208,000, for the year ended December 31, 2001 as compared to 2000, primarily due to the interest earned by Stonybrook while held by AMAC/FM (which was consolidated in 2001 but not in 2000) and the additional principal advances to the Hollows, Elmhurst Village and Autumn Creek prior to the conversion to GNMA certificates offset by the repayment of the Town and Country mortgage loan in March 2000.

Interest income from GNMA certificates increased approximately \$1,822,000, for the year ended December 31, 2001 as compared to 2000, primarily due to the conversion of three mortgage loans to GNMA certificates. The increase was primarily a result of the interest income earned by these loans converted to GNMA certificates subsequent to the conversion. No gain or loss resulted from the conversion.

Interest income from CMBS-related investment in the amount of approximately \$3,189,000 was recorded for the year ended December 31, 2000; such investment was sold October 2000.

Interest income from notes receivable decreased approximately \$79,000, for the year ended December 31, 2001 as compared to 2000, primarily due to AMAC/FM becoming consolidated in 2001 partially offset by investments in additional notes in 2000 and 2001.

Interest income from temporary investments decreased approximately \$2,012,000, for the year ended December 31, 2001 as compared to 2000, of which approximately \$353,000 was due to the reduced balances of temporary investments and \$1,659,000 was due to termination of the deposits with brokers held as collateral for short sales.

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Equity in earnings of ARCap increased approximately \$1,999,000, for the year ended December 31, 2001 as compared to 2000, due to the investment being acquired in October 2000.

Other income increased approximately \$38,000, for the year ended December 31, 2001 as compared to 2000, primarily due to the guaranty and extension fees on loans in the Fannie Mae program.

Interest expense decreased approximately \$1,966,000, for the year ended December 31, 2001 as compared to 2000, primarily due to the termination of the repurchase facility used to finance the CMBS-related investment and closing out of government securities sold short positions partially offset by higher interest expense related to Nomura Securities repurchase facilities due to higher outstanding balance.

Fees to the manager decreased approximately \$168,000, for the year ended December 31, 2001 as compared to 2000, primarily due to a decrease in asset management fees payable to the Advisor due to the sale of CMBS-related investment and a decrease in the expense reimbursement charged by the Advisor.

Amortization increased approximately \$28,000 due to acceleration of the amortization of deferred costs relating to the Nomura Repurchase Facility, which was not renewed.

A gain on the repayment of mortgage loans in the amount of approximately \$14,000 was recorded for the year ended December 31, 2000 relating to the repayment of the Town and Country mezzanine loan and FHA insured mortgage loan on January 21, 2000. A loss in the amount of approximately \$251,000 was recognized during the year ended December 31, 2001 relating to the repayment of the Columbian loans.

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A net loss on the commercial mortgage-backed security-related investment and government securities sold short in the amount of approximately \$300,000 was recorded for the year ended December 31, 2000. These positions were liquidated in October 2000.

### Acquisitions

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During the year ended December 31, 2002, the Company made the following investments:

#### Mezzanine Loans

On March 28, 2002, the Company funded an initial advance of \$1.5 million on a total potential mezzanine loan of approximately \$2.2 million secured by a 240-unit apartment complex project known as Northbrooke located in Houston, Texas. The loan is subordinate to a first mortgage loan of approximately \$6.1 million. The interest on the mezzanine loan is based on a fixed percentage of unpaid principal balance of the first mortgage loan, which for this loan is an effective interest rate of 11.50%.

#### Bridge Loans

On January 28, 2002, the Company entered into a commitment to fund a maximum bridge loan of up to \$4.6 million, secured by a 528-unit apartment complex located in Long Beach, California, known as Parwood. At December 31, 2002, the Company has funded approximately \$3 million. The Company received a 1% fee for the bridge loan, which bears an interest rate of 11% and matures in January 2004.

On February 27, 2002, the Company fully funded a bridge loan of \$3.5 million, secured by a 276-unit apartment complex located in Houston, Texas, known as Concord at Little York. The Company received a 1.25% fee for the bridge loan, which bears an interest rate of 12% and matures in February 2004.

On May 8, 2002, the Company fully funded a bridge loan of \$3.5 million, secured by a 288-unit apartment complex located in Houston, Texas, known as Concord at Gulfgate. The Company received a 2% fee for the bridge loan, which bears an interest rate of 12% and matures in May 2004.

On October 31, 2002, the Company funded an acquisition bridge loan and mezzanine loan totaling approximately \$6.3 million for Del Mar Villas, a 260-unit multi-family apartment complex located in Dallas, Texas. In connection with the funding of the bridge loan, the Company borrowed approximately \$4.6 million from its warehouse facility with Fleet Bank. These loans, which mature April 2004, bear an interest rate of LIBOR + 462.5 basis points. Payments on these loans are interest only for the full 18-month term. The Company received a loan origination fee of 1.5%.

On November 20, 2002, the Company funded an acquisition bridge loan and mezzanine loan totaling approximately \$6 million for Mountain Valley, a 312-unit multi-family apartment complex located in Dallas, Texas. The Company will fund an additional \$1.1 million during the rehabilitation stage of this property. In connection with the funding of the bridge loan, the Company has borrowed approximately \$4.2 million from its warehouse facility with Fleet Bank. These loans, which mature November 2004, bear an interest rate of LIBOR + 475 basis points. Payments on these loans are interest only for the full 24-month term. The Company received a loan origination fee of 1% of the amount of these loans.

On November 25, 2002, the Company fully funded a predevelopment bridge loan of approximately \$1.4 million secured by an apartment complex development project

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known as Reserve at Fox River Apartments. The Company received a 1% fee for the bridge loan, which bears interest at a rate of 12% and matures in May 2003.

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### Liquidity and Capital Resources

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During the year ended December 31, 2002, cash and cash equivalents increased approximately \$9.4 million primarily due to proceeds from repurchase and warehouse facilities payable, approximately \$53.1 million, net proceeds from the common share offering, approximately \$31 million, and cash provided by operating activities, approximately \$8.3 million, offset by investments in GNMA Certificates, approximately \$55.6 million, funding of notes receivable, approximately \$22.3 million, and distributions to shareholders, approximately \$8.5 million.

The net unrealized gains on GNMA investments included in shareholders' equity aggregated \$8,702,929 at December 31, 2002 consisted of gross unrealized gains and losses of \$8,730,076 and \$27,147 respectively. This represents an increase of \$8,142,542 from the unrealized gain of \$560,387 at December 31, 2001.

The Company finances the acquisition of its assets primarily through borrowing at short-term rates using demand repurchase agreements and the mortgage warehouse line of credit (see below). Under the Company's declaration of trust, the Company may incur permanent indebtedness of up to 50% of total market value calculated at the time the debt is incurred. Permanent indebtedness and working capital indebtedness may not exceed 100% of the Company's total market value. On February 25, 2002, the Company completed a public offering of 2.5 million common shares at a price of \$13.50 per share. The net proceeds of approximately \$31 million, net of underwriter's discount and expenses, were used to fund investments. In October 2002, the Company filed a registration statement with the Securities and Exchange Commission with respect to its common and preferred shares. If market conditions warrant, the Company may seek to raise additional funds for investment through further common and/or preferred offerings in the future, although the timing and amount of such offerings cannot be determined at this time.

Effective February 15, 2000, the Company entered into a repurchase facility with Nomura Securities International Inc. This facility enables the Company to borrow up to 95% of the fair market value of GNMA certificates and other qualified mortgage securities owned by the Company, which are pledged as collateral for the borrowings. Up until May 2002, interest on borrowings were at LIBOR plus 0.50%. Subsequent to May 2002, interest on borrowings decreased to LIBOR plus 0.05%. As of December 31, 2002 and 2001, the amount outstanding under this facility was approximately \$87.9 and \$43.6 million, respectively, and interest rates were 1.47% and 2.58%, respectively. All borrowings under this facility typically have 30-day settlement terms. However, the Company has the option to shorten or extend the length of the settlement terms at its discretion. The Company has not experienced any problems when renewing its borrowing and management believes it will be able to continue to renew its borrowings when due. If the Company were unable to renew such borrowings with Nomura, it would have to either find replacement financing or sell assets at prices which may be below market value.

In October 2002, the Company entered into the Fleet Warehouse Facility with Fleet National Bank ("Fleet") in the amount of \$40 million. Advances under the Fleet Warehouse Facility, up to 83% of the total loan package, will be used to fund first mortgage loans, which the Company will make to its customers for the acquisition/refinancing and minor renovation of existing, lender-approved multi-family properties located in stable sub-markets. The Fleet Warehouse

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Facility, which matures April 2006, bears an interest rate of LIBOR + 200 basis points (3.46% and 3.42% for Del Mar Villas and Mountain Valley loans, respectively, at December 31, 2002), payable monthly on advances. Principal is due upon the earlier of refinance or sale of the underlying project or upon maturity. The Company will pay a fee of 12.5 basis points, paid quarterly, on any unused portion of the Fleet Warehouse Facility. As of December 31, 2002, the Company had approximately \$8.8 million in loans outstanding under this program.

In order to qualify as a REIT under the Internal Revenue Code, as amended, the Company must, among other things, distribute at least 90% of its taxable income. The Company believes that it is in compliance with the REIT-related provisions of the Code.

The Company expects that cash generated from the Company's investments will meet its needs for short-term liquidity, and will be sufficient to pay all of the Company's expenses and to make distributions to its shareholders in amounts sufficient to retain the Company's REIT status in the foreseeable future.

### Critical Accounting Policies

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In preparing the consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. The summary should be read in conjunction with the more complete discussion of the Company's accounting policies included in Note 2 to the consolidated financial statements in this annual report on Form 10-K.

The Company's portfolio of mortgage loans and notes is periodically evaluated for possible impairment to establish appropriate loan loss reserves, if necessary. The Company's Advisor has a credit review committee which meets each month. This committee reviews the status of each of the Company's loans and notes, and maintains a "watch list" of loans (including loans for which the Company has issued guarantees) for which the underlying property may be experiencing construction cost overruns, delays in construction completion, occupancy shortfalls, lower than expected debt service coverage ratios, or other matters which might cause the borrower to be unable to make the interest and principal payments as scheduled in the loan agreement. If a loan is experiencing difficulties, members of this credit committee work with the borrower to try to resolve the issues, which could include extending the loan term, making additional advances, or reducing required payments. If, in the judgment of Company management, it is determined that it is probable that the Company will not receive all contractually required payments when they are due, the loan or note would be deemed impaired, and a loan loss reserve established. As of December 31, 2002, all mortgage loans and notes are current and management has determined that none of these assets are impaired and that no loan loss reserve is necessary.

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The Company's GNMA certificates are carried at estimated fair values. Changes in these valuations do not impact the Company's income or cash flows, but affect shareholders' equity. GNMA certificates are relatively liquid investments. The Company uses quoted market prices as its primary source of valuation information.

During 2001, the Company converted three of its first mortgage loans into investments in GNMA certificates. The conversion was made solely to improve the

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leveragability of the debt instruments from 80% as an FHA mortgage to 95% as a GNMA certificate, and to reduce the interest rate on the associated borrowings from LIBOR + 125 bps to LIBOR + 5 bps. It is the Company's intention to hold its GNMA certificates to maturity, but the Company elected the "available for sale" designation under SFAS 115 to give it the flexibility to liquidate these assets if business conditions require. The first mortgage loans remaining in the portfolio will not be converted to GNMA certificates and, along with future originations of first mortgage loans, are intended to be held to maturity.

The Company's mezzanine investments of approximately \$12.4 million at December 31, 2002 bear interest at fixed rates, but also include provisions that allow the Company to participate in a percentage of the underlying property's excess cash flows from operations and excess proceeds from a sale or refinancing. At the inception of each such investment, Company management must determine whether such investment should be accounted for as a loan, joint venture or as real estate, using the guidance contained in the Third Notice to Practitioners issued by the AICPA. Although the accounting methodology does not affect the Company's cash flows from these investments, this determination affects the balance sheet classification of the investments as well as the classification, timing and amounts of reported earnings.

Accounting for the investment as real estate is required if the Company expects that the amount of profit, whether called interest or another name, such as an equity kicker, that it expects to receive above a reasonable amount of interest and fees, is over 50 percent of the property's total expected residual profit. If a mezzanine investment were to be accounted for as an investment in real estate, the Company's balance sheet would show the underlying property and its related senior debt (if such debt were not also held by the Company), and the income statement would include the property's rental revenues, operating expenses and depreciation.

If the Company expects that it will receive less than 50 percent of the property's residual profit, then loan or joint venture accounting is applied. Loan accounting is appropriate if the borrower has a substantial equity investment in the property, if the Company has recourse to substantial assets of the borrower, if the property is generating sufficient cash flow to service normal loan amortization, or if certain other conditions are met. Under loan accounting, the Company recognizes interest income as earned and additional interest from participations as received. Joint venture accounting would require that the Company only record its share of the net income from the underlying property.

Company management must exercise judgment in making the required accounting determinations. For each mezzanine arrangement, the Company projects total cash flows over the loan's term and the Company's share in those cash flows, and considers the borrower's equity, the contractual cap, if any, on total yield to the Company over the term of the loan, market yields on comparable loans, borrower guarantees, and other factors in making its assessment of the proper accounting. To date, the Company has determined that all mezzanine investments are properly accounted for as loans.

Based on the Company's experience with similar arrangements, management has taken the position that the likelihood that any of the commitments, with the exception of a standby bridge loan commitment granted to fund the construction of Clark's Crossing Apartments in the approximate amount of \$1.7 million, will be exercised is remote. Therefore, the fees received for a commitment to originate a loan are recognized over the commitment period on a straight-line basis in other income. If however, management believes that the likelihood that the commitments will be exercised is possible or probable, the commitment fees will be deferred and, if the commitment is exercised, recognized over the life of the loan as an adjustment of yield, or, if the commitment expires unexercised, recognized in other income upon expiration of the commitment.



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Management is not aware of any trends or events, commitments or uncertainties, which have not otherwise been disclosed that will or are likely to impact liquidity in a material way.

### Commitments and Contingencies

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The Company entered into a loan program with Fannie Mae, which agreed to fully fund the origination of \$250 million of Delegated Underwriter and Servicer loans for apartment properties that qualify for low income housing tax credits under Section 42 of the Internal Revenue Code. Under the loan program, the Company intended to originate and contract for individual loans of up to \$6 million each over a two-year period in conjunction with American Property Financing, an unaffiliated third party, which would underwrite and service the loans for Fannie Mae. The Company guarantees a first loss position of up to \$21.25 million, depending on the aggregate principal amount of the loans the Company originates under this program and would receive guaranty, loan origination and other fees. The Company also guarantees construction loans for which it has issued a forward commitment to originate a loan under the Fannie Mae program, with respect to which it guarantees repayment of 100% of such construction loans. As of December 31, 2002, the Company has originated loans totaling approximately \$3.3 million under the Fannie Mae program and has made forward commitments for an additional approximate \$4.0 million. The Company's maximum guaranty at December 31, 2002 was \$7.3 million.

During August 2002, the Company purchased one first mortgage loan in the amount of \$342,000 due to a default on a construction loan that was 100% guaranteed by the Company under the Fannie Mae program. The loan defaulted due to problems relating to construction issues of Alexandrine Square, a 30-unit apartment complex in Detroit, Michigan.

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Subsequent to creating this program, the level of loan origination competition has increased, reducing the program's projected financing value and profitability. As a result, the Company decided in the first quarter of 2002 to discontinue this program. The Company has reached an agreement in principle to terminate this program and transfer its rights and obligations to a third party. There can be no assurance, however, that this agreement will be consummated. Accordingly, during the first quarter of 2002, the Company wrote off the balance of unamortized deferred costs relating to this program. This write-off totaled approximately \$358,000 and is included in Fannie Mae loan program expenses in the Consolidated Statement of Income.

Except for the write-off of the program costs described above, the Fannie Mae loan program has not had, and its discontinuance is not anticipated to have, a significant impact on the Company's financial condition or results of operations.

The following table provides information relating to the loans originated and forward commitments made on Fannie Mae's behalf.

(Dollars in thousands)

### Loans Originated

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	Number of Apartment	Loss Sharing Fee
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Property	Location	Units	Loan Amount	(annual rate)
Valley View	Cedar Rapids, IA	96	\$2,187	0.36%
Maple Ridge Apartments	Jackson, MI	69	1,137	0.52%
Total		165	\$3,324	

Forward Commitments

Property	Location	Number of Apartment Units	Loan Amount	Loss Sharing Fee (annual rate)
Cameron Creek Apartments	Dade Country, FL	148	\$3,000	0.35%
Desert View Apartments	Coolidge, AZ	372	1,011	0.52%
Total		520	\$4,011	

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Standby and Forward Loan and GNMA Commitments

During 2002, the Company issued the following standby and forward bridge and permanent loan commitments for the purpose of constructing/rehabilitating certain multi-family apartment complexes in various locations.

(Dollars in thousands)

Standby and Forward Bridge Loan Commitments

Issue Date	Project	Location	No. of Apt. Units	Less th
Jan-02	Parwood	Long Beach, CA	528	\$
Jan-02	Valley View/Summertree (7)	Little Rock, AK	240	
May-02	McMullen Square	San Antonio, TX	100	
Jul-02	Clark's Crossing Apartments	Laredo, TX	160	
Nov-02	Mountain Valley	Dallas, TX	312	
Total Standby Bridge Loan Commitments			1,340	\$

Standby and Forward Permanent Loan Commitments

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Issue Date	Project	Location	No. of Apt. Units	Less th
Mar-02	Sunset Gardens	Eagle Pass, TX	60	\$
May-02	Highland Park	Topeka, TX	200	4,
Total Standby and Forward Permanent Loan Commitments			260	\$ 4,

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Forward GNMA Commitments

Date Purchased	Project	Less than 1 Year	Maximum A
Mar-02	Cantera Crossing	\$ 973 (3)	
Mar-02	Fillmore Park	235 (3)	
Mar-02	Casitas at Montecito	708 (3)	
May-02	Ellington Plaza	27,114 (3)	
N/A	Northbrooke	3,415 (3)	
Total Forward GNMA Commitments		\$32,445	
Total Standby and Forward Loan and GNMA Commitments		\$37,672	

- (1) Funding not anticipated to occur.
- (2) Initial funding in the amount of \$550,000 has occurred during March 2003. Remaining fundings are on an as needed basis.
- (3) Funding has already begun. Amount represents remaining commitment to be funded.
- (4) The Company received a loan commitment fee of 2.50% for issuing the commitment.
- (5) The Company received a loan commitment fee of 2.00% for issuing the commitment.
- (6) The Company will receive a 1% loan origination fee if funding occurs.
- (7) The first mortgage bond relating to these apartments is held by Charter Municipal Mortgage Acceptance Company ("CharterMac"), a publicly traded company which is managed by an affiliate of the Advisor.
- (8) Expired in February 2003.

