AMERICAN MORTGAGE ACCEPTANCE CO
Form S-2/A
January 11, 2002

As filed with the Securities and Exchange Commission on January 11, 2002

Registration No. 333-74288

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

AMENDMENT NO. 1

TO

FORM S-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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 Number)

625 Madison Avenue
New York, New York 10022
(212) 421-5333
(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

Stuart J. Boesky
Chairman of the Board, President and Chief Executive Officer
American Mortgage Acceptance Company
625 Madison Avenue
New York, New York 10022
(212) 421-5333
(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copy to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable, following the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. [_]

If the registrant elects to deliver its latest annual report to security holders, or a complete and legal facsimile thereof, pursuant to Item 11(a)(1) of this Form, check the following box. [_]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [_]

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where such offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 11, 2002

PRELIMINARY PROSPECTUS

[LOGO] American Mortgage Company

3,500,000 Common Shares

American Mortgage Acceptance Company

We are selling 3,500,000 common shares of beneficial interest and we will receive all of the net proceeds from the sale. Our common shares are listed on the American Stock Exchange under the symbol "AMC". On January 10, 2002, the closing sale price of our common shares was $14.25.

Investing in our shares involves a high degree of risk. You should carefully consider the information under the heading "Risk Factors" beginning on page 11 of this prospectus before buying our common shares.

	Per Share	Total
Public offering price................	$	$
Underwriter discounts and commissions	$	$
Proceeds, before expenses, to us.....	$	$

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We have granted the underwriters an option for a period of 30 days to purchase up to 525,000 additional common shares at the public offering price, less the underwriting discounts, to cover over-allotments, if any. We have also granted to Friedman, Billings, Ramsey & Co., Inc., as lead underwriter, and its designated affiliates warrants to purchase up to 35,000 common shares. See "Underwriting" beginning on page 59 of this prospectus.

We expect the common shares will be ready for delivery to purchasers on or about , 2002.

FRIEDMAN BILLINGS RAMSEY RBC Capital Markets

, 2002

Forward-Looking Statements

This prospectus contains or incorporates by reference certain forward-looking statements. When used, statements which are not historical in nature, including those containing words such as "anticipate," "estimate," "should," "expect," "believe," "intend," and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to various risks and uncertainties, including those related to:

- our ability to originate or acquire loans, mortgage-backed securities or other investments on favorable terms;
- changes in short-term interest rates;
- risks associated with investing in real estate, including changes in business conditions and the general economy;
- potential conflicts of interest among Related AMI Associates, Inc. (our advisor), Related Capital and us;

- our ability to obtain borrowings to finance our investments;
- illiquidity of our portfolio of loans, mortgage-backed securities or other investments;
- increases in the prepayments on the mortgage loans securing our mortgage-backed securities;
- changes in government regulations affecting our business; and
- our ability to maintain our qualifications as a real estate investment trust for federal income tax purposes.

Other risks, uncertainties and factors, including those discussed under "Risk Factors" on page 11 of this prospectus or described in reports that we file from time to time with the Securities and Exchange Commission such as our Forms 10-K and 10-Q, could cause our actual results to differ materially from those projected in any forward-looking statements that we make. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

You should rely only on the information contained in or incorporated by reference into this prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The information in this prospectus is current as of the date of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

PROSPECTUS SUMMARY

This summary highlights information in this prospectus. The summary is not complete and does not contain all of the information you should consider before investing in our common shares. We urge you to carefully read this entire prospectus, including the financial statements, along with the information that is incorporated by reference into this prospectus. You should carefully consider the information discussed under "Risk Factors" before you decide to purchase our shares. All references to "we," "us" or the "Company" mean American Mortgage Acceptance Company and our wholly-owned subsidiaries. Unless otherwise indicated, the information contained in this prospectus assumes that the underwriters do not exercise their over-allotment option.

Our Business

We are a real estate investment trust that seeks asset diversification, capital appreciation and income for distributions to our shareholders primarily through the acquisition and origination of both government insured and uninsured mortgages secured by multifamily properties. These investments may take the form of government insured first mortgages and uninsured mezzanine loans, construction loans and bridge loans. We may also invest in other real estate assets, including commercial mortgage-backed securities.

At September 30, 2001, we had total assets of $99.9 million of which $97.7 million represented mortgage investments. At September 30, 2001, approximately 65% of our assets consisted of mortgages guaranteed or insured by a United States government agency such as the Federal Housing Authority ("FHA") or the Government National Mortgage Association ("GNMA" or "Ginnie Mae") or by Fannie

Mae. At September 30, 2001, we owned $46.9 million in Ginnie Mae certificates and had invested $17.7 million in FHA insured first mortgage loans. We generally seek to maintain 40% of our mortgage investments in government insured or guaranteed investments.

At September 30, 2001, we owned $7.4 million in mezzanine loans and $5.5 million in bridge loans funded in connection with the development of multifamily properties which benefit from the Low Income Housing Tax Credit ("LIHTC") program under Section 42 of the Internal Revenue Code. We also owned an indirect investment in commercial mortgage-backed securities ("CMBS") through our $20.2 million preferred equity interest in ARCap Investors L.L.C. ("ARCap").

[CHART]

47% ($46.9 million)	Ginnie Mae Certificates
18% ($17.7 million)	FHA Insured First Mortgage Loans
21% ($20.2 million)	Investments in CMBS (through ARCap)
8% (7.4 million)	Mezzanine loans
6% (5.5 million)	Bridge loans

Through a program with Fannie Mae, we originate construction and permanent loans for multifamily properties on Fannie Mae's behalf. We guarantee a first loss position and receive loss sharing and loan origination fees for loans that we originate. As of September 30, 2001, we originated loans totaling approximately $2.2 million and have made forward commitments for an additional approximately $6.8 million. Our maximum exposure under the Fannie Mae program and the forward commitments at September 30, 2001 was $6.0 million. We have not acquired an interest in any of the loans we have originated on Fannie Mae's behalf. Since we entered into the loan program, the level of loan origination competition has increased, reducing our projected financing volume and profitability. As a result, we are de-emphasizing this program and evaluating the possibility of transferring our rights and obligations in the loan program to a third party.

We finance the acquisition of our assets primarily through borrowing at short term rates using demand repurchase agreements. Under our declaration of trust, we may incur permanent indebtedness of up to 50% of our total market value calculated at the time the debt is incurred. Permanent indebtedness and working capital indebtedness may not exceed 100% of our total market value. Our declaration of trust provides that we may not change our policy regarding indebtedness without the consent of a majority in interest of our shareholders.

We were formed in June 1991 as a Massachusetts business trust. From formation until April 1999, we were a closed-end, finite-life REIT not permitted to finance or invest beyond the proceeds raised in our initial public offering. In April 1999, we reorganized the Company into an open-ended, infinite-life REIT authorized to issue debt and equity securities and make a broader range of investments. Also in April 1999, we changed our name from American Mortgage Investors Trust to American Mortgage Acceptance Company. In July 1999, we listed our shares on the American Stock Exchange.

We have engaged Related AMI Associates, Inc., which we refer to as our "Advisor," to manage our day-to-day affairs. Our Advisor has subcontracted its management obligations to its affiliate, Related Capital Company, the nation's largest non-agency financier of affordable multifamily housing. The management team responsible for our day-to-day affairs has an average of 12 years of experience with Related Capital and an average of 20 years experience in the real estate industry.

Our Industry

We focus our origination and acquisition efforts on several types of multifamily housing financing. Commercial mortgage lenders originated multifamily housing loans totaling $26.5 billion in 2000, more than half of which were insured or guaranteed by an agency of the United States government. Based upon a Prudential Financial report dated May 2001, we believe that the estimated total amount of multifamily mezzanine loan originations was $5.77 billion in 2000.

According to the National Multi Housing Council, in the year 2001 there were 16.1 million apartment units in the United States in buildings of more than five units valued at over $1.3 trillion. This market has increased from 15.4 million apartment units with an estimated value of $767.1 billion in 1990, representing an average annual increase in value of 5.5% during the past decade. Over the past 20 years the multifamily sector has delivered one of the highest average total investment returns of all real estate property types according to the National Council of Real Estate Investment Fiduciaries. We believe there will continue to be a strong demand for multifamily housing related to factors such as population growth and household formations. The National Association of Home Builders, in its report released in February 2001, has estimated that this demand will support production of more than 3.4 million new multifamily units from 2001 to 2010. Improved capital market discipline, including the lower debt ratios of America's largest apartment real estate investment trusts, bodes well for the multifamily housing industry. We believe the multifamily housing sector will continue to be the favored sector for income-producing properties as well as the top performer in terms of rent increases through mid-2002.

Within the multifamily sector, we focus a portion of our originations on bridge loans that are secured by interests in affordable multifamily housing. We believe there is a significant unmet demand for affordable multifamily housing. According to a United States Department of Housing and Urban Development report dated January 2001, 4.9 million households are in need of quality affordable housing. We believe that affordable multifamily housing provides an excellent form of collateral, which is further described below under "Our Investment Strategy--Bridge Loans."

Our Investment Strategy

Since our 1999 reorganization, our goal has been to increase the return on our asset base by investing in higher yielding assets while balancing our risk by maintaining a portion of our investments in government agency guaranteed or insured assets and maintaining a conservative capital structure.

We invest in the following types of assets:

Government Insured and Guaranteed Investments. We generally seek to maintain approximately 40% of our mortgage investments in government insured or guaranteed investments. We do this primarily through the acquisition or origination of mortgage loans on multifamily properties, the principal of which is insured by FHA, and the acquisition of Ginnie Mae mortgage-backed securities and pass-through certificates. We may also acquire mortgage-backed securities insured by Fannie Mae or the Federal Loan Mortgage Corporation ("Freddie Mac"). Government agency insured lending offers us safety, liquidity and moderate yields, while also providing us with a strong asset base for collateralized borrowing on favorable terms.

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

We seek to capitalize on attractive yields available through the funding of mezzanine debt in combination with our origination of government insured multifamily first mortgages. We believe that we are one of the few lenders in the country who offer mezzanine loans in conjunction with agency-insured first mortgage loans.

Our mezzanine loans typically finance newly constructed or rehabilitated market-rate multifamily properties and generally have terms of 40 years with an option to call the loan on 12 months notice at any time after the 10th anniversary of the equity loan closing. These loans are typically in a subordinated mortgage position, are secured by equity interests in the borrower and have limited recourse to the borrower for the three years from the date of the loan. We seek properties in growing real estate markets with well capitalized developers or guarantors. We leverage the expertise of our 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. Our bridge loans are typically funded in connection with the development of multifamily properties which benefit from the LIHTC program. We believe that since 1989, on average, nearly one-third of each year's new multifamily property construction contains an affordable component that produces LIHTCs (from 1989 through 1999 the number of affordable units producing LIHTCs ranged from 62,000 to 126,000). Due to the equity payment schedule typically associated with LIHTC investment programs, there can be periods in a construction cycle where a developer needs short term capital. To capitalize on this demand, we offer bridge loans to developers with typical terms of approximately 12 months and which are collateralized by the equity interests in the property owner. We may also provide bridge loans for properties undergoing rehabilitation by new owners when we believe the rehabilitation process will add significant value to the property and reduce our effective loan-to-value ratio and our risk of loss. Our loans may finance the initial purchase or the subsequent rehabilitation of a property.

We focus our bridge lending on LIHTC properties because we believe that default risks ordinarily associated with bridge lending are substantially reduced by the presence of LIHTCs, the value of which typically averages two to four times the principal amount of the bridge loan. The beneficial owners of these LIHTC properties are typically Fortune 500 companies that have invested in order to receive the tax benefits of the LIHTC which are received ratably over an 11 year period. In the event that these properties cannot support their debt service, the beneficial owners have an incentive to maintain the debt service so that they can avoid foreclosure of their equity interests and the loss of the tax benefits associated with the LIHTCs. According to Fitch IBCA, loans underlying CMBS collateralized in part by multifamily properties that benefit from federal LIHTCs are expected to have reduced risk of default due to indirect collateral enhancement provided by LIHTCs.

Commercial Mortgage-Backed Securities. We may invest in subordinated CMBS, which offer the advantage of significantly higher yields than government insured and guaranteed investments. The market values of subordinated interests 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 interests generally are not actively traded and may not provide holders with liquidity of investment.

We currently invest indirectly in CMBS through our convertible preferred equity investment in 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 collateralized by a diverse range of underlying properties including multifamily, retail, office and hotel.

Our Capital Structure

We seek to maintain a conservative capital structure, which we believe distinguishes us from other more highly leveraged mortgage REITs. In this regard, our declaration of trust limits our use of debt financing. Our permanent indebtedness may not exceed 50% of our total market value calculated at the time the debt is incurred. Furthermore, our permanent indebtedness, when combined with our working capital indebtedness, may not exceed 100% of our total market value calculated at the time the debt is incurred. As of September 30, 2001, our indebtedness, all of which was working capital indebtedness, was $43.2 million and our ratio of indebtedness to total market value was 43.2%.

Our Advisor

Related Capital, a financial services subsidiary of The Related Companies, L.P., has specialized in offering debt and equity products to mid-market multifamily owners and developers for over 29 years and has provided debt and equity financing for over 1,200 properties valued at over $11 billion and located in 45 states and Puerto Rico. According to the 2001 National Multihousing Council survey, Related Capital is the third largest owner of apartments in the United States with ownership interests in 160,860 apartment units.

Related Capital is currently the nation's largest non-agency provider of financing for multifamily federal LIHTC housing. In 2000, Related Capital and its affiliated entities provided over $900 million of debt and equity financing for affordable multifamily housing. We benefit from the marketing efforts of Related Capital's origination groups, which offer our bridge loan program in connection with LIHTC equity investments to developers nationally. We have access to Related Capital's proprietary client base, which includes some of the nation's most active and respected developers of affordable multifamily housing.

We also benefit from Related Capital's underwriting and asset management expertise. Related Capital, through 13 asset management offices throughout the country, currently provides asset management services for a portfolio of over 765 multifamily properties.

An affiliate of Related Capital also manages another American Stock Exchange-listed company, Charter Municipal Mortgage Acceptance Company ("CharterMac"). CharterMac predominately invests in tax-exempt revenue bonds that secure affordable multifamily housing properties. On December 24, 2001, a subsidiary of CharterMac acquired PW Funding, Inc., a national mortgage banking firm specializing in agency lending to multifamily housing properties. PW Funding is a Fannie Mae Delegated Underwriting and Servicing program lender and an FHA lender. In addition, one of PW Funding's subsidiaries is a Freddie Mac Program Plus Lender. We believe that we will be able to benefit, through our affiliation with CharterMac's manager, from the PW Funding acquisition as it may provide us with a pipeline of product for both our bridge lending and our mezzanine lending products.

The Related Companies, L.P. is one of the nation's largest developers of premier multifamily and mixed-use real estate assets. Since 1972, The Related Companies, L.P. and its predecessor, have developed 156 properties, including 142 multifamily properties and 14 commercial properties. Related Management Company, a division of The Related Companies, L.P., directly manages 153 multifamily rental properties totaling 19,000 residential units. The Related Companies, L.P. currently has 22 fully-financed developments currently under construction, totaling $3.8 billion, the largest of which is AOL Time Warner Center, a 2.8 million square foot mixed use premier property located in Manhattan at the intersection of Central Park South and Central Park West. The property will feature AOL Time Warner, Inc.'s world headquarters, including a CNN broadcasting facility, as well as luxury retail and restaurants, a Mandarin Oriental Hotel and super-luxury, high-rise residential units.

General Information

We have elected to be treated as a real estate investment trust (a "REIT") for federal income tax purposes. This treatment permits us to deduct dividend distributions to our shareholders for federal income tax purposes, thus effectively eliminating the "double taxation" that generally results when a corporation earns income and distributes that income to its shareholders by way of dividends. In order to maintain our status as a REIT, we must comply with a number of requirements under federal income tax law that are discussed under "Certain Federal Income Tax Considerations."

Our principal executive offices are located at 625 Madison Avenue, New York, New York 10022. Our telephone number is (212) 421-5333.

Recent Developments

Dividend Declaration. On December 13, 2001, our Board of Trustees declared a dividend of $0.3625 per share for the fourth quarter ended December 31, 2001, payable to shareholders of record on December 31, 2001. The dividend will be paid on February 14, 2002.

Election of Chief Operating Officer. On January 1, 2002, Steven B. Wendel was elected as Chief Operating Officer. Mr. Wendel previously served as our Senior Vice President.

New Loans. See ''Our Company--Portfolio--Recent Development'' for a discussion of our recent loans.

The Offering

Common shares of beneficial interest offered by us....	3,500,000 shares(1)
Common shares of beneficial interest outstanding after this offering............	7,373,630 shares(2)(3)
American Stock Exchange symbol....................	AMC

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(1) 4,025,000 shares if the underwriters exercise their over-allotment option in full.

(2) Includes 35,000 shares that we will issue to our Advisor upon completion of this offering (we will issue an additional 5,250 shares to our Advisor if the underwriters exercise their over-allotment in full) pursuant to our advisory agreement, which entitles our Advisor to receive as compensation a number of shares equal to 1% of all common shares issued by us.

(3) 7,903,880 shares (including 5,250 shares to be issued as described in footnote 2 above) if the underwriters exercise their over-allotment option in full. Does not include 383,924 common shares reserved for issuance under our Incentive Share Option Plan. Does not include 35,000 common shares issuable to the lead underwriter upon exercise of its warrant. See "Underwriting."

Use of Proceeds

We intend to use the net proceeds from the sale of our common shares to acquire and originate government insured and uninsured mortgage investments consistent with our investment policy limitations as stated in our declaration of trust.

The net proceeds from the sale of 3,500,000 common shares will be approximately $ after deducting the underwriting discount and the estimated expenses of the offering.

Summary Financial Data

The summary financial data as of December 31, 2000, 1999 and 1998 and for the years then ended are derived from our audited financial statements for those years. The summary financial data for the nine months ended September 30, 2000 and 2001 are derived from our unaudited financial statements for those periods. You should read this summary financial data along with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our audited and unaudited financial statements and notes thereto included and incorporated by reference in this prospectus beginning on page F-1.

	Nine Months Ended September 30,	Year Ended December 31,

	2001	2000	2000	1999	1
Operating Data:					
Mortgage loan income....................	$ 2,256,514	$ 1,188,021	$ 1,565,219	$ 2,569,901	$3,0
GNMA income.............................	1,354,307	355,962	472,693	785,591	8
CMBS income.............................	--	2,867,659	3,189,407	950,456	
Equity in earnings of ARCap.............	1,788,137	--	401,096	--	
Temporary investment income.............	46,544	1,845,770	2,084,417	1,092,617	1
Other income............................	304,345	444,828	598,307	109,017	
Net (loss) gain on investments..........	(211,572)	(392,445)	(227,541)	3,054,011	
Interest expense........................	(1,099,607)	(2,856,936)	(3,371,906)	(906,581)	
Other expenses..........................	(793,384)	(1,075,939)	(1,393,935)	(1,394,712)	(6
Net income..............................	$ 3,645,284	$ 2,376,920	$ 3,317,757	$ 6,260,300	$3,3
Net income per share (basic and diluted)	$ 0.95	$ 0.62	$ 0.86	$ 1.63	$
Weighted average shares outstanding (basic and diluted)..................	3,838,630	3,838,630	3,838,630	3,841,931	3,8

	As of September 30,		As of December 31,		
	2001	2000	2000	1999	1998
Balance Sheet Data:					
Total assets.................	$99,912,427	$121,322,167	$70,438,313	$115,565,441	$59,993,040
Repurchase facilities payable	$43,191,173	$ 20,061,000	$12,655,940	$ 19,127,000	$ --
Total shareholders' equity...	$54,720,311	$ 55,453,276	$55,075,873	$ 57,091,365	$58,204,574

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Capitalization

Our actual capitalization at September 30, 2001, and our capitalization as adjusted to give effect to the issuance of 3,500,000 common shares in this offering at a price of $ per share is set forth below.

	September 30,	
	Actual	As
Shares of beneficial interest; par value $.10 per share; 12,500,000 shares authorized; 4,213,826 issued and 3,838,630 outstanding (as adjusted 7,748,826 issued and 7,373,630 outstanding)...	$ 421,383	$
Treasury shares of beneficial interest; 375,196 shares.......................	(37,520)	
Additional paid-in-capital...	68,840,500	
Distributions in excess of net income..	(14,655,543)	(1

Accumulated other comprehensive income	151,491	
Total	$ 54,720,311	$

/*/ After deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. Includes 35,000 shares that we will issue to our Advisor (40,250 if the underwriters exercise their over-allotment option in full) upon completion of this offering pursuant to our advisory agreement with our Advisor. Assumes no exercise of the underwriter's over-allotment option to purchase up to an additional 525,000 shares. Does not include 35,000 common shares issuable to the lead underwriter upon exercise of its warrant. See "Underwriting."