Construction Loan Guarantees  
-----

During 2002, the Company has guaranteed the following loans in relation to the construction of affordable multi-family apartment complexes in various locations. The construction loan guarantees will provide credit support for the following projects after construction completion, up until the date in which permanent financing takes place.

During October 2002, the Company entered into an agreement with Wachovia Bank, National Association ("Wachovia") to provide stabilization guarantees for new construction of multi-family properties under the LIHTC program. Wachovia already provides construction and stabilization guarantees to Fannie Mae, for loans Wachovia originates under the Fannie Mae LIHTC forward commitment loan program, but only for loans within regions of the country Wachovia has designated to be within its territory. For loans outside Wachovia's territory, the Company has agreed to issue a stabilization guarantee, for the benefit of Wachovia. The Company is guarantying that properties which have completed construction will stabilize and the associated construction loans will convert to permanent Fannie Mae loans. The Company receives origination and guarantee fees from the developers for providing the guarantees. If the properties do not stabilize with enough Net Operating Income for Fannie Mae to fully fund their commitment, AMAC may be required to purchase the construction loan from Wachovia or to fund the difference between the construction loan amount and the reduced Fannie Mae Permanent Loan Amount.

(Dollars in thousands)

Date Closed	Project	Location	No. of Units	Less than 1 Year	1-3 Year	Maximum Guarantee
Jul-02	Clark's Crossing	Laredo, TX	160	\$ 4,790	\$	
Sept-02	Creekside Apts.	Colorado Springs, CO	144	7,500		
Oct-02	Village at Meadowbend	Temple, TX	138	--		3,67
Nov-02	Mapleview Apartments (3)	Saginaw, MI	104	--		3,24
			546	\$ 12,290	\$	6,91

- (1) Loan Administration Fee is paid on a monthly basis during the guarantee period.
- (2) Construction Guarantee Fee is an up-front fee - paid at closing and amortized over the guarantee period.
- (3) Guarantee was made under Wachovia Bank, National Association Guarantee Agreement.

For each of these guarantees, and for the guarantees issued under the FNMA

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program discussed in the first paragraph of Note 13 in the accompanying consolidated financial statements, the Company monitors the status of the underlying properties and evaluates its exposure under the guarantees. To date, the Company has concluded that no accrual for probable losses is required under SFAS 5.

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### Distributions

-----

Of the total distributions of \$9,624,992 and \$5,561,015 for the years ended December 31, 2002 and 2001, respectively, the year ended December 31, 2002 had no return of capital and for 2001, \$378,952 (\$.10 per share or 6.81%) represented a return of capital determined in accordance with generally accepted accounting principles. As of December 31, 2002, the aggregate amount of the distributions made since the commencement of the initial public offering representing a return of capital, in accordance with generally accepted accounting principles, totaled \$14,462,307. The portion of the distributions which constituted a return of capital was made in order to maintain level distributions to shareholders.

### Recently Issued Accounting Standards

-----

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It was implemented by the Company on January 1, 2001. Because the Company does not currently utilize derivatives, implementation of this statement did not have a material effect on the Company's financial statements.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, "Business Combinations" (SFAS 141) and Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). These statements establish new standards for accounting and reporting for business combinations and for goodwill and intangible assets resulting from business combinations. SFAS 141 applies to all business combinations initiated after June 30, 2001; the Company implemented SFAS 142 on January 1, 2002. Implementation of these statements did not have a material impact on the Company's consolidated financial statements.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires the fair value of a liability or an asset retirement obligation to be recorded in the period in which it is incurred. SFAS No. 143 is not effective until January 1, 2003. Management does not anticipate that the implementation of this statement will have a material impact on the Company's consolidated financial statements.

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets". SFAS No. 144 supercedes existing accounting literature dealing with impairment and disposal of long-lived assets, including discontinued operations. It addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of, and expands current reporting for discontinued operations to include disposals of a "component" of an entity that has been disposed of or is classified as held for sale. The Company implemented SFAS No. 144 on January 1, 2002. Implementation of SFAS No. 144 did not have a material impact on the Company's consolidated financial statements.

In April 2002, the FASB issued Statement No. 145 "Rescission of FASB Statements

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No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections". SFAS No. 145 among other things, rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and accordingly, the reporting of gains and losses from the early extinguishments of debt as extraordinary items will only be required if they meet the specific criteria for extraordinary items included in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations". The rescission of SFAS No. 4 is effective January 1, 2003. Management does not anticipate that the implementation of this statement will have a material impact on the Company's consolidated financial statements.

In July 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 replaces current accounting literature and requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is not effective until January 1, 2003. Management does not anticipate that the implementation of this statement will have a material effect on the Company's consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. The Interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. The disclosure provisions of this interpretation are included in Note 13. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company currently receives a fee, in advance, for acting as guarantor of certain construction loans. This fee is deferred and amortized over the guarantee period. The Company believes that the fee received approximates the fair value of the obligation undertaken in issuing the guarantee; therefore, the Company's current accounting for these guarantees will not be affected by this Interpretation. The Company has ceased making new guarantees under its Fannie Mae DUS program and is in the process of transferring its rights and obligations under this program to a third party; therefore, this Interpretation will not have an impact on the accounting for these guarantees.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. This Interpretation clarifies the application of existing accounting pronouncements to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of the Interpretation will be immediately effective for all variable interests in variable interest entities created after January 31, 2003, and the Company will need to apply its provisions to any existing variable interest in variable interest entities by no later than July 1, 2003. The Company is in the process of evaluating all of its mezzanine loans, which may be deemed variable interests in variable interest entities under the provision of FIN 46. The real estate entities whose ownership interests collateralize these loans have assets totaling approximately \$110,000,000 at December 31, 2002. The Company's maximum exposure to loss represents its recorded investment in these loans, totaling

\$12,448,000 at December 31, 2002. The Company believes that some, and possibly

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all, of these investments may not ultimately fall under the provisions of FIN 46 and, accordingly, continue to be accounted for as loans and not consolidated as investments in real estate. The Company cannot make any definitive conclusion until it completes its evaluation.

### Forward-Looking Statements

-----

Certain statements made in this report may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include statements regarding the intent, belief or current expectations of the Company and its management and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the following: general economic and business conditions, which will, among other things, affect the availability and creditworthiness of prospective tenants, lease rents and the terms and availability of financing; adverse changes in the real estate markets including, among other things, competition with other companies; risks of real estate development and acquisition; governmental actions and initiatives; and environment/safety requirements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

### Inflation

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Inflation did not have a material effect on the Company's results for the periods presented.

### Item 7 Quantitative and Qualitative Disclosures About Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. The primary market risk to which the investments of the Company are exposed is interest rate risk, which is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the control of the Company.

#### Interest Rate risk

Interest rate fluctuations can adversely affect the Company's income and value of its common shares in many ways and present a variety of risks, including the risk of mismatch between asset yields and borrowing rates, variances in the yield curve and changing prepayment rates.

The Company's operating results will depend in large part on differences between the income from its assets (net of credit losses) and its borrowing costs. Most of the Company's assets, consisting primarily of mortgage loans, GNMA certificates, and notes receivable, generate fixed returns and will have terms in excess of five years. The Company funds the origination and acquisition of a significant portion of these assets with borrowings which have interest rates that reset relatively rapidly, such as monthly or quarterly. In most cases, the income from assets will respond more slowly to interest rate fluctuations than the cost of borrowings, creating a mismatch between asset yields and borrowing rates. Consequently, changes in interest rates, particularly short-term interest rates, may influence the Company's net income. The Company's borrowings under repurchase and warehouse agreements bear interest at rates that fluctuate with LIBOR. Based on the approximate \$96.7 million of borrowings outstanding under these facilities at December 31, 2002, a 1% change in LIBOR would impact the

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Company's annual net income and cash flows by approximately \$967,000. Increases in these rates will decrease the net income and market value of the Company's net assets. Interest rate fluctuations that result in interest expense exceeding interest income would result in operating losses.

The value of the Company's assets may be affected by prepayment rates on investments. Prepayment rates are influenced by changes in current interest rates and a variety of economic, geographic and other factors beyond the Company's control, and consequently, such prepayment rates cannot be predicted with certainty. When the Company originates mortgage loans, it expects that such mortgage loans will have a measure of protection from prepayment in the form of prepayment lock-out periods or prepayment penalties. However, such protection may not be available with respect to investments which the Company acquires, but does not originate. In periods of declining mortgage interest rates, prepayments on mortgages generally increase. If general interest rates decline as well, the proceeds of such prepayments received during such periods are likely to be reinvested by the Company in assets yielding less than the yields on the investments that were prepaid. In addition, the market value of mortgage investments may, because of the risk of prepayment, benefit less from declining interest rates than from other fixed-income securities. Conversely, in periods of rising interest rates, prepayments on mortgages generally decrease, in which case the Company would not have the prepayment proceeds available to invest in assets with higher yields. Under certain interest rate and prepayment scenarios the Company may fail to recoup fully its cost of acquisition of certain investments.

### Real Estate Risk

Multi-family and commercial property values and net operating income derived from such properties are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as energy costs). In the event net operating income decreases, a borrower may have difficulty paying the Company's mortgage loan, which could result in losses to the Company. In addition, decreases in property values reduce the value of the collateral and the

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potential proceeds available to a borrower to repay the Company's mortgage loans, which could also cause the Company to suffer losses.

### Risk in Owning Subordinated Interests

The Company has invested indirectly in subordinated CMBS through its ownership of a \$20.2 million preferred membership interest in ARCap. Subordinated CMBS of the type in which ARCap invests include "first loss" and non-investment grade subordinated interests. A first loss security is the most subordinate class in a structure and accordingly is the first to bear the loss upon a default on restructuring or liquidation of the underlying collateral and the last to receive payment of interest and principal. Such classes are subject to special risks, including a greater risk of loss of principal and non-payment of interest than more senior, rated classes. The market values of subordinated interests in CMBS and other subordinated securities tend to be more sensitive to changes in economic conditions than more senior, rated classes. As a result of these and other factors, subordinated interests generally are not actively traded and may not provide holders with liquidity of investment. With respect to the Company's



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investment in ARCap, the ability to transfer the membership interest in ARCap is further limited by the terms of ARCap's operating agreement.

### Participating Interest

In connection with the acquisition and origination of mortgages, the Company has, on occasion, obtained and may continue to obtain participating interests that may entitle it to payments based upon a development's cash flow, profits or any increase in the value of the development that would be realized upon a refinancing or sale of the development. Competition for participating interests is dependent to a large degree upon market conditions. Participating interests are more difficult to obtain when mortgage financing is available at relatively low interest rates. In the current interest rate environment, the Company may have greater difficulty obtaining participating interest. Participating interests are not government insured or guaranteed and are therefore subject to the general risks inherent in real estate investments. Therefore, even if the Company is successful in investing in mortgage investments which provide for participating interests, there can be no assurance that such interests will result in additional payments.

### Repurchase Facility Collateral Risk

Repurchase agreements involve the risk that the market value of the securities sold by the Company may decline and that the Company will be required to post additional collateral, reduce the amount borrowed or suffer forced sales of the collateral. If forced sales were made at prices lower than the carrying value of the collateral, the Company would experience additional losses. If the Company is forced to liquidate these assets to repay borrowings, there can be no assurance that the Company will be able to maintain compliance with the REIT asset and source of income requirements.

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### Item 8. Financial Statements and Supplementary Data.

	Page
(a) 1. Financial Statements	-----
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Consolidated Balance Sheets as of December 31, 2002 and 2001	28
Consolidated Statements of Income for the years ended December 31, 2002, 2001 and 2000	29
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2002, 2001 and 2000	30
Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000	31
Notes to Consolidated Financial Statements	33
(a) 2. Financial Statement Schedules	
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All schedules have been omitted because they are not required or because the required information is contained in the financial statements or notes thereto.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
And Shareholders of  
American Mortgage Acceptance Company  
New York, New York

We have audited the accompanying consolidated balance sheets of American Mortgage Acceptance Company and subsidiaries (the "Company") as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of American Mortgage Acceptance Company and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP  
New York, New York

March 21, 2003

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND  
SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

ASSETS

December 31,	
-----	
2002	2001

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	-----	
Investments in mortgage loans, net	\$ 22,384	\$ 17,799
Investments in GNMA certificates-available for sale	114,034	50,060
Investment in ARCap	20,240	20,246
Cash and cash equivalents	10,404	1,018
Notes receivable, net	25,997	11,373
Accrued interest receivable	1,170	570
Other assets	834	916
	-----	-----
Total assets	\$195,063	\$101,982
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Repurchase facilities payable	\$ 87,880	\$ 43,610
Warehouse facility payable	8,788	--
Accounts payable and accrued expenses	822	1,370
Due to Advisor and affiliates	690	331
Distributions payable	2,545	1,392
	-----	-----
Total liabilities	100,725	46,703
	-----	-----

Commitments and contingencies

Shareholders' equity:

Shares of beneficial interest; \$.10 par value; 25,000,000 shares authorized; 6,738,826 issued and 6,363,630 outstanding and 4,213,826 issued and 3,838,630 outstanding in 2002 and 2001, respectively	674	421
Treasury shares of beneficial interest; 375,196 shares	(38)	(38)
Additional paid-in capital	99,470	68,841
Distributions in excess of net income	(14,471)	(14,505)
Accumulated other comprehensive income	8,703	560
	-----	-----
Total shareholders' equity	94,338	55,279
	-----	-----
Total liabilities and shareholders' equity	\$195,063	\$101,982
	=====	=====

See accompanying notes to consolidated financial statements.

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	Years Ended December 31,		
	2002	2001	2000
<b>Revenues:</b>			
Interest income:			
Mortgage loans	\$ 2,050	\$ 2,773	\$ 1,565
GNMA certificates	5,769	2,294	473
Commercial mortgage-backed security-related investment	--	--	3,190
Notes receivable	2,270	451	529
Temporary investments	50	73	2,084
Other income	319	107	69
	-----	-----	-----
Total revenues	10,458	5,698	7,910
	-----	-----	-----
<b>Expenses:</b>			
Interest	1,228	1,406	3,372
General and administrative	706	661	633
Fees to Advisor	1,520	593	761
FNMA loan program	358	--	--
	-----	-----	-----
Total expenses	3,812	2,660	4,766
	-----	-----	-----
<b>Other gain (loss):</b>			
Equity in earnings of ARCap	2,400	2,400	401
Net loss on commercial mortgage-backed security- related investment and government security sold short	--	--	(299)
Net gain (loss) on sale or repayment of mortgage loans and GNMA certificates	614	(251)	72
	-----	-----	-----
Total other gain	3,014	2,149	174
	-----	-----	-----
Net income	\$ 9,660	\$ 5,187	\$ 3,318
	=====	=====	=====
Net income per share (basic and diluted)	\$ 1.61	\$ 1.35	\$ .86
	=====	=====	=====
Weighted average shares outstanding (basic and diluted)	6,017,740	3,838,630	3,838,630
	=====	=====	=====

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See accompanying notes to consolidated financial statements.

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
 FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000  
 (Dollars in thousands)

	Shares of Beneficial Interest		Treasury Shares of Beneficial Interest		Additional Paid-in Capital	Distributi in Exces of Net Inc
	Shares	Amount	Shares	Amount		
Balance at January 2000	4,213,826	\$ 421	(375,196)	\$ (38)	\$ 68,841	\$ (11,878)
Comprehensive income:						
Net income						3,318
Other comprehensive income:						
Net unrealized holding gain arising during the period						
Less: reclassification adjustment for gains included in net income						
Other comprehensive income						
Comprehensive income						
Distributions						(5,566)
Balance at December 31, 2000	4,213,826	421	(375,196)	(38)	68,841	(14,126)
Comprehensive income:						
Net income						5,187
Other comprehensive income:						
Net unrealized holding gain arising during the period						
Comprehensive income						
Distributions						(5,566)
Balance at December 31, 2001	4,213,826	421	(375,196)	(38)	68,841	\$ (14,505)
Comprehensive income:						
Net income						9,660
Other comprehensive income:						
Unrealized holding gain arising						

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during the period  
 Less:reclassification adjustment  
 for gain included in net income

Total other comprehensive gain

Comprehensive income

Issuance of common shares	2,525,000	253			30,629
Distributions					

(9,626)

Balance at December 31, 2002	6,738,826	\$ 674	\$ (375,196)	\$ (38)	\$ 99,470	\$ (14,471)
------------------------------	-----------	--------	--------------	---------	-----------	-------------

See accompanying notes to consolidated financial statements.

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Dollars in thousands)

	Years Ended December 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net income	\$ 9,660	\$ 5,187	\$ 3,318
Adjustments to reconcile net income to net cash provided by operating activities:			
Net loss on commercial mortgage-backed security-related investment and government security sold short	--	--	299
Net loss (gain) on repayment of GNMA certificates and mortgage loans	(614)	251	(72)
FNMA loan program	358	--	--
Equity in earnings of ARCap	(2,400)	(2,400)	(401)
Equity in income of unconsolidated subsidiary	--	--	(9)
Amortization - deferred financing costs	6	113	92
Amortization (income) expense-loan premium and origination costs and fees	(89)	79	163
Accretion of GNMA discount (premium)	23	(22)	(22)
Accretion of discount on commercial mortgage-backed security-related investment	--	--	(653)
Government security sold short	--	--	33,541
Purchase of government securities sold short	--	--	(72,329)
Changes in operating assets and liabilities:			

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Investment in commercial mortgage-backed security-related investment	--	--	36,764
Deposit with broker as collateral for security sold short	--	--	37,733
Accrued interest receivable	(599)	111	499
Other assets	385	(410)	(355)
Due to Advisor and affiliates	359	(638)	575
Accounts payable and accrued expenses	(586)	1,069	240
Accrued interest payable	39	(6)	(380)
	-----	-----	-----
Net cash provided by operating activities	6,542	3,334	39,003
	-----	-----	-----

Cash flows from investing activities:

Increase in investment in mortgage loans	(4,542)	(24,661)	(21,487)
Proceeds from repayments of mortgage loans	--	9,245	9,995
Periodic principal payments of mortgage loans	46	85	62
Funding of notes receivable	(22,307)	(9,959)	(7,414)
Repayment of notes receivable	7,683	--	6,000
Investment in ARCap preferred stock	--	--	(20,000)
Distribution from ARCap	2,406	2,196	--
Principal repayments of GNMA certificates	526	346	3,927
Investment in GNMA certificates	(55,768)	(6,506)	--
Costs relating to repayment of mortgage loans	--	(39)	(59)
	-----	-----	-----
Net cash used in investing activities	(71,956)	(29,293)	(28,976)
	-----	-----	-----

(continued)

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in thousands)  
(continued)

	Years Ended December 31,		
	2002	2001	2000
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from repurchase facilities payable	100,750	62,030	13,699
Proceeds from warehouse facility payable	8,788	--	--
Repayments of repurchase facilities payable	(56,480)	(31,076)	(20,170)
Increase in deferred loan costs	(669)	(43)	(160)
Distributions paid to shareholders	(8,471)	(5,566)	(5,566)
Issuance of common shares	30,882	--	--
	-----	-----	-----
Net cash provided by (used in)			

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financing activities	74,800	25,345	(12,197)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	9,386	(614)	(2,170)
Cash and cash equivalents at the beginning of the year	1,018	1,632	3,802
	-----	-----	-----
Cash and cash equivalents at the end of the year	\$ 10,404	\$ 1,018	\$ 1,632
	=====	=====	=====
Supplemental information:			
Interest paid	\$ 1,163	\$ 1,412	\$ 3,752
	=====	=====	=====
Conversion of mortgage loans to GNMA Certificates			
Increases in GNMA certificates		\$ 37,444	
Decrease in mortgage loans		(37,444)	
		-----	
		\$ 0	
		-----	

See accompanying notes to consolidated financial statements.