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RISK FACTORS

An investment in our common shares involves a number of risks. Before making an investment decision, you should carefully consider all of the risks described in this prospectus. If any of the risks discussed in this prospectus actually occur, our business, financial condition and results of operations could be materially adversely affected. If this were to occur, the trading price of our common shares could decline and you may lose all or part of your investment.

Mortgage investments that are not United States government insured and non-investment grade mortgage assets involve risk of loss

General

We intend to continue to originate and acquire uninsured and non-investment grade mortgage loans and mortgage assets as part of our investment strategy. Such loans and assets may include mezzanine loans, bridge loans and CMBS. While holding such interests, we will be subject to risks of borrower defaults, bankruptcies, fraud and losses and special hazard losses that are not covered by standard hazard insurance. Also, the costs of financing the mortgage loans could exceed the return on the mortgage loans. In the event of any default under mortgage loans held by us, we will bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount of the mortgage loan. To the extent we suffer such losses with respect to our investments in mortgage loans, the value of the Company and the price of our common shares may be adversely affected.

Limited recourse loans may limit our recovery to the value of the mortgaged property

Our mortgage loans are generally non-recourse, except for our mezzanine loans, which typically have limited recourse provisions for the first three years from the date of the loan. In addition, limited recourse against the borrower may be further limited by applicable provisions of the laws of the jurisdictions in which the mortgaged properties are located or by the selection of remedies and the impact of those laws on that selection. With respect to our non-recourse mortgage loans, in the event of a borrower default, the specific mortgaged property and other assets, if any, pledged to secure the relevant mortgage loan, may be less than the amount owed under the mortgage loan. As to those mortgage loans that provide for recourse against the borrower and its assets generally, there can be no assurance that such recourse will provide a recovery in respect of a defaulted mortgage loan greater than the liquidation value of the mortgaged property securing that mortgage loan.

Competition in acquiring desirable mortgage investments may limit the availability of desirable investments which could, in turn, negatively affect our ability to maintain our dividend distribution

We compete for mortgage asset investments with numerous public and private real estate investment vehicles, such as mortgage banks, pension funds, real estate investment trusts, institutional investors and individuals. Mortgages, subordinated interests in CMBS and other investments are often obtained through a competitive bidding process. In addition, competitors may seek to establish relationships with the financial institutions and other firms from which we intend to purchase such assets. Many of our anticipated competitors are larger than us, may have access to greater capital and other resources, may have management personnel with more experience than our officers or our Advisor and may have other advantages over us and the Advisor in conducting certain business and providing certain services. Competition may result in higher prices for mortgage assets, lower yields and a narrower spread of yields over our borrowing costs. In addition, competition for desirable investments could delay the investment of proceeds from this offering in desirable assets, which may, in turn, reduce earnings per share and may negatively affect our ability to maintain our dividend distribution. There can be no assurance that we will achieve investment results that will allow any specified level of cash distribution.

Interest rate fluctuations will affect the value of mortgage assets, net income and the common shares

General

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Interest rate fluctuations can adversely affect our income and value of our common shares in many ways and present a variety of risks, including the risk of a mismatch between asset yields and borrowing rates, variances in the yield curve and changing prepayment rates.

Interest rate mismatch could occur between asset yields and borrowing rates resulting in decreased yield

Our operating results will depend in large part on differences between the income from our assets (net of credit losses) and our borrowing costs. We expect that most of our assets will bear fixed interest rates and will have terms in excess of five years. We fund the origination and acquisition of a significant portion of our assets with borrowings which have interest rates that reset relatively rapidly, such as monthly or quarterly. We anticipate that, in most cases, the income from our assets will respond more slowly to interest rate fluctuations than the cost of our borrowings, creating a mismatch between asset yields and borrowing rates. Consequently, changes in interest rates, particularly short-term interest rates, may influence our net income. For example, our borrowings under our repurchase agreements bear interest at rates that fluctuate with LIBOR. Based on the $43.2 million of borrowings outstanding under these facilities at September 30, 2001, a 1% change in LIBOR would impact our annual net income and cash flows by approximately $432,000. Increases in these rates will tend to decrease our net income and market value of our net assets. Interest rate fluctuations that result in our interest expense exceeding interest income would result in our incurring operating losses.

Prepayment rates can increase, thus adversely affecting yields

The value of our 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 our control, and consequently, such prepayment rates cannot be predicted with certainty. To the extent we originate mortgage loans, we expect 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 we acquire, but do 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 us 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 we would not have the prepayment proceeds available to invest in assets with higher yields. Under certain interest rate and prepayment scenarios we may fail to recoup fully our cost of acquisition of certain investments.

We are dependent on our Advisor and if our Advisor terminates our advisory agreement, we may not be able to find an adequate replacement advisor

We have no employees, although for administrative purposes we have appointed officers. We have entered into an advisory agreement with our Advisor under which our Advisor provides us with all of the services vital to our operations. We are dependent on our Advisor for the management and administration of our business and investments. The results of our operations will be dependent upon the availability of, and our Advisor's ability to identify and capitalize on, investment opportunities. The agreement may be terminated (i) without cause by our Advisor or (ii) with or without cause by a majority of our independent trustees, each without penalty and each upon 60 days' prior written notice to the non-terminating party. If our Advisor terminates our agreement, we may not be able to find an adequate replacement advisor.

Conflicts of interest could arise among our Advisor, Related Capital and us with respect to investment opportunities

Our Advisor has subcontracted to Related Capital the obligation to provide the services which our Advisor is required to provide under an advisory agreement with us. There are risks involved with this arrangement. Under our advisory agreement, our Advisor and Related Capital are permitted to act as advisor to any other person or entity having investment policies similar to ours, including other real estate investment trusts. Generally, in conflict situations with non-affiliated entities, our Advisor must present an investment opportunity to us if the opportunity is within our investment objectives and policies, the opportunity is of a character that could be taken by us, and we have the financial resources to take advantage of the opportunity. However, to the extent that other companies advised by or affiliated with our Advisor or Related Capital have similar investment objectives to ours and have funds available for investment at the same time as us or to the extent that an investment is potentially suitable for us and at least one such entity, conflicts of interest could arise as to which entity should acquire the investment.

Related Capital effectively controls and manages a closed-end publicly held limited partnership with similar investment objectives that may invest in mortgages suitable for investment by us (although, barring reinvestment of refinancing proceeds, this entity has fully invested its available funds and is not permitted to raise additional capital). In addition, an affiliate of Related Capital is the manager of Charter Municipal Mortgage Acceptance Company ("CharterMac"), which is an American Stock Exchange-listed company which invests primarily in tax-exempt mortgage investments but has in the past, and may in the future, invest in taxable mortgage investments similar to those in which we invest. For example, CharterMac has recently acquired an interest in ARCap. Finally Related Capital also effectively controls two Delaware limited liability companies whose principal lines of business have been the arrangement of credit enhancements for tax-exempt revenue bonds, although from time to time they may invest in taxable mortgage investments similar to ours. As of the date of this prospectus, neither entity is actively operating.

To the extent that these entities, as well as affiliated entities which may be formed by affiliates of Related Capital in the future, have funds available for investment at the same time as us and a potentially suitable investment is offered to us or the affiliated entity, our Advisor will review the affiliated entity's and our investment portfolios and will determine whether or not the investment should be made by the affiliated company or by us based upon factors such as the amount of funds available for investment, yield and portfolio diversification. If the making of a mortgage loan or other mortgage investment appears equally appropriate for these entities, the mortgage loan or other mortgage investment will either be made by a joint venture between two or more such entities, or will be allocated to one program on a basis of rotation with the initial order of priority determined by the dates of formation of the programs.

Conflicts of interest could arise in transactions where we lend to borrowers affiliated with Related Capital

We have invested in, and may in the future invest in, mortgage investments secured by properties in which either direct or indirect affiliates of Related Capital own equity interests in the borrower. Our declaration of trust requires that any transaction between our Advisor, Related Capital or any of their affiliates and us be approved by a majority of trustees, including a majority of the independent trustees, not otherwise interested in the transaction, as being fair and reasonable and on terms not less favorable to us than those available from unaffiliated third parties. As of September 30, 2001, we have 6 mortgage investments to borrowers that are affiliates of Related Capital totaling approximately $11,728,000. Typically, these affiliate borrowers are limited partnerships where the general partner is either an affiliate of Related Capital or an unaffiliated third party with a 1% general partnership interest and the 99% limited partner is a limited partnership in which an affiliate of Related Capital owns a 1% general partnership interest and one or more Fortune 500 companies own a 99% limited partnership interest.

Every transaction entered into between us and a Related Capital affiliate raises a potential conflict of interest. In addition to the initial determination to invest in mortgage investments secured by properties owned by a Related Capital affiliate, such conflicts of interest with respect to these mortgage investments include, among others, decisions regarding (i) whether to waive defaults of such Related Capital affiliate, (ii) whether to foreclose on a loan, and (iii) whether to permit additional financing on the properties securing our investments other than financing provided by us.

We may not accurately assess investment yields, which may result in losses to us

Before making any investment, our Advisor will consider the expected yield of the investment and the factors that may influence the yield actually obtained on such investment. These considerations will affect our or our Advisor's decision whether to purchase such an investment and the price offered for such an investment. No assurances can be given that we or our Advisor can make an accurate assessment of the yield to be produced by an investment. Many factors beyond our and our Advisor's control are likely to influence the yield on the investments, including, but not limited to, competitive conditions in the local real estate market, local and general economic conditions and the quality of management of the underlying property. Our Advisor's inability to accurately assess investment yields may result in our purchasing assets that do not perform as well as expected, which may adversely affect the price of our common shares.

In our loan program with Fannie Mae, we guarantee a first loss position

Under our loan program with Fannie Mae we may originate, on Fannie Mae's behalf, up to $250 million in construction and permanent loans for multifamily properties. In the event we were to originate $250 million in loans pursuant to this program, we would guarantee a first loss position on these loans equal to the amount lost on the loans of up to a maximum of $21.25 million. If defaults occur on loans originated by us then we may be required to make an immediate cash payment of up to the total amount of our first loss position. As of September 30, 2001, we originated, on Fannie Mae's behalf, loans totaling approximately $2.2 million and have made forward commitments for an additional approximately $6.8 million. We also guaranteed construction loans for which we have issued a forward commitment to originate a loan under the Fannie Mae program, with respect to which we guarantee repayment of 100% of such construction loans. Our maximum exposure under the Fannie Mae program and the forward commitments at September 30, 2001 was $6.0 million. We have not acquired an interest in any of the loans we have originated on Fannie Mae's behalf.

Volatility of values of mortgaged properties may adversely affect our mortgage loans

Multifamily 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 our mortgage loan, which could result in losses to us. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our mortgage loans, which could also cause us to suffer losses.

We are subject to construction completion risks

Some of our mortgages are secured by multifamily housing properties which are still in various stages of construction. Construction of such properties generally takes approximately 12 to 24 months. The principal risk

associated with construction lending is the risk of noncompletion of construction which may arise as a result of: (i) underestimated initial construction costs (ii) cost overruns during construction (iii) delays in construction (iv) failure to obtain governmental approvals and (v) adverse weather and other unpredictable contingencies beyond the control of the developer. If a mortgage loan is called due to construction not being completed as required in the mortgage loan documents, we may determine to expend additional capital in order to preserve our investment.

In order to minimize certain risks which may occur during the construction phase of a property, our Advisor endeavors to obtain in most instances one or more types of security during such period, including a construction completion guarantee from the principals of the property owner, personal recourse to the property owner and payment and performance bonding of the general contractor, if any, with respect to a property securing our investment. In addition, our Advisor may require principals of the property owner to provide us with an operating deficit guarantee, covering operating deficits of a property securing an investment during an agreed-upon period. We may not be able, however, to obtain such security with respect to certain properties. In other cases, we may decide to forego certain types of available security if we determine that the security is not necessary or is too expensive to obtain in relation to the risks covered.

Bridge and mezzanine loans involve greater risks of loss than senior loans secured by income producing properties

We have acquired and expect to continue to acquire bridge and mezzanine loans. These types of mortgage loans are considered to involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property due to a variety of factors, including the loan becoming unsecured as a result of foreclosure by the senior lender. We may not recover some or all of our investment in such loans. In addition, bridge loans and mezzanine loans may have higher loan to value ratios than conventional mortgage loans resulting in less equity in the property and increasing the risk of loss of principal.

Subordinated interests are subject to increased risk of first loss or non-investment grade subordinated interests

We have invested indirectly in subordinated CMBS through our ownership of a preferred membership interest in ARCap Investors L.L.C. ("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 our investment in ARCap, our ability to transfer our membership interest in ARCap is further limited by the terms of ARCap's operating agreement.

Participating interests in mortgages may not be available and even if obtained may not be realized

In connection with the acquisition and origination of mortgages, we have obtained and may continue to obtain participating interests that may entitle us 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, we may have greater difficulty obtaining participating interests. Participating interests are not government insured or guaranteed and are therefore subject to the general risks inherent in real estate investments. Therefore, even if we are successful in investing in mortgage investments which provide for participating interests, there can be no assurance that such interests will result in additional payments to us.

Short-term repurchase agreements are our primary method of financing and they involve risk of loss

We primarily finance and expect to continue to finance primarily through collateralized borrowing in the form of repurchase agreements, which involve the sale by us of assets concurrently with an agreement by us to repurchase such assets at a later date at a fixed price. During the repurchase agreement period, we continue to receive principal and interest payments on the assets. The use of borrowing, or "leverage," to finance our assets involves a number of risks, including the following:

If we are unable to renew our borrowings at favorable rates, we may be forced to sell assets and our profitability may be adversely affected.

We rely primarily on short-term repurchase agreements to finance our assets. Our ability to achieve our investment objectives depends on our ability to borrow money in sufficient amounts and on favorable terms and our ability to renew or replace maturing short-term borrowings on a continuous basis. If we are not able to renew or replace maturing borrowings, we would be forced to sell some of our assets under possibly adverse market conditions, which may adversely affect our profitability. As of September 30, 2001, we had borrowings of $43.2 million outstanding under our repurchase facilities, all of which have 30 day settlement terms.

A decline in the market value of our assets may result in margin calls that may force us to sell assets under adverse market conditions.

Repurchase agreements involve the risk that the market value of the securities sold by us may decline and that we 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, we would experience additional losses. If we are forced to liquidate our assets to repay borrowings, there can be no assurance that we will be able to maintain compliance with the REIT asset and source of income requirements.

Our use of repurchase agreements to borrow money may give our lenders greater rights in the event of bankruptcy.

Our total borrowings of $43.2 million at September 30, 2001 were made using repurchase agreements which require us to pledge certain of our assets to the respective lenders to secure our obligations thereunder. Borrowings made under repurchase agreements may qualify for special treatment under the Bankruptcy Code, which may make it difficult for us to recover our pledged assets if a lender files for bankruptcy. In addition, if we were to file for bankruptcy, lenders under our repurchase agreements may be able to avoid the automatic stay provisions of the Bankruptcy Code and take possession of, and liquidate, the assets we pledged under these agreements without delay.

Liquidation of collateral may jeopardize our REIT status

To continue to qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our mortgage investments to satisfy our obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our status as a REIT. For further discussion of the asset and source of income requirements, and the consequences of our failure to continue to qualify as a REIT, please see the "Certain Federal Income Tax Considerations" section of this prospectus.

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Hedging transactions can limit gains and increase exposure to losses

Although we have not entered into any hedging transactions to date, we may enter into such transactions primarily to protect us from the effects of interest rate fluctuations on floating rate debt and also to protect our portfolio of mortgage assets from interest rate and prepayment rate fluctuations. Hedging activities may not have the desired beneficial impact on our results of operations or financial condition. Moreover, no hedging activity can completely insulate us from the risks associated with changes in interest rates and prepayment rates.

Hedging involves risk and typically involves costs, including transaction costs. Such costs increase as the period covered by the hedging increases and during periods of rising and volatile interest rates. Such costs will limit the amount of cash available for distributions to shareholders. We intend generally to hedge as much of the interest rate risk as the Advisor determines is in our best interests given the cost of such hedging transactions.

REIT provisions of the Internal Revenue Code of 1986, as amended (the "Code"), may limit our ability to hedge our assets and related borrowings. Any limitation on our use of hedging techniques may result in greater interest rate risk.

Risks related to loans secured by properties that benefit from LIHTCs

The success of our investments in loans secured by properties that benefit from using LIHTCs will be based in part on the results of operations of the underlying properties. The value of such loans and the quality of the underlying properties as collateral for such loans may be affected by other factors, such as property resale and other restrictive terms.

Regulations prevent sales of underlying properties for a 15 year period

The law governing LIHTCs generally prohibits the owners of such properties from selling the properties during a 15 year tax credit compliance period and then may require, unless waived, that beginning in year 14 the properties be offered for sale for approximately a one year period of time at the same price originally paid for them plus an annual cost of living inflation factor. The properties will be at least 15 years old when they are sold and may not sell for the same price as new properties. Factors outside the owner's control, such as demand for apartments and real estate values generally, will determine whether the properties can be sold for more than the owner invested in them or the amount of our mortgage loan. The properties are required to be leased to low-income tenants at restricted rentals for periods in excess of the 15 year tax credit compliance period.

Terms of government financings could limit revenues

If a property receives government assistance or financing, the terms of the government assistance or financing (e.g., tenant eligibility, approvals for rent increases, limitations on the percentage of income which low- and moderate-income tenants may pay as rent) could limit the revenue from the property and depress its value and thereby jeopardize the owner's ability to repay our mortgage loan. There can be no assurance that government assistance programs which are intended to benefit a property will be continued by the assistance provider and that if such assistance is not continued that the property will generate sufficient additional revenue to substitute for the discontinued government assistance so as to meet its mortgage or operating obligations.

Geographic concentration and the credit quality of borrowers may result in losses

We have not established any limit upon the geographic concentration of properties securing mortgage loans acquired or originated by us or the credit quality of borrowers of uninsured mortgage assets acquired or originated by us. As a result, properties securing our mortgage loans may be overly concentrated in certain geographic areas and the underlying borrowers of our uninsured mortgage assets may have low credit quality. We may experience losses due to geographic concentration or low credit quality.

Changes in mortgage loan programs could adversely affect us

We could be hindered in making investments by adverse changes in the FHA insurance, Ginnie Mae or Fannie Mae guarantee programs or rules or regulations relating to them. Generally, once a mortgage has been endorsed for insurance or guaranteed, subsequent amendments to the rules or regulations would not apply retroactively to affect preexisting investments, but could affect prospective investments. Changes to the guarantee programs could adversely affect our ability to originate or acquire attractive investments.

There are a number of risks associated with being taxed as a REIT

Our REIT status subjects us and our shareholders to a number of risks, including the following:

Failure to qualify as a REIT would have adverse tax consequences for us

In order to maintain our REIT status we must meet a number of requirements. These requirements are highly technical and complex and often require an analysis of various factual matters and circumstances that may not be totally within our control. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, Congress and the IRS may make changes to the tax laws and regulations, and the courts may issue new rulings, that make it more difficult or impossible for us to remain qualified as a REIT. If we fail to qualify as a REIT, we would be subject to federal income tax at regular corporate rates. Therefore, we would have less money available for investments and for distributions to our shareholders. This may also have an adverse effect on the market value of our shares. In general, we would not be able to elect REIT status for four years after a year in which we lose our REIT status.

As a REIT, our income can only come from limited types of sources

To qualify as a REIT, at least 75% of our gross income must come from qualified real estate sources and 95% of our gross income must come from other sources that are itemized in the REIT tax laws. Therefore, we may have to forego opportunities to invest in potentially profitable businesses or assets because they would produce income that could jeopardize our status as a REIT.

We have certain distribution requirements

As a REIT, we must distribute to shareholders at least 90% of our REIT taxable income (excluding capital gains). The required distribution limits the amount we have available for other business purposes, including amounts to fund our growth. Also, it is possible that because of the differences between the time we actually receive revenue (such as original issue discount interest income attributable to our investment in ARCap) or pay expenses and the period we report those items for distribution purposes, we may have to borrow funds on a short-term basis to meet the 90% distribution requirement.

We are also subject to other tax liabilities

As a REIT, we may be subject to certain federal, state and local taxes on our income and property. Any of these taxes would reduce our operating cash flow.

For further discussion of the risks associated with REIT taxation, please see the "Certain Federal Income Tax Considerations" section of this prospectus.