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - General

American Mortgage Acceptance Company (the "Company") was formed on June 11, 1991 as a Massachusetts business trust. The Company elected to be treated as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code").

Effective April 26, 1999, upon authorization by the Company's board of trustees, the Company's name was changed from American Mortgage Investors Trust to American Mortgage Acceptance Company. The Company's shares of beneficial interest (the "Shares") commenced trading on the American Stock Exchange on July 1, 1999, under the symbol "AMC".

The Company's business plan focuses on originating and acquiring government insured and uninsured mortgages secured by multi-family properties, which may take the form of government insured first mortgages and uninsured mezzanine loans, construction loans and bridge loans. Additionally, the Company has indirectly invested in subordinate commercial mortgage-backed securities and may invest in other real estate assets, including non-multi-family mortgages, issues guarantees of construction and permanent financing, and makes standby and forward loan commitments.

The Company is governed by a board of trustees comprised of three independent trustees and two trustees who are affiliated with Related Capital Company ("Related"). The Company has engaged Related AMI Associates, Inc. (the



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"Advisor"), an affiliate of Related, to manage its day-to-day affairs. The Advisor has sub-contracted with Related to provide the services contemplated. Through the Advisor, Related offers the Company a core group of experienced staff and executive management providing the Company with services on both a full and part-time basis. These services include, among other things, acquisition, financial, accounting, capital markets, asset monitoring, portfolio management, investor relations and public relations services. The Company believes that it benefits significantly from its relationship with Related, since Related provides the Company with resources that are not generally available to smaller-capitalized, self-managed companies.

### NOTE 2 - Significant Accounting Policies

#### a) Basis of Presentation

The consolidated financial statements of the Company are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires the Advisor to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of amortized assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The consolidated financial statements include the accounts of the company and three wholly-owned subsidiaries which it controls: AMAC Repo Seller, AMAC/FM Corporation ("AMAC/FM") and AMAC Credit Facility, LLC. All intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise indicated, the "Company" as hereinafter used, refers to American Mortgage Acceptance Company and its subsidiaries.

#### b) Investments in Mortgage Loans and Notes Receivable

Mortgage loans and notes receivable are intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees.

The Company's mezzanine investments bear interest at fixed rates, but also include provisions that allow the Company to participate in a percentage of the underlying property's excess cash flows from operations and excess proceeds from a sale or refinancing. At the inception of each such investment, Company management must determine whether such investment should be accounted for as a loan, joint venture or as real estate, using the guidance contained in the Third Notice to Practitioners issued by the AICPA. Although the accounting methodology does not affect the Company's cash flows from these investments, this determination affects the balance sheet classification of the investments as well as the classification, timing and amounts of reported earnings.

Accounting for the investment as real estate is required if the Company expects that the amount of profit, whether called interest or another name, such as an equity kicker, that it expects to receive above a reasonable amount of interest and fees, is over 50 percent of the property's total expected residual profit. If a mezzanine investment were to be accounted for as an investment in real estate, the Company's balance sheet would show the underlying property and its related senior debt (if such debt was not also held by the Company), and the income statement would include the property's rental revenues, operating expenses and depreciation.

If the Company expects that it will receive less than 50 percent of the property's residual profit, then loan or joint venture accounting is applied. Loan accounting is appropriate if the borrower has a substantial equity investment in the property, if the Company has recourse to substantial assets of the borrower, if the property is generating sufficient cash flow to service

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normal loan amortization, or if certain other conditions are met. Under loan accounting, the Company recognizes interest income as earned and additional interest from participations as received. Joint venture accounting would require that the Company only record its share of the net income from the underlying property.

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Company management must exercise judgment in making the required accounting determinations. For each mezzanine arrangement, the Company projects total cash flows over the loan's term and the Company's share in those cash flows, and considers the borrower's equity, the contractual cap, if any, on total yield to the Company over the term of the loan, market yields on comparable loans, borrower guarantees, and other factors in making its assessment of the proper accounting. To date, the Company has determined that all mezzanine investments are properly accounted for as loans.

The Company accounts for its investments in mortgage loans and notes receivable under the provisions of Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" ("SFAS 114"). Under SFAS 114, a loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. SFAS No. 114 requires lenders to measure impaired loans based on: (i) the present value of expected future cash flows discounted at the loans' effective interest rate; (ii) the loan's observable market price; or (iii) the fair value of the collateral if the loan is collateral-dependent. The Company's portfolio of mortgage loans and notes is periodically evaluated for possible impairment to establish appropriate loan loss reserves, if necessary. If, in the judgment of Company management, it is determined that it is probable that the Company will not receive all contractually required payments when they are due, the loan or note would be deemed impaired, and a loan loss reserve established.

#### c) Investments in GNMA Certificates

The Company accounts for its investments in GNMA certificates under the provisions of SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities".

At the date of acquisition, the Company elected to designate its GNMA certificates as available-for-sale securities. Available-for-sale securities are carried at fair value with net unrealized gain (loss) reported as a separate component of other comprehensive income until realized. The Company uses quoted market prices as its primary source of valuation information or, if quoted market prices are not available, uses values provided by third party pricing services. A decline in the market value of any available-for-sale security below cost that is deemed other than temporary is charged to earnings resulting in the establishment of a new cost basis for the security. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to interest income using the effective yield method. Realized gains and losses on securities are included in earnings and are recorded on the trade date and calculated as the difference between the amount of cash received and the amortized cost of the specific GNMA certificate, including unamortized discounts or premiums.

During 2001, the Company converted three of its FHA-guaranteed first mortgage loans into investments in GNMA certificates. Each loan's amortized cost became

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the cost basis of the applicable GNMA certificate, which also approximated the market value of the GNMA certificate at the conversion date. No gain or loss was recognized upon conversion. The three FHA-guaranteed first mortgage loans and the related GNMA certificates are serviced by third-party servicers. The conversion was made to improve the leveragability of the debt instruments and to reduce the interest rate on the associated borrowings. It is the Company's intention to hold its GNMA certificates to maturity, but elected the "available for sale" designation under SFAS 115 to give it the flexibility to liquidate these assets if business conditions require. The first mortgage loans remaining in the portfolio will not be converted to GNMA certificates and, along with future originations, are intended to be held to maturity.

### d) Investment in ARCap

The Company's preferred equity investment in ARCap Investors, LLC ("ARCap") is accounted for using the equity method because the Company has the ability to exercise significant influence, but not control, over ARCap's operating and financial policies.

### e) Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and temporary investments in short-term instruments with original maturity dates equal to or less than three months.

### f) Loan Origination Costs and Fees

Acquisition fees and other direct expenses incurred for activities performed to originate or acquire mortgage loans have been capitalized and are included in Investment in Mortgage Loans in the balance sheets, net of any fees received from borrowers for loan originations. Loan origination costs and fees are being amortized to interest income using the effective yield method over the lives of the respective mortgages.

### g) Revenue Recognition

The Company derives its revenues from a variety of investments and guarantees, summarized as follows:

- o Interest Income from Mortgage Loans and Notes Receivable - Interest on mortgage loans and notes receivable is recognized on the accrual basis as it becomes due. Deferred loan origination costs and fees are amortized over the life of the applicable loan as an adjustment to interest income, using the interest method. Interest which was accrued is reversed out of income if deemed to be uncollectible. Certain mortgage loans (mezzanine investments) contain provisions that allow the Company to participate in a percentage of the underlying

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property's excess cash flows from operations and excess proceeds from a sale or refinancing. This income is recognized when received.

- o Interest Income on GNMA Certificates - Interest on GNMA certificates is recognized on the accrual basis as it becomes due. Interest income also includes the amortization or accretion of premiums and discounts recognized at the purchase date, using the effective yield method.

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- o Interest Income on Temporary Investments - Interest income from temporary investments, such as cash in banks and short-term instruments, is recognized on the accrual basis as it becomes due.
- o Equity in Earnings of ARCap - The Company's equity in the earnings of ARCap Investors, LLC ("ARCap") is accrued at the Company's preferred dividend rate of 12%, unless ARCap does not have earnings and cash flows adequate to meet this dividend requirement.
- o Standby Loan Commitment Fees - The Company receives fees for issuing standby loan commitments. If the Company does not expect to fund the commitment, the commitment fee is recognized ratably over the commitment period. If it is determined that it is possible or probable that a commitment will be exercised, such fees are deferred and, if the commitment is exercised, amortized over the life of the loan as an adjustment to interest income or, if the commitment expires unexercised, recognized as income upon expiration of the commitment.
- o Construction Guarantee and Loan Administration Fees - The Company receives fees from borrowers for guaranteeing construction loans made by third-party lenders. The Company guarantees the loan during the period between construction completion and funding of the permanent loan. These fees are received in advance and are deferred and amortized into other income over the guarantee period. The Company also receives loan administration fees on these guaranteed loans, on a monthly basis during the guarantee period. These fees are recognized in other income as they become due.
- o Loss Sharing/Guarantee Fees - The Company receives loss sharing/guarantee fees related to the FNMA DUS program. These fees are received monthly and recognized in other income as they become due.

### h) Repurchase Facilities Payable

The Company finances its investments in GNMA certificates under a repurchase facility with an investment bank. Under such facility, the GNMA certificates are sold to the investment bank under an agreement requiring the Company to repurchase such certificates for a fixed price on a fixed date, generally 30 days from sale date. These transactions are accounted for as collateralized borrowings. Accordingly, the GNMA certificates remain on the Company's consolidated balance sheet, with the proceeds from the sales included on the consolidated balance sheet as "Repurchase Facilities Payable". The difference between the sales proceeds and the fixed repurchase price is recorded as interest expense ratably over the period between the sale and repurchase.

### i) Fair Value of Financial Instruments

As described above, the Company's GNMA certificates are carried at estimated fair values. The Company has determined that the fair value of its remaining financial instruments, including its mortgage loans and cash and cash equivalents, notes receivable, investment in ARCap, and secured borrowings approximate their carrying values at December 31, 2002 and 2001. The fair value of investments in mortgage loans, ARCap and GNMA certificates are based on actual market price quotes or by determining the present value of the projected future cash flows using appropriate discount rates, credit losses and prepayment assumptions. Other financial instruments carry interest rates which are deemed to approximate market rates.

### j) Income Taxes

The Company has qualified as a REIT under the Code. A REIT is generally not

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subject to federal income tax on that portion of its REIT taxable income ("Taxable Income") which is distributed to its shareholders provided that at least 90% of Taxable Income is distributed and provided that such income meets certain other conditions. Accordingly, no provision for federal income taxes is required. The Company may be subject to state taxes in certain jurisdictions.

During 2002, the Company declared distributions of \$1.51 per share. For federal income tax purposes, the Company's distribution totaled \$1.47, of which \$1.42 and \$.05 were reported as ordinary income and capital gain, respectively, to shareholders for 2002.

### k) Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income," requires the Company to classify items of "other comprehensive income", such as unrealized gains and losses on its investment in GNMA certificates, by their nature in the financial statements and display the accumulated balance of other comprehensive income (loss) separately from shareholders' equity in the shareholders' equity section of the balance sheets. In accordance with SFAS No. 130, cumulative unrealized gains and losses on securities available-for-sale are classified as accumulated other

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comprehensive income in shareholders' equity and current period unrealized gains and losses are included as a component of comprehensive income.

### l) Segment Information

SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", requires enterprises to report certain financial and descriptive information about their reportable operating segments, and certain enterprise-wide disclosures regarding products and services, geographic areas and major customers. The Company is an investor in mortgage products and operates in only one reportable segment. The Company's chief operating decision maker, its president and chief executive officer makes asset allocation decisions between various real estate lending activities as opportunities are brought to the Company through its relationship with the Advisor. Each potential investment is evaluated for its potential return on investment and risks. The Company does not have or rely upon any major customers. All of the Company's investments are secured by real estate properties located in the United States; accordingly, all of its revenues were derived from U.S. operations.

### m) New Pronouncements

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It was implemented by the Company on January 1, 2001. Because the Company does not currently utilize derivatives, implementation of this statement did not have a material effect on the Company's consolidated financial statements.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, "Business Combinations" (SFAS 141) and Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). These statements establish new standards for accounting and reporting for business combinations and for goodwill and intangible assets resulting from business combinations. SFAS 141 applies to all

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business combinations initiated after June 30, 2001; the Company implemented SFAS 142 on January 1, 2002. Implementation of these statements did not have a material impact on the Company's consolidated financial statements.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires the fair value of a liability or an asset retirement obligation to be recorded in the period in which it is incurred. SFAS No. 143 is not effective until January 1, 2003. Management does not anticipate that the implementation of this statement will have a material impact on the Company's consolidated financial statements.

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets". SFAS No. 144 supercedes existing accounting literature dealing with impairment and disposal of long-lived assets, including discontinued operations. It addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of, and expands current reporting for discontinued operations to include disposals of a "component" of an entity that has been disposed of or is classified as held for sale. The Company implemented SFAS No. 144 on January 1, 2002. Implementation of SFAS No. 144 did not have a material impact on the Company's consolidated financial statements.

In April 2002, the FASB issued Statement No. 145 "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections". SFAS No. 145 among other things, rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and accordingly, the reporting of gains and losses from the early extinguishments of debt as extraordinary items will only be required if they meet the specific criteria for extraordinary items included in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations". The rescission of SFAS No. 4 is effective January 1, 2003. Management does not anticipate that the implementation of this statement will have a material impact on the Company's consolidated financial statements.

In July 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 replaces current accounting literature and requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is not effective until January 1, 2003. Management does not anticipate that the implementation of this statement will have a material effect on the Company's consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. The Interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. The disclosure provisions of this Interpretation are included in Note 13. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company currently receives a fee, in advance, for acting as a guarantor of certain construction loans. This fee is deferred and amortized over the guarantee period. The Company believes that the fee received approximates the fair value of the obligation undertaken in issuing the guarantee; therefore, the Company's current accounting for these guarantees will not be affected by this Interpretation. The Company has ceased making new guarantees under its Fannie Mae DUS program (see Note 12) and is in the process of transferring its rights and obligations under this program to a third party;

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therefore, this Interpretation will not have an impact on the accounting for these guarantees.

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In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. This Interpretation clarifies the application of existing accounting pronouncements to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of the Interpretation will be immediately effective for all variable interests in variable interest entities created after January 31, 2003, and the Company will need to apply its provisions to any existing variable interest in variable interest entities by no later than July 1, 2003. The Company is in the process of evaluating all of its mezzanine loans, which may be deemed variable interests in variable interest entities under the provision of FIN 46. The real estate entities whose ownership interests collateralize these loans have assets totaling approximately \$110,000,000 at December 31, 2002. The Company's maximum exposure to loss represents its recorded investment in these loans, totaling \$12,448,000 at December 31, 2002. The Company believes that some, and possibly all, of these investments may not ultimately fall under the provisions of FIN 46 and, accordingly, continue to be accounted for as loans and not consolidated as investments in real estate. The Company cannot make any definitive conclusion until it completes its evaluation.

#### n) Reclassifications

Certain amounts in the 2001 and 2000 financial statements have been reclassified to conform to the 2002 presentation.

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### AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Investments in Mortgage Loans

Information relating to the Company's investments in mortgage loans as of December 31, 2002 is as follows:

(Dollars in thousands)

Property	Description	Final Maturity Date	Call Date (A)	Interest Rate (b)
First Mortgage Loans:				
Stony Brook II (E) (M) (P) East Haven, CT	125 Units	6/37	12/06	7.625
Sunset Gardens				

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Eagle Pass, TX	60 Units	9/03	N/A	11.50
Northbrooke Harris County, TX	240 Units	8/43	N/A	7.45
Alexandrine Detroit, MI	30 Units	12/03	N/A	11.00
Subtotal First Mortgage Loans				
Mezzanine Loans(G):				
Stabilized Properties				
-----				
Stony Brook II (J) (N) (P) East Haven, CT	125 Units	6/37	12/06	15.33
Plaza at San Jacinto (K) (N) Houston, TX	132 Units	1/43	6/11	11.40
Subtotal Stabilized Mezzanine Loans				
Properties in Lease-Up				
-----				
The Hollows (K) (N) Greenville, NC	184 Units	1/42	1/12	10.00
Elmhurst Village (J) (N) Oveido, FL	313 Units	1/42	3/19	10.00
The Reserve at Autumn Creek (J) (N) Friendswood, TX	212 Units	1/42	9/14	10.00
Subtotal Properties in Lease-Up				
Properties in Construction				
-----				
Club at Brazos (I) (N) (K) Rosenberg, TX	200 Units	5/43	TBD	10.00
Northbrooke (J) (N) Harris County, TX	200 Units	8/43	TBD	11.50
Del Mar Villas Dallas, TX	260 Units	4/04	N/A	LIBOR+4.625
Mountain Valley Dallas, TX	312 Units	11/04	N/A	LIBOR+4.750
Subtotal Properties in Construction				
Subtotal Mezzanine Loans				



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Total Mortgage Loans

Property	Share of Excess Sale or Refinancing Proceeds	Periodic Payment Terms	Prior Liens	Outstanding Face Amount of Mortgages (C)	Unamo Cost Fe
<b>First Mortgage Loans:</b>					
Stony Brook II (E) (M) (P) East Haven, CT	N/A	(F)	--	\$ 8,285	\$
Sunset Gardens Eagle Pass, TX	N/A	(H)	--	1,323	
Northbrooke Harris County, TX	N/A	(L)	--	--	
Alexandrine Detroit, MI	N/A	(H)	--	342	
Subtotal First Mortgage Loans				9,950	
<b>Mezzanine Loans (G):</b>					
<u>Stabilized Properties</u>					
Stony Brook II (J) (N) (P) East Haven, CT	35%	(H)	\$8,285	764	
Plaza at San Jacinto (K) (N) Houston, TX	50%	(H)	6,522	1,250	
Subtotal Stabilized Mezzanine Loans				2,014	
<u>Properties in Lease-Up</u>					
The Hollows (K) (N) Greenville, NC	25%	(H)	8,915	1,549	
Elmhurst Village (J) (N) Oveido, FL	25%	(H)	21,677 (L)	2,874	
The Reserve at Autumn Creek (J) (N) Friendswood, TX	25%	(H)	16,023 (L)	1,987	
Subtotal Properties in Lease-Up				6,410	

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Properties in Construction

Club at Brazos (I) (N) (K) Rosenberg, TX	25%	(H)	13,436	1,962
Northbrooke (J) (N) Harris County, TX	50%	(H)	10,475 (L)	1,500
Del Mar Villas Dallas, TX	N/A	(H)	5,554	765
Mountain Valley Dallas, TX	N/A	(H)	5,242	776
Subtotal Properties in Construction				5,003
Subtotal Mezzanine Loans				13,427
Total Mortgage Loans				\$23,377

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- (A) Loans are subject to mandatory prepayment at the option of the Company ten years after construction completion, with one year's notice. Loans with a call date of "TBD" are still under construction.
- (B) Interest on the mezzanine loans is based on a fixed percentage of the unpaid principal balance of the related first mortgage loan (prior liens). The amount shown is the approximate effective rate earned on the balance of the mezzanine loan. The mezzanine loans also provide for payments of additional interest based on a percentage of cash flow remaining after debt service and participation in sale or refinancing proceeds and certain provisions that cap the Company's total yield, including additional interest and participations, over the term of the loan.
- (C) No principal amounts of mortgage loans are subject to delinquent interest as of December 31, 2002.
- (D) Carrying amounts of the loans are net of unamortized origination costs and fees and loan discounts.
- (E) Interest and principal payments on this first mortgage loan are insured by the U.S. Department of Housing and Urban Development.
- (F) Requires monthly payments of principal and interest based on a 40-year amortization period. Loan is subject to five-year lockout against prepayments, as well as a prepayment penalty structure during the second five-year term of the loan.