Loss of Investment Company Act exemption would adversely affect us

We intend to conduct our business so as not to become regulated as an investment company under the Investment Company Act. If we fail to qualify for this exemption then we would be regulated as an investment company and our business would be materially adversely affected. Investment company regulations would prevent us from conducting our business as described in this prospectus by, among other restrictions, reducing our ability to use borrowings. The Investment Company Act exempts entities that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. Under the current interpretation of Securities Exchange Commission staff, in order to qualify for this exemption, we must maintain at least 55% of our assets directly in these qualifying real estate interests. Mortgage-backed securities that do not represent all the certificates issued with respect to an underlying pool of mortgages may be treated as securities separate from the underlying mortgage loans and, thus, may not qualify for purposes of the 55% requirement. Therefore, our ownership of these mortgage-backed securities is limited by the provisions of the Investment Company Act. In meeting the 55% requirement under the Investment Company Act, we treat as qualifying interests mortgage-backed securities issued with respect to an underlying pool as to which we hold all issued certificates. If the Commission or its staff adopts a contrary interpretation, we could be required to sell a substantial amount of our mortgage-backed securities under potentially adverse market conditions. Further, in order to insure that we at all times qualify for the exemption from the Investment Company Act, we may be precluded from acquiring mortgage-backed securities whose yield is somewhat higher than the yield on mortgage-backed securities that could be purchased in a manner consistent with the exemption. The net effect of these factors may be to lower our net income.

Restrictions on share accumulation in REITs could discourage a change of control of the Company

In order for us to qualify as a REIT, not more than 50% of the number or value of the outstanding shares may be owned, directly or indirectly, by five or fewer individuals during the last half of a taxable year or during a proportionate part of a shorter taxable year.

In order to prevent five or fewer individuals from acquiring more than 50% of our outstanding shares, and our resulting failure to qualify as a REIT, our declaration of trust provides that, subject to certain exceptions, no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% of the outstanding shares. The shares most recently acquired by a person that are in excess of the 9.8% limit will not have any voting rights and be deemed to have been offered for sale to us for a period subsequent to the acquisition. Any person who acquires shares in excess of the 9.8% limit is obliged to immediately give written notice to us and provide us with any information we may request in order to determine the effect of the acquisition on our status as a REIT.

While these restrictions are designed to prevent any five individuals from owning more than 50% of our shares, they also discourage a change in control of the Company. These restrictions may also deter tender offers that may be attractive to shareholders or limit the opportunity for shareholders to receive a premium for their shares if an investor makes purchases of shares to acquire a block of shares.

Supermajority voting requirements for acquisitions and mergers could discourage a change of control of the Company

Our declaration of trust requires that 80% of our shareholders and all of our independent trustees approve exchange offers, mergers, consolidations or similar transactions involving us in which our shareholders receive securities in a surviving entity having materially different investment objectives and policies, or that is anticipated to provide significantly greater compensation to management, except for transactions affected because of changes in applicable law, or to preserve tax advantages for a majority in interest of our shareholders.

Issuances of large amounts of our shares could cause our share price to decline

As of September 30, 2001, there were 3,838,630 common shares outstanding.

This prospectus relates to the sale of up to an additional 3,500,000 common shares, which may be increased to 4,025,000 common shares if the underwriters fully exercise their over-allotment option. Furthermore, in connection with this offering and the issuance of any shares in the future, the Advisor is entitled to receive as compensation shares equal to 1% of the issuance, which shares vest over a three year period and are restricted as to their transferability until they vest. The Advisor will receive 35,000 shares (40,250 shares if the underwriters exercise their overallotment option in full) in connection with this offering. We have also granted to the lead underwriter warrants to purchase up to 35,000 common shares. See "Underwriting." In addition, we may issue common shares under our Incentive

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Share Option Plan, which currently provides for the issuance of up to 383,863 common shares. Finally, our declaration of trust permits our trustees to issue an unlimited number of shares (subject to the consent of shareholders if required pursuant to the rules of the American Stock Exchange).The issuance of shares could cause dilution of our existing shares and a decrease in the market price.

The recent terrorist attacks in the United States may have a negative effect on our earnings

The terrorist attacks which occurred in New York City and Washington D.C. on September 11, 2001, and the subsequent military actions taken by the United States and its allies in response, have caused significant uncertainty in the global financial markets. While the short-term and long-term effects of these events and their potential consequences are uncertain, they could have a material adverse effect on general economic conditions, consumer confidence and market liquidity. Among other things, it is possible that short-term interest rates may be affected by these events. If short-term interest rates increase rapidly, it would cause our borrowing costs to increase in comparison to the interest rates we earn on our mortgage investments. If that were to happen, our earnings would be negatively affected. In addition, the rate of prepayment on the mortgages underlying our mortgage investments could increase as a result of adverse economic conditions, changes in interest rates and other factors, all of which could be affected by the events of September 11, 2001 and their aftermath.

Possible shareholder liability

It is possible that certain states may not recognize the limited liability of shareholders, although our declaration of trust provides that our shareholders shall not be subject to any personal liability for our acts or obligations. Our declaration of trust also provides that every written agreement entered into by us shall contain a provision that our obligations are not enforceable against our shareholders personally. No personal liability should attach to our shareholders under any agreement containing such provision; however, not every written agreement entered into by us contains such a provision. In certain states, our shareholders may be held personally liable for contract claims where the underlying agreement does not specifically exclude shareholder liability. Our shareholders may also be held personally liable for other claims against us, such as tort claims, claims for taxes and certain statutory liability. Upon payment of any such liability, however, the shareholder will, in the absence of willful misconduct on the shareholder's part, be entitled to reimbursement from our general assets, to the extent such assets are sufficient to satisfy the claim.

Liability relating to environmental matters may impact the value of the underlying properties

Under various federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on its property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances. The presence of hazardous substances may adversely affect an owner's ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of an underlying property becomes liable for removal costs, the ability of the owner to make debt payments may be reduced, which in turn may adversely affect the value of the relevant mortgage asset held by us.

Cost of compliance with Americans With Disabilities Act and fire and safety regulations

Certain underlying properties may be required to comply with the Americans with Disabilities Act, which has separate compliance requirements for "public accommodations" and "commercial facilities," but generally requires that buildings be made accessible to disabled people. Compliance with the Americans with Disabilities Act could require removal of access barriers and noncompliance could result in imposition of fines by the U.S. government or an award of damages to private litigants.

In addition, owners are required to operate properties in compliance with fire and safety regulations, building codes, and other land use regulations. Compliance with such requirements may require owners to make substantial capital expenditures and these expenditures may impair an owner's ability to make debt payments, which in turn may adversely affect the value of the relevant mortgage asset held by us.

OUR COMPANY

Formation and Background

Our Company was formed on June 11, 1991 as a Massachusetts business trust. We have elected to be treated as a real estate investment trust ("REIT") for federal income tax purposes.

From formation until April 1999, we were a closed-end, finite-life REIT not permitted to finance or invest beyond the proceeds raised in our initial public offering. We invested our initial public offering proceeds primarily in government insured mortgages and guaranteed mortgage-backed certificates. In April 1999, we reorganized the Company into an open-ended, infinite life REIT authorized to issue debt and equity securities and make a broader range of investments.

In April 1999, we changed our name from American Mortgage Investors Trust to American Mortgage Acceptance Company. Our shares of beneficial interest began trading on the American Stock Exchange on July 1, 1999 under the symbol "AMC". As of January 11, 2002, there were 3,838,630 common shares of beneficial interest outstanding.

Portfolio

At September 30, 2001, we had total assets of $99.9 million of which $97.7 million represented mortgage investments. At September 30, 2001, approximately 65% of our assets consisted of mortgages guaranteed or insured by a United States government agency such as the Federal Housing Authority ("FHA") or the Government National Mortgage Association ("GNMA" or "Ginnie Mae") or by Fannie Mae. At September 30, 2001, we owned $46.9 million in Ginnie Mae certificates and had invested $17.7 million in FHA insured first mortgage loans. We generally seek to maintain 40% of our mortgage investments in government insured or guaranteed investments.

At September 30, 2001, we owned $7.4 million in mezzanine loans and $5.5 million in bridge loans funded in connection with the development of multifamily properties which benefit from the Low Income Housing Tax Credit ("LIHTC") program under Section 42 of the Internal Revenue Code. We also owned an indirect investment in commercial mortgage-backed securities ("CMBS") through our $20.2 million preferred equity interest in ARCap Investors L.L.C. ("ARCap").

Ginnie Mae Certificates

As of September 30, 2001, our portfolio included six Government National Mortgage Association ("GNMA" or "Ginnie Mae") certificates.

Ginnie Mae is a wholly owned United States government corporation within the Department of Housing and Urban Development created to support a secondary market in government-insured and guaranteed mortgage loans. Ginnie Mae 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. Ginnie Mae certificates are backed by the full faith and credit of the United States government. Ginnie Mae's are widely held and traded mortgage-backed 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 in the asset pool. 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 relative market value of interest rate sensitive obligations like the GNMAs tends to decrease. The effect of prepayments on yield is greater the earlier a prepayment of principal is received. Certain of our GNMAs that are collateralized by mortgage loans on multifamily properties are generally less subject to prepayment because they have prepayment lockout periods and prepayment penalties.

Our portfolio of Ginnie Mae certificates as of September 30, 2001 is summarized in the table below.

Certificate	Carrying Amount	Outstanding Balance	Coupon Rate	Final Payment
Western Manor.............	$ 2,496,415	$ 2,496,416	7.125%	March 2029
Elmhurst Village(1).......	19,602,489	19,480,735	7.745%	January 2042
Hollows Apartments(2).....	8,351,495	8,372,426	7.620%	January 2042
Copper Commons............	2,106,586	2,111,865	8.500%	August 2029
Reserve at Autumn Creek(3)	13,301,105	13,218,490	7.745%	January 2042

Sun Coast Capital.........	1,010,715	982,697	7.000%	April 2027
Total/Weighted average....	$46,868,805	$46,662,629	7.711%(4)	October 2040(4)

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(1) Construction loan certificate with a remaining balance to fund of $2,267,465.
(2) Construction loan certificate with a remaining balance to fund of $573,674.
(3) Construction loan certificate with a remaining balance to fund of $3,320,210.
(4) Weighted average based on total amount committed for the construction costs.

FHA Insured First Mortgage Loans

As of September 30, 2001, our portfolio included two FHA insured first mortgage loans. The FHA is part of the United States Department of Housing and Urban Development created in 1934 under the National Housing Act to insure mortgages made to finance the construction, rehabilitation, purchase and refinancing of multifamily residential housing and other developments. Mortgage loans insured by the FHA generally have 40 year terms, not including any construction period, and are backed by the full faith and credit of the United States.

Our portfolio of FHA insured first mortgage loans as of September 30, 2001 is summarized in the table below.

Property	Location	Carrying Amount	Outstanding Mortgage Balance	Interest Rate	Maturity
Columbiana Lakes	Columbia, SC	$ 9,099,026	$ 8,919,374	7.250%	November 2035
Stony Brook Village II	East Haven, CT	8,629,584	8,342,532	7.625%	June 2037
Total/Weighted average.........		$17,728,610	$17,261,906	7.4312%(1)	September 2037(1)

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(1) Weighted average based on outstanding mortgage balance.

The Columbiana Lakes FHA first mortgage was repaid on October 1, 2001, under an agreement with the obligor of the Columbiana Lakes FHA first mortgage and related mezzanine loan. Pursuant to the agreement, we accepted $9.6 million in settlement of amounts due on both loans, resulting in a loss on repayment of approximately $212,000, which was recorded during the three months ended September 30, 2001.

Mezzanine Financing

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 refinancing and sale proceeds from the underlying properties.

We seek to capitalize on attractive yields available through the funding of mezzanine debt in combination with our origination of government insured multifamily mortgages. We believe that we are one of the few programs in the country that offer this mezzanine lending in connection with agency insured first mortgage loans.

Our mezzanine loans typically finance newly constructed or rehabilitated market-rate multifamily 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 equity loan closing. These loans are typically in a subordinated mortgage position, are secured by equity interests in the borrower and have limited recourse to the borrower for the three years following the date of the loan. We seek properties in growing real estate markets with well capitalized developers or guarantors. We leverage the expertise of our 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.

Our portfolio of mezzanine loans as of September 30, 2001, is summarized in the table below.

Property	Location	Number of Apartment Units	Occupancy	Carrying Amount	Outstanding Principal Balance	Effective Interest Rate(3)	
Columbiana Lakes(2)	Columbia, SC	204	98.50%	$ 146,536	$ 563,000	N/A(2)	Nove
Elmhurst Village	Oveido, FL	313	44.70%(5)	2,415,981	2,874,000	10.00%	
Hollows Apartments	Greenville, NC	184	66.98%(5)	1,376,731	1,549,200	10.00%	
Plaza At San Jacinto(1)	Houston, TX	132	95.50%	1,121,039	1,150,000	11.00%	
Reserve at Autumn Creek	Friendswood, TX	212	30.00%(5)	1,920,791	1,987,000	10.00%	
Stony Brook Village II	East Haven, CT	125	99.40%	394,960	763,909	15.33%	
Total/Weighted average		1,170		$7,376,038	$8,887,109	10.63%(4)	Nove

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(1) Funded on an earn-out basis based on property performance. Remaining committed balance is $100,000.
(2) Repaid on October 1, 2001. See "FHA Insured First Mortgage Loans" above.
(3) Interest on the mezzanine loans is based on a fixed percentage of the unpaid principal balance of the related first mortgage loan. The amount shown is the approximate effective rate earned on the balance of the mezzanine loan.
(4) Weighted average based on outstanding mortgage balance.
(5) Construction not complete and occupancy figure reflects current occupancy as a ratio of total planned units.

Bridge Loans

Our bridge loans are typically funded in connection with the development of multifamily properties which benefit from the LIHTC program. We believe that since 1989, on average, nearly one-third of each year's new multifamily property construction contains an affordable component that produces LIHTCs (from 1989 through 1999 the number of affordable units producing LIHTCs ranged from 62,000 to 126,000). Due to the equity payments schedule associated with the LIHTC investment programs, there can be periods in a construction cycle where a developer needs short term capital. To capitalize on this demand, we offer developers bridge loans with typical terms of approximately 12 months collateralized by the equity interests in the property owner. We may also provide bridge loans for properties undergoing rehabilitation by new owners when we believe the rehabilitation process will add significant value to the property and reduce our effective loan-to-value ratio and our risk of loss. Our loans may finance the initial purchase or the subsequent rehabilitation. From time to time, we may make bridge loans to properties that do not benefit from the LIHTC program.

We focus our bridge lending on LIHTC properties because we believe that default risks ordinarily associated with bridge lending are substantially reduced by the presence of LIHTCs, the value of which typically averages two to four times the principal amount of the bridge loan. The beneficial owners of these LIHTC properties are typically Fortune 500 companies that have invested in order to receive the tax benefit of the LIHTC which are received ratably over an 11 year period. In the event that these properties cannot support their debt service, the beneficial owners have an incentive to maintain the debt service so that they can avoid foreclosure of their equity interests and the loss of the tax benefits associated with the LIHTCs. According to Fitch IBCA, loans underlying CMBS collateralized in part by multifamily properties that benefit from federal LIHTCs are expected to have reduced risk of default due to indirect collateral enhancement provided by LIHTCs.

Our portfolio of bridge loans as of September 30, 2001 is summarized in the table below.

Property	Location	Number of Apartment Units	Carrying Amount	Outstanding Principal Balance	Remaining Committed Balance to Fund	Interest Rate	Ma
Alexandrine	Detroit, MI	30	$ --	$ -- (1)	$ 378,000	12.50%	Aug
Coronado Terrace	San Diego, CA	312	--	-- (1)	2,000,000	11.00%	Ma
Miami Sunset Bay	Miami, FL	308	1,436,870	1,450,000	--	12.50%	Ma
Plaza Manor	National City, CA	372	--	-- (1)	1,500,000	11.00%	
Rancho Verde	San Jose, CA	700	2,243,037	2,262,085	2,237,915	11.00%	Aug
Vista Terrace Hills	San Ysidro, CA	262	1,855,124	1,855,124	44,876	11.00%	
Total		1,984	$5,535,031	$5,567,209	$6,160,791		

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(1) Funded on an as needed basis.

CMBS Through our Preferred Membership Interests in ARCap Investors, L.L.C.

Through our convertible preferred membership interests in ARCap Investors L.L.C., we have a substantial indirect investment in commercial mortgage-backed securities ("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 September 30, 2001, ARCap had $504.3 million in assets, including investments in $485.0 million of CMBS. Multifamily properties underlie approximately one-third of ARCap's CMBS.

In September 1999, we acquired a "BB+" rated subordinated CMBS from ARCap. In connection with this acquisition, we entered into an agreement with ARCap, which gave us 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. In November 2000, we exercised our right to sell the CMBS investment to ARCap and purchased Series A Preferred Membership Interests in ARCap in the face amount of $20 million, with a preferred dividend rate of 12%. At September 30, 2001, the carrying value of our ARCap investment was $20.2 million.

Our 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. Our interest in ARCap is illiquid and we need to obtain the consent of the board of managers of ARCap before we can transfer our interest in ARCap to any party other than a current member. The carrying amount of our investment in ARCap is not necessarily representative of the amount we 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

In March 2000, we entered into a loan origination program with Fannie Mae in which we originate, on Fannie Mae's behalf, construction and permanent loans for multifamily properties and receive loss sharing and loan origination fees. Fannie Mae is the United States' largest source of financing for residential mortgages and the largest investor in multifamily mortgages.

Under this program, we may originate up to $250 million in loans of no more than $6 million each over a two year period, which may be extended for up to two additional one year periods. In the event we were to originate $250 million in loans pursuant to this program, we would guarantee a first loss position on these loans equal to the amount lost on the loans of up to a maximum of $21.25 million. We also guaranteed construction loans for which we have issued a forward commitment to originate a loan under the Fannie Mae program, with respect to which we guarantee repayment of 100% of such construction loans. As of September 30, 2001, we originated loans, on Fannie Mae's behalf, totaling approximately $2.2 million and have made forward commitments for an additional approximately $6.8 million. Our maximum exposure under the Fannie Mae program and the forward commitments at September 30, 2001 was $6.0 million. We have not acquired an interest in any of the loans we have originated on Fannie Mae's behalf.

Since we entered into the loan program, the level of loan origination competition has increased, reducing our projected financing volume and profitability. As a result, we are de-emphasizing this program and evaluating the possibility of transferring our rights and obligations in the loan program to a third party.

In order to conduct the program, we organized AMAC/FM Corporation, a Delaware corporation that we wholly own. From time to time, we expect 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, we transferred the Stony Brook Village II Apartments FHA first mortgage loan with a principal balance at September 30, 2001 of $8.3 million to AMAC/FM. AMAC/FM is treated, for federal income tax purposes, as a taxable REIT subsidiary.

The following table provides information relating to the loans we have originated on Fannie Mae's behalf.

Property	Location	Number of Apartment Units	Loan Amount	Loss Sharing Fee (annual rate)
Valley View	Cedar Rapids, IA	96	$2,187,000	0.36%
Hillside Apartments(1)	Minden, LA	60	1,278,000	0.28%
Alexandrine Square(1)	Detroit, MI	30	342,000	0.40%
Maple Ridge Apartments(1)	Jackson, MI	69	1,137,000	0.52%
Cameron Creek Apartments	Dade County, FL	148	3,000,000	0.35%
Desert View Apartments(1)	Coolidge, AZ	372	1,011,000	0.52%
Total		775	$8,955,000	

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(1) Currently a construction loan with First Union National Bank, which AMAC has fully guaranteed. Once the underlying property achieves 90% occupancy for a period of 90 days and net income of 1.15x debt service, this construction loan will be replaced by permanent financing through our loan program with Fannie Mae.

Recent Developments

New Loans. On December 19, 2001, we funded a mezzanine loan in the amount of $1,962,000 in connection with the construction of a 200 unit multifamily apartment property, to be known as The Club at the Brazos, located in Rosenberg, Texas. The loan will bear interest at an effective rate of 10%, and we will also be entitled to interest from a 50% participation in cash flow and a 25% participation in residual proceeds. The maturity date of the loan is May 1, 2043. We are committed to fund an additional $561,000 based upon achievement of certain levels of financial performance of the property.

On December 28, 2001, we funded $3,589,743 of a $3,850,000 bridge loan to the owner of a 360 unit property known as The Concord at Palm Center, located in Houston, Texas. The loan will bear interest at a rate of 12% and will mature on December 1, 2003. The loan is collateralized by a second mortgage and equity interests in the property owner and interest on the loan is guaranteed by certain of the borrowing entities. The Concord at Palm Center does not benefit from the LIHTC program.

Investment Policy

General

Our investment policy has been formulated to maximize the return on our asset base by investing in a diversified portfolio of insured and a limited amount of uninsured mortgage assets. Our declaration of trust sets forth our limitations regarding investments in uninsured assets. Consistent with our policy of maintaining our status as a REIT for federal income tax purposes, substantially all of our assets will consist of qualified REIT assets under the Code.

Certain Investment Policy Limitations Under our Declaration of Trust

Generally, we intend to invest in mortgage investments, which can generally be categorized into investments insured or guaranteed by an agency of the United States or by Fannie Mae and investments that are not insured or guaranteed. However, for purposes of our investment policy as set forth in our declaration of trust, we also distinguish between investments we were authorized to make prior to our April 1999 reorganization and investments we became authorized to make upon approval of the reorganization.