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- (G) The principal balance of the mezzanine loans is secured by the partnership interests of the entity that owns the underlying property and a third mortgage deed of trust. Interest payments on the mezzanine loans are secured by a second mortgage deed of trust and are guaranteed for the first 36 months after construction completion by an entity related to the general partner of the entity that owns the underlying property.
- (H) Interest only payments are due monthly, with loan balance due at maturity.
- (I) The funding of this mezzanine loan is based on property level operational achievements.
- (J) The Company has an interest in the first lien position relating to this mezzanine loan.
- (K) The Company does not have an interest in the first lien position relating to this mezzanine loan.
- (L) The first mortgage loans related to those properties were converted from participations in FHA loans to ownership of the GNMA certificates and are held by the Company.
- (M) This first mortgage loan is pledged to secure the Company's obligation under a first loss protection agreement with Fannie Mae - see Note 14 in the accompanying consolidated financial statements.
- (N) Lifetime interest cap represents the maximum annual return, including interest, fees and participations, that can be earned by the Company over the life of the mezzanine loan, computed as a percentage of the balance of the first mortgage loan plus the mezzanine loan.
- (O) Interest cap on these loans is the maximum rate permitted by law.
- (P) The Stony Brook II first mortgage loan and mezzanine loan were repaid in January 2003 - See Note 14 in the accompanying consolidated financial statements.

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Further information relating to investments in mortgage loans for the years ended December 31, 2002, 2001 and 2000 is as follows:

(Dollars in thousands)

	2002 -----	2001 -----	2000 -----
Reconciliation of mortgage loans:			
Balance at beginning of period	\$ 17,799	\$ 31,829	\$ 28,893
Advances made during the period	4,711	24,813	22,253
Conversion of mortgage loans to GNMA certificates	--	(37,444)	--
Loan origination fees (net of acquisition expenses)	(169)	(152)	(766)
Proceeds from repayment of mortgage loans	--	(9,245)	(9,995)
Periodic principal payments of mortgage loans	(46)	(85)	(62)

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Loan contributed to unconsolidated subsidiary	--	--	(8,404)
Consolidation of previously unconsolidated subsidiary	--	8,374	--
Excess(deficiency) of proceeds over carrying value of mortgage loans	--	(251)	14
Amortization and accretion -- net	89	(40)	(104)
	-----	-----	-----
Investments in mortgage loans - December 31,	\$ 22,384	\$ 17,799	\$ 31,829
	=====	=====	=====

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NOTE 4 - Investments in GNMA Certificates - Available for Sale

Information relating to GNMA certificates owned by the Company as of December 31, 2002, is as follows:

(Dollars in thousands)

Name	Certificate Number	Date Purchased/ Final Payment Date	Stated Interest Rate	Principal at December 31, 2002	Amortized Cost at December 31, 2002	Unrealized Gain (Loss) December 31, 2002
----	-----	-----	-----	-----	-----	-----
Western Manor (1)	0355540	7/27/94 3/15/29	7.125%	\$ 2,460	\$ 2,470	\$ 39
Copper Commons (1)	0382486	7/28/94 8/15/29	8.500%	2,088	2,158	(28)
SunCoast Capital Group, Ltd. (1)	G002412	6/23/97 4/20/27	7.000%	546	547	32
Hollows Apts.(2)	511909	5/29/01	--	--	--	--
Elmhurst Village(1)	549391	6/28/01 1/1/42	7.745%	21,677	21,677	922
Reserve at Autumn Creek(1)	448748	6/28/01 1/1/42	7.745%	16,023	16,023	2,574
Casitas at Montecito(1)(3)	519289	3/11/02 10/15/42	7.300%	5,787	6,178	458
Village at Marshfield(1)	519281	3/11/02 1/15/42	7.475%	19,869	21,493	1,331
Cantera Crossing(1)	532662	3/28/02	6.500%	5,555	5,489	592

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Fillmore Park(1)	536739	3/28/02 10/15/42	6.700%	1,189	1,203	116
Northbrooke(1)	548972	5/24/02 8/1/43	7.080%	10,475	10,625	1,231
Ellington Plaza(1)	585494	7/26/02 6/1/44	6.835%	10,501	10,559	1,159
Burlington(1)	595515	11/1/02 4/15/31	5.900%	6,824	6,909	277
				-----		
Total				\$102,994	\$105,331	\$ 8,
				=====		

(1) These GNMA certificates are partially or wholly pledged as collateral for borrowings under the repurchase facility - See Note 7.

(2) This GNMA certificate was sold March 25, 2002, resulting in a gain of approximately \$614,000.

(3) This GNMA certificate was repaid in March 2003.

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amortized cost, unrealized gain and fair value for the investment in GNMA certificates at December 31, 2002 and 2001 were as follows:

(Dollars in thousands)

	December 31,	
	2002	2001
	-----	-----
Amortized cost	\$105,331	\$ 49,499
Net unrealized gain	8,703	561
	-----	-----
Fair value	\$114,034	\$ 50,060
	=====	=====

For the year ended December 31, 2002, there were gross unrealized gains and losses of \$8,730,076 and \$27,147 respectively, on GNMA certificates. For the year ended December 31, 2001, there were gross unrealized gains and losses of \$579,252 and \$18,865, respectively, on GNMA certificates.

Due to the complexity of the GNMA structure and the uncertainty of future economic events and other factors that affect interest rates and mortgage prepayments, it is not possible to predict the effect of future events upon the yield to maturity or the market value of the GNMA certificates upon any sale or other disposition or whether the Company, if it chose to, would be able to reinvest proceeds from prepayments at favorable rates relative to the coupon

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rate.

### NOTE 5 - CMBS-Related Investment and Short Sale; Investment in ARCap

On September 30, 1999, the Company acquired from ARCap a "BB+" rated subordinated CMBS from a Chase Manhattan Bank-First Union Nation Bank Commercial Mortgage Trust. The CMBS investment, which was purchased for \$35,622,358, had a face amount of \$50,399,711 and an annual coupon rate of 6.4%. The Company purchased the CMBS investment using cash and debt provided through a Bear Stearns Repurchase Facility. In connection with this acquisition, the Company entered into an agreement with ARCap. Under the agreement, the Company had the right to sell the CMBS investment to ARCap and purchase a preferred equity position in ARCap, all based on the then fair value of the CMBS investment.

This investment was accounted for as a trading asset and carried at estimated fair value, with changes in fair value included in earnings. Interest income was accrued as it became receivable, and included accretion of discounts, computed using the effective yield method, after considering estimated prepayments and credit losses. The Company recognized gains on this investment totaling \$1,496,017 in 2000 due to mark-to-market adjustments.

On September 30, 1999, in order to mitigate the potential income statement effect of changes in the fair value of its CMBS investment caused by changes in interest rates, the Company entered into a short sale involving the sale of a U.S. Treasury Note with a face amount of \$39,327,000 and an annual coupon rate of 5.625% borrowed from Bear Stearns & Co., Inc. ("Bear Stearns"). On March 16, 2000, the Company replaced the borrowed security by purchasing such security through Bear Stearns, and entered into an additional short sale contract involving the sale of a U.S. Treasury Note with a face amount of \$34,512,000 and an annual coupon rate of 6.0% borrowed from Bear Stearns. Short sale positions were carried at estimated fair value, with changes in fair value included in earnings. The Company recognized losses on these positions totaling \$1,795,572 in 2000 due to market-to-market adjustments.

On November 1, 2000, the Company, in accordance with the agreement with ARCap, sold the CMBS investment to ARCap and repaid its borrowing under the repurchase facility, closed out its short sale position and purchased a preferred equity interest in ARCap in the face amount of \$20,000,000, with a preferred dividend rate of 12%. This preferred equity interest was recorded at \$19,640,637, representing the fair value of the CMBS investment at the date of the transaction, less the Bear Stearns Repurchase Facility repayment plus approximately \$3.5 million in cash paid to ARCap.

The Company owns 800,000 preferred equity units of ARCap, with a face amount of \$25 per unit, representing a 7.27% ownership and voting interest. The preferred equity units are convertible, at the Company's option, into ARCap common units. If converted into common units, the conversion price is equivalent to \$25 per unit, subject to certain adjustments. Also, if not already converted, for a period of sixty days following the fifth anniversary of the first closing date, which will be August 4, 2005, the preferred equity units are convertible, at the Company's option, into a three-year note bearing interest at 12% that would be junior to all of ARCap's then existing indebtedness. The preferred equity units are also redeemable, at the option of ARCap, up until the fifth anniversary of the first closing date.

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then ended is as follows:

	2002 ----- (\$'s in millions)	2001 ----- (\$'s in millions)
Investment securities - trading	\$ 799	\$ 565
Other assets	24	31
	-----	-----
Total assets	\$ 823	\$ 596
	=====	=====
Repurchase agreements and long-term debt	\$ 392	\$ 322
Other liabilities	206	50
Members' equity	225	224
	-----	-----
Total liabilities and equity	\$ 823	\$ 596
	=====	=====
Total revenues	\$ 96	\$ 63
Total expenses	65	50
	-----	-----
Net income	\$ 31	\$ 13
	=====	=====

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - Notes Receivable

The Company's notes receivable are collateralized by equity interest in the owner of the related property and consist of the following as of December 31, 2002:

(Dollars in thousands)

Property	Location	Number of Apartment Units	Outstanding Principal Balance	Unamortized Costs and Fees	Carrying Amount	Remaining Committed Balance to Fund
-----						
Alexandrine(3)	Detroit, MI	30	\$ 214	\$ --	\$ 214	\$ --
Concord at Palm(3) (6)	Houston, TX	360	3,850	18	3,832	--
Parwood(3)	Long Beach, CA	528	3,022 (1)	25	2,997	1,578

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Concord at Little York	Houston, TX	276	3,500	25	3,475	--
Concord at Gulfgate	Houston, TX	288	3,500	47	3,453	--
Reserve at Fox River	Yorkville, IL	132	1,350	11	1,339	--
Del Mar Villas(4)	Dallas, TX	260	5,554	42	5,512	--
Mountain Valley(4)	Dallas, TX	312	5,242	67	5,175	1,065(2)
Total		2,186	\$26,232	\$ 235	\$25,997	\$2,643

- (1) Funded on an as needed basis.
- (2) To be funded for rehabilitation.
- (3) These loans are to limited partnerships whose general partners are affiliates of the Advisor (see Note 9).
- (4) Pledged as collateral in connection with warehouse facility with Fleet National Bank (see Note 8).
- (5) Consists of two notes that mature in November 2002. One note, in the approximate amount of \$207,000, was repaid January 2003. The remaining note, in the amount of \$6,800, remains unpaid.
- (6) The Concord at Palm bridge loan was repaid in full in March 2003.

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7- Repurchase Facilities

Effective February 15, 2000, the Company entered into a \$60 million FHA repurchase facility with Nomura Asset Capital Corporation (the "Nomura Repurchase Facility") with a term of one year. This facility enabled the Company to borrow up to 90% with a qualified hedge or 80% without a qualified hedge of the fair market value of FHA loans owned by the Company. The Nomura Repurchase Facility was renewed February 15, 2001 for \$40 million, with a one time option to increase to \$60 million, for a one year term and interest at LIBOR plus 1.25%. At December 31, 2001, there was no outstanding balance. Deferred costs relating to the Nomura Repurchase Facility have been fully amortized. This Repurchase Facility was not renewed in 2002.

Effective February 15, 2000, the Company also entered into a repurchase facility with Nomura Securities International Inc. (the "Nomura Securities Repurchase Facility"). This facility enables the Company to borrow up to 95% of the fair market value of GNMA certificates and other qualified mortgage securities owned by the Company. Up until May 2002, borrowings would bear interest at LIBOR plus 0.50%. Subsequent to May 2002, interest on borrowings decreased to LIBOR plus 0.05%. As of December 31, 2002 and 2001, the amount outstanding under this facility was \$87.9 million and \$43.6 million, respectively, and interest rates were 1.47% and 2.58%, respectively. Deferred costs relating to the Nomura Securities Repurchase Facility have been fully amortized. All amounts outstanding at December 31, 2002 had 30 day settlement terms. As of December 31,



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2002 and 2001, all GNMA certificates owned by the Company were wholly or partially pledged as collateral.

### NOTE 8- Warehouse Facilities

In October 2002, the Company entered into a mortgage warehouse line of credit (the "Fleet Warehouse") with Fleet National Bank ("Fleet") in the amount of \$40 million. Advances under the Fleet Warehouse Facility, up to 83% of the total loan package, will be used to fund first mortgage loans, which the Company will make to its customers for the acquisition/refinancing and minor renovation of existing, lender-approved multi-family properties located in stable sub-markets. The Facility, which matures April 2006, bears an interest rate of LIBOR + 200 basis points (3.46% and 3.42% for Del Mar Villas and Mountain Valley loans, respectively, at December 31, 2002), payable monthly on advances. Principal is due upon the earlier of refinance or sale of the underlying project or upon maturity. The Company will pay a fee of 12.5 basis points, paid quarterly, on any unused portion of the Facility. As of December 31, 2002, the Company had approximately \$8.8 million in loans outstanding under this program.

### NOTE 9- Related Party Transactions

Pursuant to the amended Advisory Agreement between the Company and the Advisor, the Advisor receives certain fees, in addition to reimbursements of certain administrative and other costs incurred by the Advisor on behalf of the Company, for its ongoing management and operations of the Company:

Fees/Compensation -----	Annual Amount -----	
I. Asset	.355%	for investments in mortgage loans
management fees	.355%	for certain investment grade investments
	.750%	for certain non-investment grade investments
	1.000%	for unrated investments
	.625%	for investments held prior to the adoption of the amended Advisory Agreement between the Company and the Advisor dated April 6, 1999.
II. Annual	A)	25% of the dollar amount by which
incentive fees		
	(1)	(a) funds from operations (before the annual incentive fee) per share (based on the weighted average number of shares outstanding), plus
		(b) gains (or minus losses) from debt restructuring and sales of property per share (based on the weighted average number of shares outstanding), exceed
	(2)	an amount equal to the greater of:
	(a)	(i) the weighted average of (x) \$20 (the price per share in the Company's initial public offering) and (y) the prices per share of any secondary offerings by the Company multiplied by
		(ii) the ten year U.S. Treasury Rate plus 2% per annum; and;

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(b) \$1.45 multiplied by

B) the weighted average number of shares outstanding during such year.

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Advisor will not receive an annual incentive fee in any fiscal year unless shareholders have received a minimum annual distribution of \$1.45 per share for that fiscal year.

In addition, with respect to new mortgage loans acquired by the Company, the Advisor will receive origination points paid by borrowers equal to up to 1% of the principal amount of each mortgage loan and the Company will receive origination points paid by borrowers in excess of 1%.

During 2002, the Company made an agreement with the Advisor, whereby the Advisor waived approximately \$71,000 in net fees and expense reimbursements, in light of higher than usual expenses related to the origination of investments that were never completed.

The costs incurred to related parties for the years ended December 31, 2002, 2001 and 2000 were as follows:

(Dollars in thousands)

	Years Ended December 31,		
	2002	2001	2000
Expense reimbursement	\$ 447	\$ 345	\$ 375
Asset management fees	838	248	386
Incentive fee	235	--	--
	-----	-----	-----
	\$1,520	\$ 593	\$ 761
	=====	=====	=====

Asset management fees, the incentive management fee and expense reimbursements owed to the Advisor and its affiliates amounting to approximately \$553,000 and \$318,000 were accrued and unpaid at December 31, 2002 and 2001, respectively.

Some of the Company's notes receivable (see Note 6), the guarantee on Creekside Apartments and standby bridge loan commitments described in Note 12 are to limited partnerships where the general partner is an affiliate of the Advisor.

In December 2002, Charter Municipal Mortgage Company announced a proposed acquisition of Related Capital Company, an affiliate of the Advisor. This acquisition will not affect The Company or its day-to-day operations.

NOTE 10 - Earnings Per Share

Basic net income per share in the amount of \$1.61, \$1.35 and \$.86 for the years ended December 31, 2002, 2001 and 2000, respectively, equals net income for the periods (\$9,659,362, \$5,187,064 and \$3,317,757, respectively), divided by the

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weighted average number of shares outstanding for the periods (6,017,740, 3,838,630 and 3,838,630, respectively).

Because the Company had no dilutive securities outstanding during 2002, 2001 and 2000, diluted net income per share is the same as basic net income per share for all periods presented.

### NOTE 11 - Capital Shares

On February 25, 2002, the Company completed a public offering of 2.5 million common shares at a price of \$13.50 per share. The net proceeds from this offering, approximately \$31 million, net of underwriter's discount and expenses, were used to fund investments.

The Company has an incentive share option plan, under which the Compensation Committee of the board of trustees has the authority to issue options to the Company's trustees and employees of the Advisor to purchase, in the aggregate that number of shares which is equal to three percent of the shares outstanding as of December 31 of the immediately preceding calendar year, provided that the Compensation Committee may only issue, in the aggregate, options to purchase a maximum number of shares over the life of the Incentive Share Option Plan equal to 383,363 shares. No options have been granted under this plan as of December 31, 2002.