Prior to our reorganization in 1999, we were generally restricted by our declaration of trust to investments in FHA insured first mortgages, mortgage-backed securities guaranteed by Fannie Mae or the Federal Home Loan Mortgage Corporation ("Freddie Mac"), and collateralized mortgage obligations ("CMOs") collateralized by guaranteed and insured mortgages or mortgage certificates. We were, however, permitted to invest up to 7% of our total assets in non-interest bearing uninsured loans made to developers in connection with insured mortgage loans made by us.

Subsequent to our reorganization, we broadened our investment policy to include uninsured mortgage loans, including construction loans, loans subordinate to a lien on the related real property ("mezzanine loans"), loans secured by junior liens and used as temporary financing ("bridge loans"), mortgage derivatives (including IOs), interests in CMBS and other subordinated mortgage investments.

Investments that we became authorized to make upon approval of our April 1999 reorganization may not comprise, in the aggregate, more than 60% of all of our mortgage investments. Stated differently, at least 40% of our mortgage investments must be investments that we were authorized to make prior to our April 1999 reorganization. Mortgage loans that we originate with the intent of later securitizing may be accumulated without limit.

Financing

General

We finance at short-term borrowing rates through the use of repurchase agreements. Under a repurchase agreement, we sell securities to a lender and agree to repurchase those securities in the future for a price that is higher than the original sales price. The difference in the sale price we receive and the repurchase price we pay represents interest paid to the lender. Although structured as a sale and repurchase obligation, a repurchase agreement operates as a financing under which we effectively pledge our securities as collateral to secure a short-term loan which is equal in value to a specified percentage of the market value of the pledged collateral. We retain beneficial ownership of the pledged collateral, including the right to distributions. At the maturity of a repurchase agreement, we are required to repay the loan and concurrently receive back our pledged collateral from the lender or, with the consent of the lender, we renew such agreement at the then prevailing financing rate. The repurchase agreements may require us to pledge additional assets to the lender in the event the market value of the existing pledged collateral declines.

Repurchase agreements are generally short-term in nature. Should the providers of the repurchase agreements decide not to renew them at maturity, we must either refinance these obligations or be in a position to retire the obligations. If, during the term of a repurchase agreement, a lender should file for bankruptcy, we might experience difficulty recovering our pledged assets and may have an unsecured claim against the lender's assets.

Existing Repurchase Facilities

In February 2000, we entered into a $60 million FHA repurchase facility with Nomura Asset Capital Corporation. This repurchase facility was renewed for $40 million in February 2001, for a term of one year with a one-time option to increase the facility to $60 million. This facility enables us to borrow up to 90% of the fair market value of FHA first mortgage loans that we own with a qualified hedge (80% without a qualified hedge). Generally, this facility bears interest at LIBOR plus 1.25%. As of September 30, 2001, there was no outstanding balance on this facility.

In February 2000, we also entered into a repurchase facility with Nomura Securities International, Inc. This repurchase facility enables us to borrow up to 95% of the fair market value of GNMA certificates and other qualified mortgage securities that we own. Generally, this facility bears interest at LIBOR plus 0.50%. As of September 30, 2001, the amount outstanding under this facility was $43,191,173, and the weighted average interest rate was 4.07%. All amounts outstanding as of September 30, 2001 had 30 day settlement terms.

Limitations on Indebtedness Under our Declaration of Trust

Our declaration of trust restricts our ability to borrow with respect to permanent and working capital indebtedness.

For purposes of our debt restriction, "permanent indebtedness" means all of our indebtedness except:

- "working capital indebtedness";
- trade payables; and
- subordinated Advisor fees.

Also, for purposes of our debt restriction, "working capital indebtedness" means:

- debt with a term no longer than five years utilized to acquire and originate mortgage investments intended to be pooled as part of an issuance of collateralized mortgage obligations or pass through certificates sponsored by us or our subsidiaries, the proceeds of which will be used to repay such indebtedness and

- debt used to pay distributions to shareholders and operating expenses, including fees to the Advisor.

We may incur permanent indebtedness of up to 50% of the greater of, and may incur working capital indebtedness plus permanent indebtedness of up to 100% of the greater of:

- the sum of the aggregate market value of all of our outstanding shares of beneficial interest and all of our indebtedness (not including debt of unconsolidated subsidiaries) and

- the aggregate value of our assets as determined by the Advisor based upon third party or management appraisals and other criteria as the Board of Trustees determines in its sole discretion (calculated at the time debt is incurred).

At September 30, 2001, our indebtedness, all of which was working capital indebtedness, was $43.2 million and our ratio of indebtedness to total market value was 43.2%.

Competition

We compete for mortgage asset investments with numerous public and private real estate investment vehicles, such as mortgage banks, pension funds, real estate investment trusts, institutional investors and individuals. Mortgages, subordinated interests in CMBS and other investments are often obtained through a competitive bidding process. In addition, competitors may seek to establish relationships with the financial institutions and other firms from which we intend to purchase such assets.

Our business is also affected by competition to the extent that the properties underlying the instruments from which we derive interest and, ultimately, principal payments may be subject to the effects of differing rental rates and relative levels of amenities from comparable neighboring properties.

Employees

As of January 11, 2002, we had no employees; although for administrative purposes we have designated officers. All services are performed for us by the Advisor and its affiliates. The Advisor receives compensation in connection with such activities. In addition, we reimburse the Advisor and certain of its affiliates for expenses incurred in connection with the performance by their employees of services for us.

Legal Proceedings

We are not a party to any material pending legal proceedings.

MANAGEMENT

We are run by a Board of Trustees comprised of three independent trustees and two trustees affiliated with Related Capital Company, a nationwide, fully integrated real estate financial services firm. We do not have any employees but we designate officers for administrative purposes. We engaged the Advisor, an affiliate of Related Capital, to manage our day-to-day affairs. The Advisor subcontracted with Related Capital to provide the services contemplated. Through the Advisor, Related Capital offers us a core group of experienced staff and executive management providing 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 management team that provides us with investment advice has an average of 12 years of experience with Related Capital and an average of 20 years in the real estate industry. We believe that we benefit significantly from our relationship with Related Capital, as it provides us with resources not generally available to smaller-capitalized, self-managed companies.

Our Trustees and Executive Officers

Our trustees and executive officers are as follows:

Name	Age	Offices Held	Year First Became Trustee or Officer	Term Expires
Stuart J. Boesky.	45	Chairman of the Board of Trustees, Chief Executive Officer, and President	1991	2002
Peter T. Allen...	55	Trustee (independent)	1991	2002
Arthur P. Fisch..	59	Trustee (independent)	1991	2002
Alan P. Hirmes...	46	Trustee and Senior Vice President	1991	2002
Scott M. Mannes..	42	Trustee (independent)	2001	2002
Steven B. Wendel.	39	Chief Operating Officer	1999	--
Michael I. Wirth.	43	Senior Vice President and Chief Financial Officer	2000	--
Mark J. Schlacter	51	Senior Vice President	1993	--
Denise L. Kiley..	41	Senior Vice President	1999	--
Marc D. Schnitzer	40	Senior Vice President	1999	--
Gary Parkinson...	52	Controller	2000	--
John J. Sorel....	40	Vice President	1999	--
Teresa Wicelinski	35	Secretary	1998	--

Stuart J. Boesky is a trustee and is our Chairman, President and Chief Executive Officer and is the President and Director of our Advisor. Mr. Boesky practiced real estate and tax law in New York City with the law firm of Shipley & Rothstein from 1984 until February 1986 when he joined Related Capital. From 1983 to 1984, Mr. Boesky practiced law with the Boston law firm of Kaye, Fialkow, Richmond & Rothstein (which subsequently merged with Stroock & Stroock & Lavan) and from 1978 to 1980 was a consultant specializing in real estate at the accounting firm of Laventhol & Horwath. Mr. Boesky is the sole shareholder of one of the general partners of Related Capital. Mr. Boesky graduated from Michigan State University with a Bachelor of Arts degree and from Wayne State School of Law with a Juris Doctor degree. He then received a Master of Laws degree in Taxation from Boston University School of Law. Mr. Boesky also serves on the Board of Directors of Aegis Realty, Inc. ("Aegis") and the Board of Trustees of Charter Municipal Mortgage Acceptance Company ("CharterMac"), which are both advised by affiliates of our Advisor.

Peter T. Allen is an independent trustee and is the President of Peter Allen & Associates, Inc., a real estate development and management firm, in which capacity he has been responsible for the leasing, refinancing and development of major commercial properties. Mr. Allen has also been an Adjunct Professor of the Graduate School of Business at the University of Michigan since 1981. Mr. Allen received a Bachelor of Arts Degree in

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history/economics from DePauw University and a Masters in Business Administration with Distinction from the University of Michigan. Mr. Allen has been an independent trustee since 1991 and is a member of the Audit and Compensation Committees. Mr. Allen also serves on the Board of Trustees of CharterMac and on the Board of Directors of Aegis.

Arthur P. Fisch is an independent trustee and has been an attorney in private practice specializing in real property and securities law since October 1987, with Arthur P. Fisch, P.C. and Fisch & Kaufman. From 1975 until 1987, Mr. Fisch was employed by E.F. Hutton & Company, serving as First Vice President in the Direct Investment Department from 1981 until 1987 and associate general counsel from 1975 to 1980 in the legal department. As First Vice President, he was responsible for the syndication and acquisition of residential real estate. Mr. Fisch received a B.B.A. from Bernard Baruch College of the City University of New York and a Juris Doctor degree from New York Law School. Mr. Fisch is admitted to practice law in New York and Pennsylvania. Mr. Fisch has been an independent trustee since 1997 and is a member of the Audit and Compensation Committees. Mr. Fisch also serves on the Board of Directors of Aegis and the Board of Trustees of CharterMac.

Alan P. Hirmes is a trustee and is our Senior Vice President and is the Senior Vice President of the Advisor. Mr. Hirmes is also the sole shareholder of one of the general partners of Related Capital and is a Senior Managing Director of Related Capital, where he is responsible for overseeing the portfolio management, finance and accounting departments and the joint venture development program. Mr. Hirmes has been a certified public accountant in New York since 1978. Prior to joining Related Capital in October 1983, Mr. Hirmes was employed by Weiner & Co., certified public accountants. Mr. Hirmes graduated from Hofstra University with a Bachelor of Arts degree. Mr. Hirmes also serves on the Board of Trustees of CharterMac and the Board of Directors of Aegis.