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### AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 12 - Selected Quarterly Financial Data

	2002 Quarter Ended			
	-----			
	(Dollars in thousands except per share amounts)			
	(Unaudited)			
	March 31	June 30	September 30	December 31
	-----	-----	-----	-----
Revenues:				
Interest income:				
Mortgage loans	\$ 401	\$ 609	\$ 536	\$ 504
GNMA certificates	1,084	1,370	1,548	1,767
Notes receivable	487	627	548	608
Temporary investments	11	13	16	10
Other income	60	76	67	116
	-----	-----	-----	-----
Total revenues	2,043	2,695	2,715	3,005
	-----	-----	-----	-----
Expenses:				
Interest	272	307	290	359
General and administrative	126	164	119	297
Fees to Advisor	357	371	318	474
FNMA loan program	355	3	--	--

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Total expenses	1,110	845	727	1,130
Other gain:				
Equity in earnings of ARCap	592	608	600	600
Net gain on repayment of mortgage loans and GNMA certificates	614	--	--	--
Total other gain	1,206	608	600	600
Net income	\$ 2,139	\$ 2,458	\$ 2,588	\$ 2,475
Net income per weighted average share (basic and diluted)	\$ 0.43	\$ 0.39	\$ 0.41	\$ 0.39
Weighted average shares outstanding (basic and diluted)	4,960,852	6,363,630	6,363,630	6,363,630

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2001 Quarter Ended			
	March 31	June 30	September 30	December 31
Revenues:				
Interest income:				
Mortgage loans	\$ 888	\$ 1,018	\$ 350 (1)	\$ 517 (1)
GNMA certificates	116	379	860	939
Notes receivable	45	61	127	218
Temporary investments	17	10	20	26
Other income	6	25	39	37
Total revenues	1,072	1,493	1,396	1,737
Expenses:				
Interest	275	361	463	307
General and administrative	140	122	115	284
Fees to Advisor	118	178	121	176

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Total expenses	533	661	699	767
	-----	-----	-----	-----
Other gain (loss):				
Equity in earnings of ARCap	592	592	604	612
Net loss on repayment of mortgage loans and GNMA certificates	--	--	(212)	(39)
	-----	-----	-----	-----
Total other gain (loss)	592	592	392	573
	-----	-----	-----	-----
Net income	\$ 1,131	\$ 1,424	\$ 1,089	\$ 1,543
	=====	=====	=====	=====
Net income per weighted average share (basic and diluted)	\$ 0.29	\$ 0.37	\$ 0.28	\$ 0.40
	=====	=====	=====	=====
Weighted average shares outstanding (basic and diluted)	3,838,630	3,838,630	3,838,630	3,838,630
	=====	=====	=====	=====

- (1) Interest income from mortgage loans and GNMA certificates in the third quarter of 2001 reflects the impact of the conversion of three mortgage loans into GNMA certificates during the second quarter 2001. The increase or decrease in interest income was primarily a result of the interest income earned by these loans converted to GNMA certificates subsequent to the conversion. No gains or losses resulted from the conversion.

NOTE 13 - Commitments and Contingencies

The Company completed a loan program with Fannie Mae, which agreed to fully fund the origination of \$250 million of Delegated Underwriter and Servicer loans for apartment properties that qualify for low income housing tax credits under Section 42 of the Internal Revenue Code. Under the loan program, the Company intended to originate and contract for individual loans of up to \$6 million each over a two-year period in conjunction with American Property Financing, an unaffiliated third party, which would underwrite and service the loans for Fannie Mae. The Company guarantees a first loss position of up to \$21.25 million, depending on the aggregate principal amount of the loans the Company originates under this program and would receive guaranty, loan origination and other fees. The Company also guarantees construction loans for which it has issued a forward commitment to originate a loan under the Fannie Mae program, with respect to which it guarantees repayment of 100% of such construction loans. As of December 31, 2002, the Company has originated loans totaling approximately \$3.3 million under the Fannie Mae program and has made forward commitments for an additional approximate \$4.0 million. The Company's maximum guaranty at December 31, 2002 was approximately \$7.3 million.

During August 2002, the Company purchased one construction loan in the amount of \$342,000 due to a default on a construction loan that was 100% guaranteed by the Company under the Fannie Mae program. The loan defaulted due to problems relating to construction issues of Alexandrine Square, a 30-unit apartment complex in Detroit, Michigan. The construction loan is classified as a first mortgage loan on the balance sheet at December 31, 2002.

Subsequent to creating this program, the level of loan origination competition

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has increased, reducing the program's projected financing value and profitability. As a result, the Company decided in the first quarter of 2002 to discontinue this program. The Company has reached an agreement in principle to terminate this program and transfer its rights and obligations to a third party. There can be no assurance, however, that this agreement will be consummated.

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accordingly, during the first quarter of 2002, the Company wrote off the balance of unamortized deferred costs relating to this program. This write-off totaled approximately \$358,000 and is included in Fannie Mae loan program expenses in the Consolidated Statement of Income.

Except for the write-off of the program costs described above, the Fannie Mae loan program has not had, and its discontinuance is not anticipated to have, a significant impact on the Company's financial condition or results of operations.

The following table provides information relating to the loans originated and forward commitments made on Fannie Mae's behalf.

(Dollars in thousands)

Loans Originated

Property	Location	Number of Apartment Units	Loan Amount	Loss Sharing Fee (annual rate)
Valley View	Cedar Rapids, IA	96	\$2,187	0.36%
Maple Ridge Apartments	Jackson, MI	69	1,137	0.52%
Total		165	\$3,324	

Forward Commitments

Property	Location	Number of Apartment Units	Loan Amount	Loss Sharing Fee (annual rate)
Cameron Creek Apartments	Dade Country, FL	148	\$3,000	0.35%
Desert View Apartments	Coolidge, AZ	372	1,011	0.52%
Total		520	\$4,011	

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Standby and Forward Loan and GNMA Commitments

-----

During 2002, the Company issued the following standby and forward bridge and permanent loan commitments for the purpose of constructing/rehabilitating certain multi-family apartment complexes in various locations.

(Dollars in thousands)

### Standby and Forward Bridge Loan Commitments

-----

Issue Date	Project	Location	No. of Apt. Units	Less th
-----				
Jan-02	Parwood	Long Beach, CA	528	\$
Jan-02	Valley View/Summertree (7)	Little Rock, AK	240	
May-02	McMullen Square	San Antonio, TX	100	
Jul-02	Clark's Crossing Apartments	Laredo, TX	160	
Nov-02	Mountain Valley	Dallas, TX	312	
			-----	
Total Standby Bridge Loan Commitments			1,340	\$
			=====	

### Standby and Forward Permanent Loan Commitments

-----

Issue Date	Project	Location	No. of Apt. Units	Less th
-----				
Mar-02	Sunset Gardens	Eagle Pass, TX	60	\$
May-02	Highland Park	Topeka, TX	200	4,
			-----	
Total Standby and Forward Permanent Loan Commitments			260	\$ 4,
			=====	

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Forward GNMA Commitments  
 -----

Date Purchased	Project	Maximum A Less than 1 Year
Mar-02	Cantera Crossing	\$ 973 (3)
Mar-02	Fillmore Park	235 (3)
Mar-02	Casitas at Montecito	708 (3)
May-02	Ellington Plaza	27,114 (3)
N/A	Northbrooke	3,415 (3)
Total Forward GNMA Commitments		\$32,445
Total Standby and Forward Loan and GNMA Commitments		\$37,672

- (1) Funding not anticipated to occur.
- (2) Initial funding in the amount of \$550,000 has occurred during March 2003. Remaining fundings are on an as needed basis.
- (3) Funding has already begun. Amount represents remaining commitment to be funded.
- (4) The Company received a loan commitment fee of 2.50% for issuing the commitment.
- (5) The Company received a loan commitment fee of 2.00% for issuing the commitment.
- (6) The Company will receive a 1% loan origination fee if funding occurs.
- (7) The first mortgage bond relating to these apartments is held by Charter Municipal Mortgage Acceptance Company ("CharterMac"), a publicly traded company which is managed by an affiliate of the Advisor.
- (8) Expired in February 2003.

AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Construction Loan Guarantees  
 -----

During 2002, the Company has guaranteed the following loans in relation to the construction of affordable multi-family apartment complexes in various locations. The construction loan guarantees will provide credit support for the following projects after construction completion, up until the date in which permanent financing takes place.



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During October 2002, the Company entered into an agreement with Wachovia Bank, National Association ("Wachovia") to provide stabilization guarantees for new construction of multi-family properties under the LIHTC program. Wachovia already provides construction and stabilization guarantees to Fannie Mae, for loans Wachovia originates under the Fannie Mae LIHTC forward commitment loan program, but only for loans within regions of the country Wachovia has designated to be within its territory. For loans outside Wachovia's territory, the Company has agreed to issue a stabilization guarantee, for the benefit of Wachovia. The Company is guarantying that properties which have completed construction will stabilize and the associated construction loans will convert to permanent Fannie Mae loans. The Company receives origination and guarantee fees from the developers for providing the guarantees. If the properties do not stabilize with enough Net Operating Income for Fannie Mae to fully fund their commitment, AMAC may be required to purchase the construction loan from Wachovia or to fund the difference between the construction loan amount and the reduced Fannie Mae Permanent Loan Amount.

(Dollars in thousands)

Date Closed	Project	Location	No. of Units	Less than 1 Year	1-3 Year	Maximum Guarantee
Jul-02	Clark's Crossing	Laredo, TX	160	\$ 4,790	\$ -	
Sept-02	Creekside Apts.	Colorado Springs, CO	144	7,500	-	
Oct-02	Village at Meadowbend	Temple, TX	138	--	3,67	
Nov-02	Mapleview Apartments (3)	Saginaw, MI	104	--	3,24	
			546	\$ 12,290	\$ 6,91	

- (1) Loan Administration Fee is paid on a monthly basis during the guarantee period.
- (2) Construction Guarantee Fee is an up-front fee - paid at closing and amortized over the guarantee period.
- (3) Guarantee was made under Wachovia Bank, National Association Guarantee Agreement.

For each of these guarantees, and for the guarantees issued under the FNMA program discussed in the first paragraph of Note 13 in the accompanying consolidated financial statements, the Company monitors the status of the underlying properties and evaluates its exposure under the guarantees. To date, the Company has concluded that no accrual for probable losses is required under SFAS 5.

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### NOTE 14 - Subsequent Events

In February 2003, a distribution of \$2,545,452 (\$.40 per share), which was declared in December 2002, was paid to shareholders for the quarter ended December 31, 2002.

In February 2003, the Company received approximately \$10 million in proceeds relating to the repayment of the Stony Brook II first mortgage and mezzanine loans. At December 31, 2002, the carrying value of the Stony Brook II first mortgage and mezzanine loans were approximately \$8.3 million and approximately \$651,000, respectively. The cash proceeds from the principal repayment of the first mortgage loan are being held as collateral for the Company's contingent liabilities under guarantees issued in the Fannie Mae DUS program (see Note 13).

During March 2003, AMAC exercised its rights under the subordinated promissory note and other documents to take possession of the real estate collateral of Plaza at San Jacinto. The Company has paid approximately \$6.7 million and now owns the first mortgage. As such, AMAC is now "mortgagee in possession". This is a preliminary step toward foreclosure which is expected to take place in the near future and allow the Company to secure and protect the real estate and cash collateral, securing both the senior and subordinate mortgages. The Company believes that the value of the collateral exceeds the amounts of the first mortgage loan (approximately \$6.5 million) and the mezzanine loan (approximately \$1.3 million).

In February 2003, the Company funded a predevelopment bridge loan of approximately \$6.9 million and agreed to fund a \$7.3 million rehabilitation loan secured by Noble Tower Apartments, a 195-unit apartment complex located in Oakland, CA. The Company has received a 1% fee for the bridge loan, which bears interest at 12% and matures in July 2005. The Company will receive an additional 1% fee for the rehabilitation loan, which will bear interest at a rate of 9.75% and is expected to have a term of fifteen months.

In March 2003, the Company partially funded an acquisition bridge loan totaling approximately \$11 million for Baywoods Apartment, a 128-unit multi-family apartment complex located in Antioch, CA. The Company's initial funding was approximately \$10.5 million with future fundings totaling approximately \$500,000. In connection with the funding of this bridge loan, the Company has borrowed \$8 million from its warehouse facility with Fleet Bank. This loan, which matures March 2005, bears an interest rate of LIBOR + 400 basis points. Payments on this loan are interest only for the full 24 month term. The Company received a loan origination fee of .625%.

In March 2003, the Company partially funded a bridge loan of \$1.7 million, secured by a 288-unit apartment complex located in Houston, TX, known as The Concord at Gessner. The Company's initial funding was approximately \$1.5 million with future fundings totaling approximately \$200,000. The Company has received a 2.0% fee for the bridge loan, which bears interest at a rate of 12.0% and matures in March 2005.

In March 2003, the Concord at Palm bridge loan was repaid. The Company has received proceeds in the amount of approximately \$39 million, which approximates the carrying amount of the bridge loan at December 31, 2002.

In March 2003, the Casitas at Montecito GNMA certificate was repaid. The Company has received proceeds in the approximate amount of \$5.8 million. The carrying amount of the certificate at December 31, 2002 was approximately \$6.2 million.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Company.

Incorporated by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Item 11. Executive Compensation.

Incorporated by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Incorporated by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 13. Certain Relationships and Related Transactions.

Incorporated by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 14. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's reports filed or submitted under the Exchange Act.

(b) Changes in Internal Controls. Since the Evaluation Date, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect such controls.

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

	Sequential Page
-----	-----
(a) 1. Financial Statements	
American Mortgage Acceptance Company	
Independent Auditors' Report	27
Consolidated Balance Sheets as of December 31, 2002 and 2001	28
Consolidated Statements of Income	

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for the years ended December 31, 2002, 2001 and 2000	29
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2002, 2001 and 2000	30
Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000	31
Notes to Consolidated Financial Statements	33
ARCap Investors, LLC -----	
Consolidated 2002 financial statements for ARCap Investors, LLC (see Exhibit 99)	99(a)
Consolidated 2001 financial statements for ARCap Investors, LLC (see Exhibit 99)	99(b)

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Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K  
(continued)

	Sequential Page -----
(a) 2. Financial Statement Schedules	
All schedules have been omitted because they are not required or because the required information is contained in the financial statements or notes thereto.	
(a) 3. Exhibits	
1(a) Dealer Manager Agreement, dated March 29, 1993 as previously filed as an Exhibit to Amendment No. 3 dated March 23, 1993 to Registrant's Registration Statement No. 33-42481.	
1(b) Form of Soliciting Dealer Agreement as previously filed as an Exhibit to Amendment No. 3 dated March 23, 1993 to Registrant's Registration Statement No. 33-42481.	
3.4 Amended and Restated Declaration of Trust, dated as of March 29, 1993, as amended as of July 1, 1993 as previously filed as an Exhibit to Post-Effective Amendment No. 1 dated November 9, 1993.	
Amendment No. 2 to Amended and Restated Declaration of Trust, dated as of April 5, 1994 as previously filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1993.	
3.4(c) Second Amended and Restated Declaration of Trust, dated as of April 6, 1999 (incorporated by reference to Exhibit 3.4(c) in the Company's March 31, 1999 Quarterly	

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Report on Form 10-Q).

- 10(a) Rockport Mortgage Corporation Mortgage Note in the principal amount of \$8,500,000 dated December 15, 1995 (incorporated herein by reference to Exhibit 10(a) to Form 8-K dated December 15, 1995 filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 (Commission File No. 0-23972)).
- 10(b) Equity Loan Note in the principal amount of \$1,039,000 dated December 15, 1995 (incorporated herein by reference to Exhibit 10(b) to Form 8-K dated December 15, 1995 filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 (Commission File No. 0-23972)).
- 10(c) Subordinated Promissory Note by SCI-ROEV East Haven Land Limited Partnership, dated December 15, 1995 (incorporated herein by reference to Exhibit 10(c) to Form 8-K dated December 15, 1995 filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 (Commission File No. 0-23972)).
- 10(d) Limited Operating Guaranty between SCI Real Estate Development, Ltd., and Euro General East Haven, Inc., and the Company dated December 15, 1995 (incorporated herein Exhibit 10(d) to Form 8-K dated December 15, 1995 filed with the Securities and Exchange Commission pursuant to the securities Exchange Act of 1934 (Commission File No. 0-23972)).
- 10(e) Amended and Restated Advisory Services Agreement, effective as of April 6, 1999 (incorporated herein by reference to Exhibit 10(z) to Form 10-Q dated September 30, 1999 filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 (Commission File No. 0-23972)).
- 10(f) First Amendment to Amended and Restated Advisory Services Agreement between Related AMI Associates, Inc. and the Company dated November 29, 2001 (incorporated by reference to Exhibit 10-6 to the Company's Registration Statement on Form S-2, file number 333-74288 as filed on November 30, 2001).
- 10(g) Settlement and Escrow Agreement between Related Mortgage Corporation, Columbiana Lakes Limited Partnership, the Company, et al. dated June 7, 2001 (incorporated by reference to Exhibit 10-7 to the Company's Registration Statement on Form S-2, file number 333-74288 as filed on November 30, 2001).

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Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K (continued)

Sequential  
Page

23(a) Consent of Deloitte & Touche LLP with respect to incorporation by reference of its report in the

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Company's Registration Statement on Form S-3 (filed herewith).	63
23(b) Consent of Deloitte & Touche LLP with respect to incorporation by reference of its report relating to the financial statements of ARCap Investors, LLC in the Company's Registration Statement on Form S-3 (filed herewith).	64
23(c) Consent of Ernst & Young LLP with respect to incorporation by reference of its report relating to the financial statements of ARCap Investors, LLC in the Company's Registration Statement on form S-3 (filed herewith).	65
24.1 Power of Attorney (Included on signature page hereto)	
99. Additional Exhibits -----	
99(a) The 2002 Financial Statements of ARCap Investors, LLC which invests primarily in subordinated commercial mortgage-backed securities, as required by Regulation S-X, Rule 3-09 (filed herewith).	66
99(b) The 2001 Financial Statements of ARCap Investors, LLC which invests primarily in subordinated commercial mortgage-backed securities, as required by Regulation S-X, Rule 3-09 (filed herewith).	78
(b) Reports on Form 8-K -----	
Current report on Form 8-K relating to press release issued regarding proposed acquisition by Charter Municipal Mortgage Acceptance Company of Related Capital Company, dated and filed December 18, 2002.	

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### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN MORTGAGE ACCEPTANCE COMPANY  
(Registrant)

Date: March 21, 2003

By: /s/ Stuart J. Boesky  
-----

Stuart J. Boesky  
Trustee, Chairman of the Board,  
President and Chief Executive Officer

Date: March 21, 2003

By: /s/ Stuart A. Rothstein  
-----

Stuart A. Rothstein  
Chief Financial Officer

POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Stuart J. Boesky, Alan P. Hirmes and Stuart A. Rothstein, and each or either of them, his true and lawful attorney-in-fact with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report, and to cause the same to be filed, with all exhibits thereto and other documents in connection therewith, with the Securities Exchange Commission, hereby granting to said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing whatsoever requisite or desirable to be done in and about the premises, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things that said attorneys-in-fact and agents, or either of them, or their substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature -----	Title -----	Date -----
/s/ Stuart J. Boesky ----- Stuart J. Boesky	Trustee, Chairman of the Board, President and Chief Executive Officer	March 21, 2003
/s/ Peter T. Allen ----- Peter T. Allen	Trustee	March 21, 2003
/s/ Arthur P. Fisch ----- Arthur P. Fisch	Trustee	March 21, 2003
/s/ Alan P. Hirmes ----- Alan P. Hirmes	Trustee	March 21, 2003
/s/ Scott M. Mannes ----- Scott M. Mannes	Trustee	March 21, 2003
/s/ Stuart A. Rothstein ----- Stuart A. Rothstein	Chief Financial Officer	March 21, 2003

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## CERTIFICATION

I, Stuart J. Boesky, hereby certify that:

1. I have reviewed this annual report on Form 10-K of American Mortgage Acceptance Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure the material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors or persons performing the equivalent functions:
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.



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Date: March 21, 2003  
-----

By: /s/ Stuart J. Boesky  
-----

Stuart J. Boesky  
Chief Executive Officer

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CERTIFICATION

I, Stuart A. Rothstein, hereby certify that:

1. I have reviewed this annual report on Form 10-K of American Mortgage Acceptance Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure the material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors or persons performing the equivalent functions:
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or

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other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003  
-----

By: /s/ Stuart A. Rothstein  
-----

Stuart A. Rothstein  
Chief Financial Officer

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Exhibit 99.1

CERTIFICATION PURSUANT TO  
18.U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of American Mortgage Acceptance Company (the "Company") on Form 10-K for the year ending December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stuart J. Boesky, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Stuart J. Boesky  
-----

Stuart J. Boesky  
Chief Executive Officer  
March 21, 2003

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Exhibit 99.2

CERTIFICATION PURSUANT TO  
18.U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of American Mortgage Acceptance Company (the "Company") on Form 10-K for the year ending December 31, 2002, as filed

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with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stuart J. Boesky, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Stuart A. Rothstein

-----  
Stuart A. Rothstein  
Chief Financial Officer  
March 21, 2003

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EXHIBIT 23(a)

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-42481 of American Mortgage Acceptance Company on Form S-3 of our report relating to the financial statements of American Mortgage Acceptance Company as of December 31, 2002 and 2001, and for each of the three years in the period ended December 31, 2002, dated March 21, 2003, appearing in this Annual Report on Form 10-K of American Mortgage Acceptance Company for the year ended December 31, 2002.

/s/ DELOITTE & TOUCHE LLP

New York, New York  
March 21, 2003

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EXHIBIT 23(b)

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-42481 of American Mortgage Acceptance Company on Form S-3 of our report relating to the consolidated financial statements of ARCap Investors, L.L.C. as of December 31, 2002 and for each of the two years in the period ended December 31, 2001, dated January 31, 2002, appearing in this Annual Report on Form 10-K of American Mortgage Acceptance Company for the year ended December 31, 2002.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas  
March 21, 2003

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EXHIBIT 23(c)

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement (Form S-3 No. 33-42481) of American Mortgage Acceptance Company and in the related Prospectus of our report dated February 4, 2003 on the consolidated financial statements of ARCap Investors, L.L.C. included in this Annual Report (Form 10-K) for the year ended December 31, 2002.

/s/ Ernst & Young LLP

Dallas, Texas  
March 21, 2003

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EXHIBIT 99 (a)

INDEPENDENT AUDITORS' REPORT

The Board of Managers  
ARCap Investors, L.L.C.

We have audited the accompanying consolidated balance sheet of ARCap Investors, L.L.C. and subsidiaries (the Company) as of December 31, 2002, and the related consolidated statements of operations, members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ARCap Investors, L.L.C. and subsidiaries at December 31, 2002, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Dallas, Texas  
February 4, 2003

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ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET

ASSETS

December 31, 2002  
-----

Investment securities - trading, net (Note 3)	\$798,856,791
Accrued interest receivable	9,243,042
Cash and cash equivalents	4,953,388
Deferred borrowing costs, net (Note 5)	4,453,750
Restricted cash - CBO swap (Note 5)	4,325,848
Other assets	722,261
	-----
Total assets	\$822,555,080
	=====

LIABILITIES AND MEMBERS' EQUITY

Liabilities:

Long-term debt (Note 5)	\$236,000,000
Repurchase agreements (Note 6)	155,423,000
Accrued interest payable	4,853,757
Borrowed investment securities and interest rate swap, net (Note 4)	4,487,562
CBO swap liability (Note 5)	4,125,000
Accrued expenses	208,455
	-----

Total liabilities	405,097,774
	-----

Commitments and contingencies

Minority interest in consolidated entities	192,337,631
--	-------------

Members' equity:

Series A preferred members	147,340,254
Common members	77,779,421

Total members' equity	225,119,675
	-----

Total liabilities and members' equity	\$822,555,080
	=====

See notes to consolidated financial statements

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ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OPERATIONS

December 31, 2002

Revenues:

Interest income - CMBS	\$ 76,306,706
Other investment income	2,175,975

Total revenues	78,482,681
----------------	------------

Expenses:

Interest - long-term debt and repurchase agreements	20,527,438
Interest - borrowed investment securities and interest rate swap, net	7,287,485
Financing fee	1,180,000
Salaries and employee benefits	5,508,718
General and administrative	4,442,601

Total expenses	38,946,242
----------------	------------

Net margin on CMBS and other investments	39,536,439
--	------------

Other revenue (expense):

Accretion of purchase discount	17,137,362
Loss on trading securities, net (Note 7)	(11,068,375)

6,068,987

Income before minority interest	45,605,426
---------------------------------	------------

Minority interest	(14,456,330)
-------------------	--------------

Net income	\$ 31,149,096
------------	---------------

See notes to consolidated financial statements

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	Common Members	Series A Preferred Members	Total
	-----		
Balance at January 1, 2002	\$ 78,156,400	\$145,827,125	\$223,983,525
Costs to raise capital of consolidated subsidiaries	(386,470)	(863,826)	(1,250,296)
Distributions	(10,890,994)	(17,871,656)	(28,762,650)
Net income	10,900,485	20,248,611	31,149,096
	-----		
Balance at December 31, 2002	\$ 77,779,421	\$147,340,254	\$225,119,675
	=====		

See notes to consolidated financial statements

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ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS

	December 31, 2002
	-----
OPERATING ACTIVITIES	
Net income	\$ 31,149,096
Adjustments to reconcile net income to net cash used in operating activities:	
Loss on trading securities, net	11,068,375
Accretion of purchase discount	(17,137,362)
Amortization of deferred borrowing costs	680,930
Minority interest	14,456,330
Changes in operating assets and liabilities:	
Investment securities - trading, net	(205,485,635)
Accrued interest receivable	(3,410,351)
Restricted cash - CBO swap	(73,117)
Other assets	(93,381)
Accrued interest payable	1,616,725
Borrowed investment securities and interest rate swap, net	(14,765,069)
Accrued expenses	(190,995)
	-----
Net cash used in operating activities	(182,184,454)
	-----
FINANCING ACTIVITIES	
Distributions to members	(28,762,650)
Contributions from minority interest members	148,576,742
Distributions to minority interest members	(14,093,989)
Costs to raise capital	(1,350,296)
Proceeds from repurchase agreements	69,321,000
	-----

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Net cash provided by financing activities	173,690,807	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	(8,493,647)	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,447,035	-----
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,953,388	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest on repurchase agreements and long-term debt	\$ 20,489,835	=====

See notes to consolidated financial statements

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ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2002

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

A) Organization - ARCap Investors, L.L.C. (the Company) was incorporated in January 1999 and commenced its operations on March 17, 1999. The Company was organized to invest primarily in subordinated commercial mortgage-backed securities (CMBS).

B) Principles of Consolidation - The consolidated financial statements include the accounts of:

- The Company.
- ARCap REIT, Inc. (ARCap REIT), a majority-owned subsidiary of the Company.
- ARCAP Resecuritization Corporation (ARCap Resecuritization), a wholly owned subsidiary of ARCap REIT. ARCap Resecuritization owns all the residual interest in Commercial Resecuritization Trust 2001 ABC-2 (the Trust).
- ARCap High Yield CMBS Fund, L.L.C. (the High Yield Fund), of which ARCap REIT owned an approximate 23% controlling interest as of December 31, 2002. The High Yield Fund owns approximately 60% of ARCap CMBS Fund REIT, Inc. (the Fund REIT).
- ARCap Diversified Risk CMBS Fund, L.L.C. (the Diversified Risk Fund), of which ARCap REIT owned an approximate 1% controlling interest as of December 31, 2002. The Diversified Risk Fund owns approximately 40% of the Fund REIT.
- ARCap Special Servicing, Inc. (Special Servicing), a taxable REIT subsidiary wholly owned by ARCap REIT.

Minority interests primarily represent outside members' approximate 77%



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ownership in the High Yield Fund and outside members' approximate 99% ownership in the Diversified Risk Fund. The Company has consolidated the High Yield Fund and Diversified Risk Fund as it exercises control (through ARCap REIT, which acts as the Managing Member of both Funds in accordance with the terms of the respective LLC agreements) over the operations of these Funds. The Company records minority interest expense (income) that reflects the portion of the earnings (losses) of the operations which is applicable to the minority interest members.

Separate books of accounts are maintained for ARCap REIT, ARCap Resecuritization, the Trust, the High Yield Fund, the Fund REIT, the Diversified Risk Fund, and Special Servicing and are reflected in the accompanying consolidated financial statements of the Company. All material intercompany transactions and account balances have been eliminated in consolidation.

C) Investment Securities - The Company's investment security transactions are recorded on the trade date for existing securities and the settlement date for to-be-issued securities. CMBS are designated as trading assets since the Company is holding the securities for possible sales or other dispositions in the near term. Such securities are carried at their estimated fair value, with unrealized gains or losses included in earnings.

The fair value of the Company's portfolio of CMBS is generally estimated by management based on market prices provided by certain dealers who make a market in these financial instruments. The market for the Company's CMBS may lack liquidity and have limited market volume. Accordingly, the fair values reported reflect estimates and may not necessarily be indicative of the amounts that the Company could realize in a current market exchange.

The yield to maturity on the Company's CMBS depends on, among other things, the rate and timing of principal payments, the pass-through rate and interest rate fluctuations. The subordinated CMBS interests owned by the Company provide credit support to the more senior interests of the related commercial securitization. Cash flow from the mortgages underlying the CMBS interests generally is allocated first to the senior interests, with the most senior interest having a priority entitlement to cash flow. Remaining cash flow is allocated generally among the other CMBS interests in order of their relative seniority. To the extent that there are defaults and unrecoverable losses on the underlying mortgages that result in reduced cash flows, the most subordinated CMBS interest will bear this loss first. To the extent that there are losses in excess of the most subordinated interest's stated entitlement to principal and interest, then the remaining CMBS interests will bear such losses in order of their relative subordination.

D) Revenue Recognition - Interest income and special servicing fees are recognized as earned. Accretion of discounts is computed using the effective-yield method over the life of the underlying assets.

E) Derivative Financial Instruments - Derivative financial instruments are utilized by the Company to reduce interest rate risk. The Company utilizes interest rate swaps and cap and floor agreements as a means of hedging the potential financial statement impact of changes in the fair value of its portfolio of CMBS and variable rate long-term debt due to changes in interest rates. Risks in these contracts arise from the movements in interest rates and from the possible inability of counterparties to meet the terms of their contracts. The Company carries its derivative financial instruments at fair

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YEAR ENDED DECEMBER 31, 2002

value with any unrealized gain or loss included in earnings, in accordance with the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities.

F) Resale and Repurchase Agreements - Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements or reverse repos) or sales of securities under agreements to repurchase (repurchase agreements or repos) are accounted for as collateralized financings, except where the Company does not have an agreement to sell (or purchase) the same or substantially the same securities before maturity at a fixed or determinable price.

G) Cash and Cash Equivalents - Cash and cash equivalents include all highly liquid investments with original maturities when purchased of three months or less.

H) Restricted Cash - Restricted cash represents amounts required to be pledged under interest rate cap and floor agreements (see Note 5).

I) Deferred Borrowing Costs - Deferred borrowing costs represent costs incurred in connection with the issuance of long-term debt. Such amounts are amortized using the effective interest method over the term of the related debt (see Note 5).

J) Financing Fee - The Company pays an annual rate of 0.50% of the face of its existing long-term debt to a financier to provide credit enhancement of such debt.

K) Income Taxes - The Company has elected to be taxed as a partnership, whereby all income is taxed at the member level, with the exception of Special Servicing which is taxed at the entity level. ARCap REIT has elected to be taxed as a real estate investment trust for federal income tax purposes.

No provision for income taxes has been made for Special Servicing for the period April 1, 2002 (inception of Special Servicing) through December 31, 2002 as Special Servicing did not generate any taxable income.

L) Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

M) Fair Value of Financial Instruments - The estimated fair value amounts herein have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts.

The Company's portfolio of CMBS and securities borrowed is carried at their estimated fair values. The Company's management believes that the fair values of its cash and cash equivalents, restricted cash, and repurchase agreements approximate their carrying values due to the nature of the instruments or the fact that their terms approximate current market terms.

NOTE 2. MEMBERS' EQUITY

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The Limited Liability Company Agreement (LLC Agreement) establishes two classes of membership: Series A Preferred members and Common members.

Cash Flows are distributed in the following order of priority:

- To the Series A Preferred members in an amount equal to the accrued and unpaid Preferred Distributions (12% per annum of the \$25.00 price per Unit).
- To the Common members in an amount equal to (a) during the 18-month period that ended February 4, 2002, the amount determined by the Board of Managers, but no more than a cumulative return on the Common Units at the rate of 10% per annum on an established value of \$21.74 per unit, and (b) subsequent to such 18-month period, the amount determined by the Board of Managers, provided that if the amount distributable to the Common members shall exceed a cumulative annual return on the Common Units of 12% per annum, the Board of Managers shall notify the Series A Preferred members 30 days in advance of the record date for distribution of Cash Flow.

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ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2002

- To the extent that any remaining Cash Flow received during such tax period is not includable in the income of the Company, to members that have been allocated Net Profits in excess of amounts actually distributed to such members, in proportion to such amounts.

Net Profits of the Company are allocated as follows:

- To the Series A Preferred members to the extent of amounts distributed or distributable to them in such taxable year.
- To the Series A Preferred members to the extent Net Losses previously allocated to such members exceed undistributed Net Profits previously allocated to them.
- To the Common members to the extent of amounts distributed or distributable to them in such taxable year.
- To the Common members to the extent Net Losses previously allocated to such members exceed undistributed Net Profits previously allocated to them.
- To the members in proportion to their Percentage Interests.

Net Losses of the Company are allocated as follows:

- To the members in an amount equal to undistributed Net Profits allocated to such member.
- To the Common members pro rata to the extent of their Capital Accounts.
- To the Series A Preferred members pro rata to the extent of their Capital Accounts.

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### Series A Preferred Units

-----

Series A Preferred Units are convertible into Common Units at the Conversion Price in effect on the Conversion Date. If the Series A Preferred Units have not been converted within five years of the effective date of the First Amendment to the LLC Agreement (August 4, 2000), Series A Preferred Units may, at the holder's option, be converted to a note equal to \$25.00 per Unit, plus accrued and unpaid Preferred Distributions.

Eighteen months after the First Closing Date (February 4, 2002), but no later than the fifth anniversary of the First Closing Date (August 4, 2005), the Company may redeem the Series A Preferred Units for \$25.00 per unit, plus accrued and unpaid Preferred Distributions, plus a premium that will provide the Series A Preferred members with a total pretax internal rate of return of 17.50%.

In addition, upon either a change in control or sale or transfer of all or substantially all of the assets of the Company, Series A Preferred Units may, at the holder's option, be redeemed at \$25.00 per unit, plus accrued and unpaid Preferred Distributions.

At December 31, 2002, there were a total of 6,000,000 Series A Preferred Units and 4,999,382 Common Units issued and outstanding.

The LLC Agreement contains certain restrictive covenants regarding the amount of variable rate debt, total debt, and certain financial ratios. Failure to meet the covenants in successive quarters can result in the Chief Executive Officer and Chief Operating Officer being removed from the Board of Managers until such time as the covenants are cured for successive quarters. Management believes that the Company has not violated the covenants in successive quarters.

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ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2002

#### NOTE 3. INVESTMENT SECURITIES

The Company's trading securities are carried at estimated fair value and are comprised of the following at December 31, 2002:

	Face	Cost	Fair Value	percentage
Subordinated CMBS:				
Security rating:				
BB+	\$ 115,923,711	\$ 91,176,800	\$103,776,027	12.99%
BB	170,077,178	127,903,052	141,264,695	17.68%
BB-	134,295,076	90,149,121	99,793,698	12.49%
B+	215,067,722	127,005,619	137,774,880	17.25%
B	264,721,814	151,661,428	144,486,471	18.09%
B-	161,254,347	79,612,839	70,601,239	8.84%
NR	420,501,779	110,757,808	101,159,781	12.66%
	\$ 1,481,841,627	\$ 778,266,667	\$798,856,791	100.00%

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=====  
 The Company accretes purchase discounts using the effective yield method over the life of the CMBS. The accumulated accretion of purchase discounts at December 31, 2002, was approximately \$30,627,000.

The gross cumulative unrealized gains and losses on the Company's trading investment securities at December 31, 2002, were approximately \$41,709,000 and (\$51,746,000), respectively.

NOTE 4. BORROWED INVESTMENT SECURITIES AND INTEREST RATE SWAP, NET

The Company's borrowed investment securities and interest rate swap are carried at estimated fair value and are comprised of the following at December 31, 2002:

Security Description	Coupon Rate	Face	Cost Basis	Fair Value	Unrealized Gain (Loss)
U.S. Treasury (08-15-09)	6.000%	\$ (11,239,000)	\$ (10,974,728)	\$ (13,072,362)	\$ (2,097,634)
U.S. Treasury (02-15-11)	5.000%	(17,818,000)	(17,523,195)	(19,591,448)	(2,068,253)
U.S. Treasury (08-15-11)	5.000%	(136,603,000)	(138,334,790)	(149,900,450)	(11,566,660)
U.S. Treasury (02-15-12)	4.875%	(85,300,000)	(91,513,064)	(92,697,111)	(1,187,107)
U.S. Treasury (11-15-12)	4.000%	(20,468,000)	(20,336,877)	(20,775,020)	(437,143)
		-----	-----	-----	-----
		\$ (271,428,000)	\$ (278,682,654)	(296,036,391)	\$ (17,350,741)
		=====	=====	=====	=====
Reverse repurchase agreements				295,618,149	
Borrowed investment securities, net				-----	(418,242)
Interest rate swap				(4,069,320)	
Borrowed investment securities and interest rate swap, net				-----	\$ (4,487,562)
				=====	=====

The borrowed U.S. Treasury securities were sold in the open market (i.e., a "short" security sale). The Company is obligated to return the securities in the future and is therefore exposed to price risk until it repurchases the securities for delivery to the lender. Short security sales are used by the Company to modify its interest rate risk. The Company must pay the security lender the interest earned by the underlying security. Short security sales are recorded at the estimated fair value of the borrowed securities, and any unrealized gains (losses) are included in earnings.