Scott M. Mannes is an independent trustee and co-founder of Drawbridge Capital LLC, an investment firm that operates as an advisor and service provider to, and investor in, the specialty finance industry. Prior to

Drawbridge, Mr. Mannes was a key participant in the development and evolution of the investment banking and merchant banking operations during his nine-year career at ContiFinancial Corporation, most notably as Co-President of ContiFinancial Services Corporation. Mr. Mannes was instrumental in developing the investment banking, merchant banking and venture capital activities for ContiFinancial, including managing the acquisition of assets and investment banking relationships to promote the company's securitization activities and managing the acquisition of equity interests in affiliate residential and commercial loan origination companies. Prior to joining ContiFinancial in 1990, Mr. Mannes spent seven years with Financial Guaranty Insurance Company developing the first financial guaranties applied to sub-prime mortgage loan securitizations. Mr. Mannes is a graduate of the State University at Albany and received an MPA in Public Administration from the Rockefeller School of Public Affairs and Policy.

Steven B. Wendel is our Chief Operating Officer and is responsible for the origination and acquisition of our mortgage products. Mr. Wendel is also a Senior Vice President of Related Capital. Prior to joining Related Capital in June 1999, Mr. Wendel was a Managing Director of the commercial loan origination and securitization program at ContiFinancial Corporation. From 1989 until 1992, Mr. Wendel was a senior associate of the structured finance/MBA rotational program at Coopers & Lybrand. From 1987 until 1989, he was a consultant at Martin E. Segal Company, and from 1984 until 1987, he was a pricing analyst at Metropolitan Life Insurance Company. Mr. Wendel received a Masters in Business Administration from the Stern School of Business Administration at New York University and a Bachelor of Arts in economics from the University of Pennsylvania.

Michael I. Wirth is our Chief Financial Officer and Senior Vice President. Mr. Wirth is also a senior vice president of Related Capital. Mr. Wirth joined Related Capital in August 2000. Prior to joining Related Capital, Mr. Wirth was a vice president in the real estate group at CGA Investment Management where he was responsible for the underwriting, investment and management of all commercial real estate debt investments. Prior to CGA, Mr. Wirth spent 4 years as a senior manager at Deloitte & Touche in the realty consulting group and technology solutions practice and 5 years as a senior manager and national director to the financial services industry at The Roulac Group of Deloitte & Touche. Mr. Wirth received a Bachelors degree in Business Administration from Georgia State University. He has been a Certified Public Accountant since 1986.

Mark J. Schlacter is our Senior Vice President and is responsible for our FHA mortgage acquisitions program. Mr. Schlacter is also a Vice President of Related Capital and has been with Related Capital since June 1989. Prior to joining Related Capital, Mr. Schlacter gained 16 years of direct real estate experience covering retail and residential construction, single and multifamily mortgage origination and servicing, commercial mortgage origination and servicing, property acquisition and financing and mortgage lending program underwriting and development. He was a Vice President with Bankers Trust

Company from 1986 until June 1989, and held various positions with Citibank, Anchor Savings Bank and the Pyramid Companies from 1972 to 1986. Mr. Schlacter holds a Bachelor of Arts degree in Political Science from Pennsylvania State University.

Denise L. Kiley is our Senior Vice President. Ms. Kiley is also a Managing Director of Related Capital, and is the Director of Related Capital's underwriting and asset management groups. Ms. Kiley is responsible for overseeing the investment underwriting and approval of all real estate properties invested in Related Capital sponsored corporate, public and private equity and debt funds. Prior to joining Related Capital in 1990, Ms. Kiley gained experience acquiring, financing and managing the assets of multifamily residential properties. From 1981 through 1985 she was an auditor with a national accounting firm. Ms. Kiley holds a Bachelor of Science degree in Accounting from Boston College and is a Member of the Affordable Housing Roundtable.

Marc D. Schnitzer is our Senior Vice President. Mr. Schnitzer is also a Managing Director of Related Capital and the Director of Related Capital's Tax Credit Group. Mr. Schnitzer received a Master of Business Administration degree from The Wharton School of The University of Pennsylvania in December 1987, and joined Related Capital in January 1988. From 1983 to 1986, Mr. Schnitzer was a financial analyst in the Fixed Income Research Department of The First Boston Corporation in New York. Mr. Schnitzer received a Bachelor of Science degree, summa cum laude, in Business Administration from the School of Management at Boston University.

Gary Parkinson is our controller. Mr. Parkinson is also an Assistant Vice President of Related Capital. Mr. Parkinson has been certified public accountant in New York since 1987. Prior to joining Related Capital in September 2000, Mr. Parkinson was employed by American Real Estate Partners, L.P. from July 1991 until September 2000, by Integrated Resources, Inc. from August 1988 until July 1991 and by Ernst and Young from September 1984 until August 1988. Mr. Parkinson graduated from Northeastern University and The Johnson Graduate School of Business at Cornell University.

John Sorel is our Vice President and is a Vice President of Related Capital. Mr. Sorel is responsible for overseeing loan servicing and construction risk management for us. Prior to joining Related Capital in November 1999, Mr. Sorel was a Vice President for BankBoston in their real estate department from 1993 until 1999, where he originated and managed corporate and construction loan facilities for the low income housing tax credit industry. From 1991 until 1993, Mr. Sorel worked as an Assistant Vice President for Recoll Management. Mr. Sorel holds a Bachelor of Arts degree in economics from Syracuse University.

Teresa Wicelinski is our Secretary. Ms. Wicelinski joined Related Capital in June 1992, and prior to that date was employed by Friedman, Alprin & Green, certified public accountants. Ms. Wicelinski graduated from Pace University with a Bachelor of Business Science in accounting.

Our Advisor

The directors and executive officers of our Advisor, Related AMI Associates, Inc., are set forth below. These officers of the Advisor may also provide services to us on behalf of the Advisor.

Name	Age	Offices Held
Stuart J. Boesky.	45	Director and President
Michael Brenner..	56	Director
Alan P. Hirmes...	46	Senior Vice President
Gary Parkinson...	52	Treasurer
Teresa Wicelinski	35	Secretary

Biographical information with respect to Messrs. Boesky, Hirmes and Parkinson and Ms. Wicelinski is set forth above.

Michael J. Brenner is a Director of our Advisor, and is the Executive Vice President and Chief Financial Officer of The Related Companies, L.P. Prior to joining The Related Companies, L.P. in 1996, Mr. Brenner was a partner with Coopers & Lybrand, having served as managing partner of its Industry Programs and Client Satisfaction initiatives from 1993-1996, managing partner of the Detroit group of offices from 1986-1993 and Chairman of its National Real Estate Industry Group from 1984-1986. Mr. Brenner graduated summa cum laude from the University of Detroit with a Bachelors degree in Business Administration and from the University of Michigan with a Masters of Business Administration, with distinction. Mr. Brenner also serves on the Board of Directors of Aegis and the Board of Trustees of CharterMac.

Related Capital's Experience

Our Advisor has subcontracted its management obligations to Related Capital, a financial services subsidiary of The Related Companies, L.P., which is one of the nation's largest developers of premier multifamily and mixed-use real estate assets and largest sponsor of real estate investment programs for retail and institutional investors.

The predecessor to The Related Companies, L.P. was founded in 1972 by Stephen M. Ross to engage in the business of providing real estate based financial, acquisition, development and management services. Its real estate related products include affordable multifamily properties, luxury apartments, commercial office properties and retail centers located in 45 states and nearly every major market in the U.S. and Puerto Rico.

Related Capital has sponsored 22 public and 234 private real estate investment programs that have raised nearly $5 billion from more than 106,000 investors. Related Capital is the nation's leading non-agency financier of affordable multifamily housing. These programs have accounted for the acquisition of over 1,200 properties with a valuation, at cost, of over $11 billion. Related Capital's portfolio, in the aggregate, consists of approximately 160,860 residential apartment units, 31 shopping centers and 5 regional malls. Related Capital provides asset monitoring services for the properties within its portfolio, which include the weekly review of occupancies, regular site visits, monitoring of financial and operating reports, regulatory compliance checks and independent periodic analysis of local marketplace conditions.

The Related Companies L.P. development division is a leading developer and acquirer of luxury housing, government-assisted housing, entertainment-enhanced retail, commercial and mixed-use properties. The development division operates through seven principal business units organized by geographic market and product type. The development division as a whole has developed or acquired over 40,000 market rate and affordable housing units and 4.6 million square feet of commercial and retail space and remains one of the country's most active developers. The Related Companies L.P. currently has 22 fully-financed developments under construction, totaling $3.8 billion, the largest of which is AOL Time Warner Center, a 2.8 million square foot mixed use premier property located in Manhattan at the intersection of Central Park South and Central Park West. The property will feature AOL Time Warner, Inc.'s world headquarters, including a CNN broadcasting facility, as well as luxury retail and restaurants, a Mandarin Oriental Hotel and super-luxury, high-rise residential units.

The Related Companies L.P. property management division provides property management services. It directly manages approximately 153 multifamily rental properties totaling 19,000 residential units and 3.7 million square feet of commercial and retail space from its New York offices.

Advisory Agreement

We entered into an Advisory Agreement with the Advisor pursuant to which the Advisor is obligated to use its best efforts to seek out and present to us, whether through its own efforts or those of third parties retained by it, suitable and a sufficient number of investment opportunities which are consistent with our investment policies and objectives and consistent with such investment programs as the Board of Trustees may adopt from time to time in conformity with our declaration of trust.

Although our Board of Trustees has continuing exclusive authority over our management, the conduct of our affairs and the management and disposition of our assets, the Board of Trustees has delegated to the Advisor, subject to the supervision and review of the Board of Trustees and consistent with the provisions of our declaration of trust, the power and duty to:

- obtain for us, furnish and supervise the services necessary to perform any ministerial functions in connection with the management of our day-to-day operations subject to the supervision of the trustees;

- seek out and present to us, whether through its own efforts or those of third parties retained by it, suitable and a sufficient number of investment opportunities which are consistent with our investment objectives and policies as adopted by the trustees from time to time;

- exercise absolute discretion, subject to the trustees' review, in decisions to originate, acquire, retain, sell or negotiate for the prepayment or restructuring of mortgages and our other investments;

- recommend investment opportunities consistent with our investment objectives and policies and negotiate on our behalf with respect to potential investments or their disposition;

. upon request, cause an affiliate to serve as the mortgagee of record for our mortgages if such affiliate is qualified to do so and in that capacity to hold escrows on behalf of mortgagors in connection with the ser