Proceeds from short security sales are used to purchase reverse repurchase agreements of the same security. The transactions are governed by one master repurchase agreement with rights of offset and, therefore, the values of the short security sales and reverse repurchase agreements have been offset and shown as one line item in the accompanying consolidated financial statements. It has been the Company's practice to settle these transactions on a net basis.

At December 31, 2002, the Company pledged CMBS valued at approximately \$10,363,000 as additional collateral against the borrowed investment securities outstanding as of December 31, 2002.

ARCAP INVESTORS, L.L.C. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2002

The Company entered into an interest rate swap agreement with Bear Stearns Capital Markets (Bear Stearns) with a notional amount at December 31, 2002, of \$27,000,000, on which the Company pays a fixed rate of 6.015% and receives a variable rate based upon a six-month LIBOR for a term of 10 years ending April 27, 2011. The swap agreement calls for interest to be paid semiannually in arrears. The Company carries the swap agreement at its estimated fair value, with all periodic changes in estimated fair value recognized in earnings. The Company was required under the swap agreement to pledge collateral valued at 1% of the notional amount of the swap to ensure its performance in the event that the swap declines in value. At December 31, 2002, the Company pledged CMBS valued at approximately \$14,611,000 as additional collateral against the interest rate swap outstanding as of December 31, 2002.

NOTE 5. LONG-TERM DEBT

During fiscal year 2001, the Company entered into an agreement to sell its interests in 50 CMBS pass-through certificates (the Pooled Certificates) to its subsidiary, the Trust.

The Trust resecuritized the Pooled Certificates and offered \$98,500,000 Class A-1 Senior Notes with a fixed coupon rate of 7.17% (Fixed Rate Notes) and \$137,500,000 Class A-2 Senior Notes with a variable coupon rate based on one-month LIBOR plus 115 basis points (Variable Rate Notes) (together, the Notes). The Notes are secured by the investment securities of the Company with a carrying value of approximately \$345,512,000 at December 31, 2002. The Company capitalized \$5,667,580 of deferred borrowing costs related to the issuance of the Notes. The deferred borrowing costs are being amortized, using the effective-interest method, over the life of the debt, which is seven years (through February 22, 2008). The Company amortized \$680,930 of deferred costs for the year ended December 31, 2002. Total accumulated amortization of deferred borrowing costs at December 31, 2002, was \$1,213,830.

In conjunction with the issuance of the Variable Rate Notes, the Company entered into an interest rate cap agreement and an interest rate floor agreement with Bear Stearns (CBO Swap) to effectively fix the interest rate on its variable rate debt at 7.435%. The notional amount for the CBO Swap is \$137,500,000. The agreements call for interest to be paid monthly. The Company carries the CBO Swap at its estimated fair value, with all periodic changes in estimated fair value recognized in earnings. The Company originally deposited \$4,125,000 of cash to ensure its performance in the event that the CBO Swap declines in value. If the market value of the CBO Swap falls below defined thresholds, the Company may be required to deposit additional restricted cash. Amounts in excess of the minimum requirements may be withdrawn by the Company.

Interest on the Notes is paid monthly. Interest expense on the Notes was approximately \$17,238,000 for the year ended December 31, 2002, and the related accrued interest payable at December 31, 2002, was approximately \$480,000.

NOTE 6. REPURCHASE AGREEMENTS

The Company entered into repurchase agreements to finance a portion of its CMBS purchases. The weighted-average interest rate as of December 31, 2002, was 2.73%, and the average maturity of the agreements was 30 days. The repurchase agreements are collateralized by a portion of the Company's portfolio of CMBS

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investments with a fair value of approximately \$284,943,000 at December 31, 2002. Accrued interest payable at December 31, 2002, was approximately \$209,000.

### NOTE 7. LOSS ON TRADING SECURITIES, NET

The composition of the Company's gain (loss) on trading securities, net for the year ended December 31, 2002, is as follows:

Unrealized loss - borrowed investment securities	\$(17,594,455)
Unrealized loss - interest rate swap	(3,395,007)
Unrealized loss - CBO Swap	(1,408,400)
Unrealized gain - CMBS	12,443,165
Realized loss - CMBS	(1,086,698)
Realized loss - borrowed investment securities	(26,980)
	-----
Loss on trading securities, net	\$(11,068,375)
	=====

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ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2002

### NOTE 8. OPERATING LEASES

The Company leases its office space and certain equipment under operating leases that expire between April 2004 and January 2007. The office lease, as amended, provides for an annual basic rental of \$206,244 during the initial lease term and contains an option to extend the term of the lease for one extension term of five years, with the basic rental being reset at the then market rate. Future minimum lease payments under these leases are as follows:

2003	\$313,851
2004	243,455
2005	207,384
2006	206,244
2007	17,187
	-----
Total	\$988,121
	=====

Lease expense for the year ended December 31, 2002 was approximately \$316,000.

### NOTE 9. TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

At times, the Company purchases investment securities from members of the Company or their affiliates. These purchases represent transactions that are in the normal course of business of the Company and the members. During the year ended December 31, 2002, the Company purchased from such members CMBS with an approximate face of \$387,327,000 at an approximate purchase price of \$210,382,000.

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The Company has loaned approximately \$231,000 to key executives for funding of tax liabilities associated with units granted under an incentive compensation arrangement. As of December 31, 2002, there is approximately \$190,000 outstanding.

These loans are classified as other assets in the consolidated balance sheet. The loans bear interest at a rate of 7% per annum, and payments are due quarterly on the distribution date for the Common Units. Payments are due only to the extent that the quarterly distribution is sufficient to pay them. The loans become due upon termination of the executives' employment with the Company, and recourse is limited to the Common Units securing the loans.

Under a fee arrangement, ARCap REIT paid C.P. Eaton & Associates, Inc. a monthly retainer fee and an incentive fee to assist ARCap REIT in raising capital for fund operations with respect to which ARCap REIT acts as the Managing Member. The total costs incurred under this fee arrangement are allocated proportionately (based on total dollars raised) to all funds for which capital dollars are raised.

### NOTE 10. EMPLOYEE BENEFITS

The Company holds a contributory defined contribution 401(k) plan that covers substantially all full-time employees. The Company matches participant contributions up to 3% of each participant's total compensation. Matching contributions totaled approximately \$75,000 for the year ended December 31, 2002.

The Company has a deferred compensation plan for key employees. The Board of Managers approved the availability of approximately 690,000 phantom appreciation units and 296,000 phantom grant units for future awards to employees. In order to grant these awards, the Compensation Committee must recommend that they be granted, and the Compensation Committee's recommendation must be approved by the Board of Managers. As of December 31, 2002, the Company has granted approximately 551,000 and 193,000 appreciation units and grant units, respectively. The Board of Managers approved the Compensation Committee's recommendations to grant additional appreciation units and grant units of approximately 138,000 and 95,000, respectively, effective January 1, 2003.

Grant units granted each have a vesting period, which generally is ratable over a period of three years. Once vested, employees are entitled to receive a bonus in an amount equal to the per Unit amount distributed on account of the Common Units times the number of grant units vested in the employee. The employee is entitled to this compensation regardless of whether the distribution to the holders of Common Units is an ordinary distribution or an extraordinary distribution. Thus, if the Company is sold or liquidated, the employee would be entitled to share in the proceeds of the sale or liquidation on the same basis as the holders of Common Units with respect to vested grant units.

Appreciation units granted also have a vesting period which is generally spread ratably over a three year period. Once vested, employees begin to "earn" the right to receive compensation on account of each vested appreciation unit by being credited with an amount equal to the per Unit distributions made to holders of Common Units until the amount credited equals the Initial Value (i.e. the price at which a vested employee could obtain the appreciation unit) established by the Compensation Committee. Vested employees are entitled to compensation on account of each vested appreciation unit in an amount equal to the per Unit distributions made to holders of Common Units only after they have "earned" credits equal to the Initial Value. In the event of a liquidation or



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ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2002

sale, employees with vested appreciation units are entitled to compensation in an amount equal to the per Unit proceeds in excess of the Initial Value plus the credits which have been earned.

The amount actually received by employees on account of the vested grant and appreciation units is compensation. For the year ended December 31, 2002, the Company expensed approximately \$157,000 relating to compensation paid on account of vested grant units.

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Exhibit 99 (b)

INDEPENDENT AUDITORS' REPORT

To the Members of  
ARCap Investors, L.L.C.:

We have audited the accompanying consolidated balance sheet of ARCap Investors, L.L.C. and subsidiaries (the "Company") as of December 31, 2001, and the related consolidated statements of income, members' equity and cash flows for each of the two years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ARCap Investors, L.L.C. and subsidiaries as of December 31, 2001, and the results of their operations and their cash flows for each of the two years ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP  
Dallas, Texas

January 31, 2002

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ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET

ASSETS

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December 31, 2001  
-----

Investment securities - trading (Notes 3 and 5)	\$ 564,877,324
Borrowed investment securities and interest rate swap, net (Note 4)	1,763,811
Cash and cash equivalents	13,447,035
Restricted cash - CBO swap (Note 5)	4,252,731
Accrued interest receivable	5,832,691
Deferred borrowing costs, net (Note 5)	5,134,680
Other assets	628,880
	-----
Total	\$ 595,937,152 =====

LIABILITIES AND MEMBERS' EQUITY

Liabilities:

Long-term debt (Note 5)	\$ 236,000,000
Repurchase agreements (Note 6)	86,102,000
CBO swap liability (Note 5)	2,716,600
Accrued interest payable	3,237,032
Accrued expenses	499,447
	-----
Total liabilities	328,555,079 -----
Commitments and contingencies	
Minority Interests in consolidated entities	43,398,548
Members' equity	223,983,525 -----
Total	\$ 595,937,152 =====

See notes to consolidated financial statements.

ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF INCOME

December 31, 2001  
-----

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Revenues:

Interest income - CMBS	\$ 51,730,450
Accretion of purchase discount	10,172,033
Other investment income	882,160
Gain on sale of real estate	224,482
	-----

Total revenues	63,009,125
	-----

Expenses:

Loss on trading securities, net (Note 7)	24,281,841
Interest - long-term debt and repurchase agreements	17,151,723
Interest - borrowed investment securities and interest rate swap, net	2,079,629
Financing fee	1,015,054
General and administrative	3,616,430
Salaries and employee benefits	3,286,376
	-----

Total expenses	51,431,053
	-----

Income before minority interests	11,578,072
----------------------------------	------------

Minority interests	1,781,987
	-----

Net income	\$ 13,360,059
	=====

See notes to consolidated financial statements.

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ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

December 31, 2000

Revenues:

Interest and other investment income	\$ 26,873,191
Loss on trading securities, net	(6,942,136)
	-----

Total revenues	19,931,055
	-----

Expenses:

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General and administrative	2,232,077
Interest	5,044,681
Management fee	825,142
Minority interest	3,365
	-----
Total expenses	8,105,265
	-----
Net income	11,825,790
Other comprehensive income - Unrealized holding gain (loss) on investment securities - available-for-sale	4,400,901
Comprehensive income	\$ 16,226,691
	=====

See notes to consolidated financial statements.

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ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF MEMBERS' EQUITY  
YEAR ENDED DECEMBER 31, 2001

	Common Members	Series A Preferred Members	Accumulated Other Comprehensive Income	Total
	-----	-----	-----	-----
Balance, January 1, 2001	\$ 88,219,621	\$ 85,703,753	\$ 3,103,845	\$ 177,027,2
Proceeds from issuance of membership units	--	61,743,525	--	61,743,5
Costs to raise capital	(71,856)	(1,620,153)	--	(1,692,0
Distributions	(10,873,542)	(12,462,367)	--	(23,335,9
Repurchase of members' equity (Note 9)	(15,515)	--	--	(15,5
Net income	897,692	12,462,367	--	13,360,0
Transfer of available for sale to trading securities (Note 3)	--	--	(3,103,845)	(3,103,8
	-----	-----	-----	-----
Balance, December 31, 2001	\$ 78,156,400	\$ 145,827,125	\$ 0	\$ 223,983,5
	=====	=====	=====	=====

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See notes to consolidated financial statements.

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ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF MEMBERS' EQUITY  
 YEAR ENDED DECEMBER 31, 2000

	Common Members	Series A Preferred Members	Preferred Members	Accumulated Other Comprehensive Income
Balance, January 1, 2000	\$ 60,904,584	\$ 34,966,975	\$ --	\$ (1,297,056)
Proceeds from issuance of membership units	--	--	81,750,000	--
Costs to raise capital	--	--	(4,173,592)	--
Distributions	(7,426,558)	(3,277,183)	(646,642)	--
Net income	6,721,605	2,334,498	2,769,687	--
Other comprehensive income - unrealized gain on investment securities - available-for-sale	--	--	--	4,400,901
Contributions of REMICap (Note 2)				
Recapitalization	28,019,990	(34,024,290)	6,004,300	--
Balance, December 31, 2000	\$ 88,219,621	\$ --	\$ 85,703,753	\$ 3,103,845

See notes to consolidated financial statements.

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ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF CASH FLOWS

December 31, 2001

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OPERATING ACTIVITIES:	
Net income	\$ 13,360,059
Adjustments to reconcile net income to net cash used in operating activities:	
Loss on trading securities, net	24,281,841
Accretion of purchase discount	(10,172,033)
Gain on sale of real estate	(224,482)
Amortization of deferred borrowing costs	532,900
Minority interest	(1,781,987)
Increase (decrease) in cash for changes in operating assets and liabilities:	
Restricted cash	(3,569,211)
Investment securities - trading, net	(292,096,310)
Securities purchased under agreement to resell and proceeds from borrowed security, net	(5,028,069)
Accrued interest receivable	(2,667,514)
Other assets	(5,944,087)
Accrued expenses	(47,259)
Accrued interest payable	33,600
Receivable for sold security	13,372,667
	-----
Net cash used in operating activities	(269,949,885)
	-----
INVESTING ACTIVITIES - Proceeds from sale of real estate and net cash provided by investing activities	
	224,482
	-----
FINANCING ACTIVITIES:	
Contributions from members	61,743,525
Distributions to members	(23,335,909)
Contributions from minority interest members	45,355,985
Distributions to minority interest members	(2,721)
Repurchase of members' equity	(15,515)
Payment of issuance costs	(1,692,009)
Payment of issuance costs by minority interest members	(174,950)
Proceeds from issuance of long-term debt	236,000,000
Payment of repurchase agreements	(37,381,443)
	-----
Net cash provided by financing activities	280,496,963
	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,771,560
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,675,475
	-----
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 13,447,035
	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION -	
Cash payments for interest	\$ 16,816,163
	=====
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES - Transfer of securities from available for sale to trading	
	\$ 76,092,175
	=====

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See notes to consolidated financial statements.

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ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS

December 31, 2000

OPERATING ACTIVITIES:	
Net income	\$ 11,825,790
Adjustments to reconcile net income to net cash used in operating activities:	
Loss on trading securities	6,942,136
Accretion of interest income	(3,332,291)
Minority interest	3,365
(Increase) decrease in cash for changes in operating assets and liabilities:	
Restricted cash	(57,100)
Investment securities - trading	(100,674,955)
Securities purchased under agreement to resell and proceeds from borrowed security, net	(5,664,448)
Receivable for security sold	(13,372,667)
Accrued interest receivable	(1,247,297)
Other assets	106,468
Accrued expenses and interest payable	3,264,334
	-----
Net cash used in operating activities	(102,206,665)
	-----
INVESTING ACTIVITIES - Purchase of investment securities-available-for-sale	(11,985,869)
	-----
FINANCING ACTIVITIES:	
Contributions from members	81,750,000
Distributions to members	(11,350,383)
Payment of issuance costs	(4,173,592)
Distributions to minority interest members	(1,154)
Proceeds from other borrowings and securities sold under agreement to repurchase, net	46,194,085
	-----
Net cash provided by financing activities	112,418,956
	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,773,578)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,449,053
	-----
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,675,475
	=====

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### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION -

Cash payments for interest	\$ 4,652,352 =====
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See notes to consolidated financial statements.

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### ARCap INVESTORS, L.L.C. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2001

#### NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

A) Organization - ARCap Investors, L.L.C. (the "Company") was incorporated in January 1999 and commenced its operations on March 17, 1999. The Company was organized to invest primarily in subordinated commercial mortgage-backed securities ("CMBS").

B) Principles of Consolidation - The consolidated financial statements include the accounts of:

- The Company;
- ARCap REIT, Inc., its majority-owned subsidiary;
- ARCap Resecuritization Corporation ("ARCap Resecuritization"), a wholly owned subsidiary of ARCap REIT, Inc.;
- Commercial Resecuritization Trust 2001 ABC-2 (the "Trust"), in which ARCap Resecuritization owns all of the residual interest; and
- ARCap High Yield CMBS Fund, L.L.C. (the "Fund"), of which ARCap REIT, Inc. owned approximately 48% as of December 31, 2001. The Fund is the majority-owner of ARCap CMBS Fund REIT, Inc. (the "Fund REIT").

Minority interests primarily represent outside members' approximate 52% ownership in the Fund. The Company has consolidated this entity as it exercises control (through ARCap REIT, Inc.) over the operations of the Fund REIT (subject to provisions of the Fund Limited Liability Company Agreement). The Company records minority interest income (expense) that reflects the portion of the earnings (losses) of the operations which are applicable to the minority interest members.

Separate books of accounts are maintained for ARCap REIT, Inc.; ARCap Resecuritization; the Trust; the Fund; and the Fund REIT and are reflected in the accompanying consolidated financial statements of the Company. All material intercompany transactions and account balances have been eliminated in consolidation.

C) Investment Securities - The Company's investment security transactions are recorded on the trade date. CMBS are designated as trading assets since the Company is holding the securities for possible sales or other dispositions in the near term. Such securities are carried at their estimated fair value, with unrealized gains or losses included in earnings.

Interest income is recognized as earned and includes amortization of premiums and accretion of discounts, computed using the effective yield method over the expected life of the underlying assets.

D) Derivative Financial Instruments - Derivative financial instruments are utilized by the Company to reduce interest rate risk. The Company utilizes



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interest rate swap, cap and floor agreements as a means of hedging the potential financial statement impact of changes in the fair value of its portfolio of CMBS and variable rate long-term debt due to changes in interest rates. Risks in these contracts arise from the movements in interest rates and from the possible inability of counterparties to meet the terms of their contracts. The Company carries its derivative financial instruments at fair value with any unrealized gain or loss included in earnings.

E) Resale and Repurchase Agreements and Securities Lending Agreements - Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements or reverse repos) or sales of securities under agreements to repurchase (repurchase agreements or repos) are accounted for as collateralized financings, except where the Company does not have an agreement to sell (or purchase) the same or substantially the same securities before maturity at a fixed or determinable price.

F) Cash and Cash Equivalents - Cash and cash equivalents include all highly liquid investments with original maturities of three Months or less.

G) Restricted Cash - Restricted cash represents amounts required to be pledged under an interest rate swap agreement and amounts required to be pledged under the interest rate cap and floor agreements (see Notes 4 and 5).

H) Deferred Borrowing Costs - Deferred borrowing costs represent costs incurred in connection with the issuance of long-term debt. Such amounts are amortized using the effective interest method over the term of the related debt (see Note 5).

I) Financing Fee - The Company pays an annual rate of 0.50% of the face of its existing long-term debt to a financier to provide credit enhancement of such debt.

J) Income Taxes - The Company has elected to be taxed as a partnership, whereby all income is taxed at the member level.

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### ARCap INVESTORS, L.L.C. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2001

K) Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

L) Fair Value of Financial Instruments - The estimated fair value amounts herein have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts.

The Company's portfolio of CMBS and securities borrowed are carried at their estimated fair values. The Company's management believes that the fair values of its cash and cash equivalents, restricted cash and repurchase agreements approximate their carrying values due to the nature of the instruments or the

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fact that their terms approximate current market terms.

M) Change in Accounting Standard - Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, was adopted by the Company on January 1, 2001. This standard requires that all derivative financial instruments be recognized as either assets or liabilities on the balance sheet at their fair values and that accounting for the changes in fair values is dependent upon the intended use of the derivatives and their resulting designations. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

N) New Accounting Standards - In September 2000, the Financial Accounting Standards Board ("FASB") issued SFAS No. 140, ("SFAS 140") Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS 140 replaces SFAS No. 125 ("SFAS 125") Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of SFAS 125's provisions without reconsideration. The statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Company has made the required disclosures relating to securitization transactions and collateral for the year ended December 31, 2000. The Company adopted the remaining requirements of SFAS 140 on April 1, 2001, as required.

During 1999, the FASB issued Emerging Issues Task Force ("EITF") No. 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets. Effective the second quarter of 2001, EITF No. 99-20 provides guidance on the recognition of interest income from, and measurement of retained beneficial interests. The implementation of EITF No. 99-20 did not have a material effect on the Company's consolidated financial statements.

O) Reclassifications - Certain reclassifications have been made to the prior-year amounts to conform to the current-year presentation.

### NOTE 2. MEMBERS' EQUITY

On August 4, 2000, the Company amended and restated its Limited Liability Company Agreement (the "LLC Agreement"). Capitalized terms in this footnote are defined in the LLC Agreement.

The LLC Agreement established two classes of membership: Series A Preferred members and Common members. The LLC Agreement calls for distributions of Cash Flows as follows:

- To the Series A Preferred members in an amount equal to the accrued and unpaid Preferred Distributions (12% per annum of the \$25.00 price per Unit).
- To the Common members in an amount equal to (a) during the 18-month period that ends February 4, 2002, the amount determined by the Board of Managers, but no more than a cumulative return on the Common Units at the rate of 10% per annum, and (b) subsequent to such 18-month period, the amount determined by the Board of Managers, provided that if the amount distributable to the Common members shall exceed a cumulative annual return on the Common Units of 12% per annum, the Board of Managers shall notify the Series A Preferred members 30 days in advance of the record date for distribution of Cash Flow.
- To the extent that any remaining Cash Flow received during such tax period

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is not includable in the income of the Company, to members that have been allocated Net Profits in excess of amounts actually distributed to such members, in proportion to such amounts.

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### ARCap INVESTORS, L.L.C. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2001

Net Profits of the Company are allocated as follows:

- To the Series A Preferred members to the extent of amounts distributed or distributable to them in such taxable year.
- To the Series A Preferred members to the extent Net Losses previously allocated to such members exceed undistributed Net Profits previously allocated to them.
- To the Common members to the extent of amounts distributed or distributable to them in such taxable year.
- To the Common members to the extent Net Losses previously allocated to such members exceed undistributed Net Profits previously allocated to them.
- To the members in proportion to their Percentage Interests.

Net Losses of the Company are allocated as follows:

- To the members in an amount equal to undistributed Net Profits allocated to such member.
- To the Common members pro rata to the extent of their Capital Accounts.
- To the Series A Preferred members pro rata to the extent of their Capital Accounts.

#### Series A Preferred Units

-----

Series A Preferred Units are convertible into Common Units at the Conversion Price in effect on the Conversion Date. If the Series A Preferred Units have not been converted within five years of August 4, 2000, Series A Preferred Units may, at the holder's option, be converted to a note equal to \$25.00 per Unit, plus accrued and unpaid Preferred Distributions.

Eighteen months after the First Closing Date (February 4, 2002), but no later than the fifth anniversary of the First Closing Date (August 4, 2005), the Company may redeem the Series A Preferred Units for \$25.00 per unit, plus accrued and unpaid Preferred Distributions, plus a premium that will provide the Series A Preferred members with a total pretax internal rate of return of 17.50%.

In addition, upon either a change in control or sale or transfer of all or substantially all of the assets of the Company, Series A Preferred Units may, at the holder's option, be redeemed at \$25.00 per unit, plus accrued and unpaid Preferred Distributions.

Subsequent to the Company's amendment and restatement of its LLC Agreement, the Company circulated an amended Private Placement Memorandum (the "PPM") for

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5,739,741 units of Series A Preferred Membership Interests representing the balance of such interests available for subscription in the Company's offering. As of December 31, 2001, 5,739,741 units have been issued pursuant to the Company's offering for total capital contributions of \$143,493,525.

At December 31, 2001, there were a total of 6,000,000 and 4,999,382 Series A Preferred Units and Common Units, respectively, issued and outstanding.

### NOTE 3. INVESTMENT SECURITIES

The Company's trading securities are carried at estimated fair value and comprise the following at December 31, 2001:

	Face	Cost	Fair Value	Percentage
	-----	-----	-----	-----
Subordinated CMBS:				
Security rating:				
BB+	\$ 70,399,711	\$ 54,261,102	\$ 55,566,874	9.84%
BB	88,938,033	65,393,924	66,145,766	11.71
BB-	99,764,931	67,278,474	67,543,265	11.96
B+	172,749,308	102,104,976	100,908,791	17.86
B	219,851,296	129,013,634	124,843,334	22.10
B-	141,994,347	71,886,492	66,223,972	11.72
NR	339,813,225	83,926,063	83,645,322	14.81
	-----	-----	-----	-----
	\$1,133,510,851	\$ 573,864,665	\$ 564,877,324	100.00%
	=====	=====	=====	=====

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ARCap INVESTORS, L.L.C. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2001

The fair value of the Company's portfolio of CMBS is generally estimated by management based on market prices provided by certain dealers who make a market in these financial instruments. The market for the Company's CMBS may lack liquidity and have limited market volume. Accordingly, the fair values reported reflect estimates and may not necessarily be indicative of the amounts that the Company could realize in a current market exchange.

The Company accretes purchase discounts using the effective yield method over the life of the CMBS. The accumulated accretion of purchase discounts at December 31, 2001, was approximately \$13,491,000.

The yield to maturity on the Company's CMBS depends on, among other things, the rate and timing of principal payments, the pass-through rate and interest rate fluctuations. The subordinated CMBS interests owned by the Company provide credit support to the more senior interests of the related commercial securitization. Cash flow from the mortgages underlying the CMBS interests generally is allocated first to the senior interests, with the most senior interest having a priority entitlement to cash flow. Remaining cash flow is allocated generally among the other CMBS interests in order of their relative seniority. To the extent that there are defaults and unrecoverable losses on the

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underlying mortgages that result in reduced cash flows, the most subordinated CMBS interest will bear this loss first. To the extent that there are losses in excess of the most subordinated interest's stated entitlement to principal and interest, then the remaining CMBS interests will bear such losses in order of their relative subordination.

The gross cumulative unrealized gains and losses on the Company's trading investment securities at December 31, 2001, were approximately \$6,900,000 and \$29,378,000, respectively.

On January 1, 2001, the Company transferred all of its available for sale CMBS to the trading category. This resulted in the reclassification of the related \$3,103,845 unrealized gain in accumulated other comprehensive income to loss on trading securities, net in the accompanying statement of income.

#### NOTE 4. BORROWED INVESTMENT SECURITIES AND INTEREST RATE SWAP, NET

The Company's borrowed investment securities and interest rate swap are carried at estimated fair value and are comprised of the following at December 31, 2001:

Security Description	Coupon Rate	Face	Cost Basis	Fair Value	Unrealized Gain (Loss)
U.S. Treasury (08-15-09)	6.000%	\$ 11,239,000	\$ 10,974,728	\$ 11,981,828	\$ (1,007,100)
U.S. Treasury (02-15-11)	5.000	17,818,000	17,523,195	17,765,103	(241,908)
U.S. Treasury (08-15-11)	5.000	97,378,000	98,609,087	97,119,363	1,489,724
		----- \$ 126,435,000 =====	----- \$ 127,107,010 =====	----- 126,866,294	----- \$ 240,716 =====
Reverse repurchase agreements				----- 129,304,395 -----	
Borrowed investment securities, net				2,438,101	
Interest rate swap				----- (674,290) -----	
Borrowed investment securities and interest rate swap, net				----- \$ 1,763,811 =====	

As of December 31, 2001, the Company had borrowed agency and U.S. Treasury securities with face amounts totaling \$126,435,000. The fair value of these borrowed agency and U.S. Treasury securities at December 31, 2001, was \$126,866,294. The U.S. Treasury securities were sold in the open market (i.e., a "short" security sale). The Company is obligated to return the securities in the future and is therefore exposed to price risk until it repurchases the securities for delivery to the lender. Short security sales are used by the Company to modify its interest rate risk. The Company must pay the security lender the interest earned by the underlying security. Short security sales are recorded at the estimated fair value of the borrowed securities, and any unrealized gains (losses) are included in earnings. The cumulative unrealized loss on the short securities at December 31, 2001, was \$240,716, which is included in borrowed investment securities and interest rate swap, net, in the accompanying consolidated financial statements.

Proceeds from short security sales are used to purchase reverse repurchase

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agreements of the same security. The transactions are governed by one master repurchase agreement with rights of offset, and therefore, the values of the short security sales and reverse repurchase agreements have been offset and shown as one line item in the accompanying consolidated financial statements. It has been the Company's practice to settle these transactions on a net basis.

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### ARCcap INVESTORS, L.L.C. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2001

In April 2001, the Company entered into an interest rate swap agreement with Bear Stearns Capital Markets ("Bear Stearns") with a notional amount of \$30,956,000, on which the Company pays a fixed rate of 6.015% and receives a variable rate based upon a six-month LIBOR for a term of 10 years ending April 27, 2011. In December 2001, the Company terminated \$3,956,000 of the original notional amount, which resulted in a realized loss of approximately \$82,000. The swap agreement with Bear Stearns has a notional amount of \$27,000,000 at December 31, 2001. The swap agreement calls for interest to be paid semiannually in arrears. The Company carries the swap agreement at its estimated fair value, with all periodic changes in estimated fair value recognized in earnings. The Company was required under the swap agreement to pledge collateral valued at 1% of the notional amount of the swap to ensure its performance in the event that the swap declines in value. At December 31, 2001, the Company pledged CMBS valued at approximately \$1,107,000. The fair value and cumulative unrealized loss on this interest rate swap agreement at December 31, 2001, was \$674,290, which is included in borrowed investment securities and interest rate swap, net, in the accompanying consolidated financial statements.

In February 2001, the Company terminated an interest rate swap agreement with Bear Stearns with a notional amount of \$31,321,000, on which the Company paid a fixed rate of 5.952% and received a variable rate based upon a six-month LIBOR for a term of 10 years ending April 9, 2009. The termination resulted in a realized loss of approximately \$145,000.

#### NOTE 5. LONG-TERM DEBT

On February 22, 2001, the Company entered into an agreement to sell its interests in 50 CMBS passthrough certificates (the "Pooled Certificates") to its subsidiary, the Trust.

The Trust resecured the Pooled Certificates and offered \$98,500,000 Class A-1 Senior Notes with a fixed coupon rate of 7.17% ("Fixed Rate Notes") and \$137,500,000 Class A-2 Senior Notes with a variable coupon rate based on one-month LIBOR plus 115 basis points ("Variable Rate Notes") (together, the "Notes"). The Notes are secured by the investment securities of the Company with a carrying value of approximately \$349,855,000 at December 31, 2001. The Company capitalized \$5,667,580 of deferred borrowing costs related to the issuance of the Notes. The deferred borrowing costs are being amortized, using the effective interest method, over the life of the debt, which is seven years (through February 22, 2008). The Company amortized \$532,900 of deferred costs in year ended December 31, 2001.

In conjunction with the issuance of the Variable Rate Notes, the Company entered into an interest rate cap agreement and an interest rate floor agreement with Bear Stearns ("CBO Swap") to effectively fix the interest on its variable rate debt. The notional amount for the CBO Swap is \$137,500,000. With the interest rate cap, the Company receives a variable rate based on one-month LIBOR plus 115 basis points if it is greater than 7.435%. With the interest rate floor, the

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Company pays a variable rate based on one month LIBOR plus 115 basis points if it is less than 7.435%. The agreements call for interest to be paid monthly. The Company carries the CBO Swap at its estimated fair value, with all periodic changes in estimated fair value recognized in earnings. The Company deposited \$4,125,000 of cash to ensure its performance in the event that the CBO Swap declines in value. If the market value of the CBO Swap falls below defined thresholds, the Company may be required to deposit additional restricted cash. Amounts in excess of the minimum requirements may be withdrawn by the Company. Interest on the Notes is to be paid monthly. Interest expense on the Notes was approximately \$14,550,000 for the year ended December 31, 2001, and the related accrued interest payable at December 31, 2001, was approximately \$528,000. The LLC Agreement contains certain restrictive covenants regarding the amount of variable rate debt, total debt, and certain financial ratios. Management believes that the Company is in compliance with such covenants.

### NOTE 6. REPURCHASE AGREEMENTS

The Company has entered into repurchase agreements to finance a portion of its CMBS purchases. As of December 31, 2001, the Company had entered into repurchase obligations in the amount of \$86,102,000. The weighted average maturity of the agreements as of December 31, 2001, was 32 days, and the weighted average interest rate was 3.90%. The repurchase agreements are collateralized by a portion of the Company's portfolio of CMBS investments with a fair value of approximately \$206,700,000 at December 31, 2001. Interest expense on the repurchase agreements was approximately \$2,599,000 for the year ended December 31, 2001, and the related accrued interest payable at December 31, 2001, was approximately \$124,000.

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### ARCap INVESTORS, L.L.C. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2001

### NOTE 7. LOSS ON TRADING SECURITIES, NET

The composition of the Company's gain (loss) on trading securities, net for the year ended December 31, 2001, follows:

Realized gain - borrowed investment security	\$ 2,965,698
Realized loss - borrowed investment security	(719,668)
Realized loss - interest rate swap	(227,240)
Realized gain - CMBS sold	1,683,516
Realized loss - CMBS sold	(1,238,190)
Unrealized gain - borrowed investment security	1,124,884
Unrealized loss - interest rate swap	(674,290)
Unrealized loss - CBO Swap	(2,716,600)
Unrealized loss - CMBS	(27,583,796)
Unrealized gain - CMBS, transferred from other comprehensive income	3,103,845
	\$ (24,281,841)

### NOTE 8. OPERATING LEASES

The Company leases its office space and certain equipment under operating leases that expire between October 2002 and December 2005. The office lease provides for an annual basic rental of \$180,504 during the initial lease term and

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contains an option to extend the term of the lease for one extension term of five years, with the basic rental being reset at the then market rate. Future minimum lease payments under these leases are as follows:

Year ending December 31:

2002	\$	280,977
2003		270,568
2004		199,958
2005		166,602

Lease expense for the year ended December 31, 2001, was approximately \$273,000.

### NOTE 9. TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

At times, the Company purchases investment securities from members of the Company or their affiliates. These purchases and sales represent transactions that are in the normal course of business of the Company and the members. During the year ended December 31, 2001, the Company purchased from such members CMBS with face values totaling approximately \$457,200,000 for a purchase price of approximately \$229,300,000 and sold CMBS to such members with face values totaling approximately \$58,400,000 for proceeds of approximately \$25,000,000.

The Company has loaned approximately \$310,000 to key executives for funding of tax liabilities associated with units granted under an incentive compensation arrangement. As of December 31, 2001, there is approximately \$214,000 outstanding, with approximately \$77,000 satisfied through the transfer of 3,567 Common Units to the Company and approximately \$19,000 repaid by the employees. During the year ended December 31, 2001, the Company purchased 5,343 common units from a key executive for approximately \$116,000. The key executive had members' equity of \$15,515 at the date of repurchase.

These loans are classified as other assets in the consolidated balance sheet. The loans bear interest at a rate of 7% per annum, and payments are due quarterly on the distribution date for the Common Units. Payments are due only to the extent that the quarterly distribution is sufficient to pay them. The loans become due upon termination of the executives' employment with the Company, and recourse is limited to the Common Units securing the loans.

### NOTE 10. EMPLOYEE BENEFITS

During 2001, the Company implemented a contributory defined contribution 401(k) plan that covers substantially all full-time employees. Under the plan, participants may contribute up to 15% of their total compensation. The Company matches up to 3% of each participant's total compensation. Matching contributions totaled \$71,000 for year ended December 31, 2001.

Effective January 1, 2001, the Company adopted a deferred compensation plan for key employees. The Board of Managers approved the availability of approximately 690,000 phantom appreciation units and 296,000 phantom grant units for future awards to employees. In order to grant these awards, the Compensation Committee



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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2001

must recommend that they be granted, and the Compensation Committee's recommendation must be approved by the Board of Managers.

As of December 31, 2001, the Company granted approximately 279,000 and 105,000 of appreciation units and grant units, respectively. Prior to December 31, 2001, the Board of Managers approved the Compensation Committee's recommendations to grant additional appreciation units and grant units of approximately 269,000 and 88,000, respectively, effective January 1, 2002.

For the appreciation units, compensation is measured as the amount by which the cumulative per common unit distribution exceeds the value specified under the plan and is expensed over the performance of the related services. For the grant units, compensation is equal to the per common unit distributions times the number of vested grant units. Compensation is measured at the date of declared distribution. As of December 31, 2001, the Company has expensed approximately \$57,000 relating to compensation expense for the grant units.