

FIRST MARINER BANCORP
Form 10-Q
November 15, 2010
Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended September 30, 2010.

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

For the transition period from to

Commission file number: 0-21815

FIRST MARINER BANCORP

(Exact name of registrant as specified in its charter)

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Maryland
(State of Incorporation)

52-1834860
(I.R.S. Employer Identification Number)

**1501 South Clinton Street, Baltimore,
MD**
(Address of principal executive offices)

21224
(Zip Code)

410-342-2600
(Telephone Number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No (Not Applicable)

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares of common stock outstanding as of November 5, 2010 is 18,050,117 shares.

Table of Contents

FIRST MARINER BANCORP AND SUBSIDIARIES

CONTENTS

PART I - FINANCIAL INFORMATION

<u>Item 1 -</u>	<u>Financial Statements</u> <u>Consolidated Statements of Financial Condition at September 30, 2010 (unaudited) and at December 31, 2009</u> <u>Consolidated Statements of Operations (unaudited) for the three and nine months ended September 30, 2010 and 2009</u> <u>Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2010 and 2009</u> <u>Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2010 and 2009</u> <u>Notes to Consolidated Financial Statements (unaudited)</u>
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3 -</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>Item 4 -</u>	<u>Controls and Procedures</u>

PART II - OTHER INFORMATION

<u>Item 1</u>	<u>Legal Proceedings</u>
<u>Item 1A</u>	<u>Risk Factors</u>
<u>Item 2 -</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
<u>Item 3 -</u>	<u>Defaults Upon Senior Securities</u>
<u>Item 4 -</u>	<u>[REMOVED and RESERVED]</u>
<u>Item 5 -</u>	<u>Other Information</u>
<u>Item 6 -</u>	<u>Exhibits</u>

Signatures

Exhibit Index

Table of Contents

Cautionary Note Regarding Forward-Looking Statements

Some of our statements contained in, or incorporated by reference into, this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of the Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of invoking these safe harbor provisions. Forward-looking statements are not guarantees of performance or results. When we use words like may, plan, contemplate, anticipate, believe, intend, expect, project, predict, estimate, target, could, is likely, should, would, will, and similar expressions, you should consider the forward-looking statements, although we may use other phrasing. These forward-looking statements involve risks and uncertainties and are based on our beliefs and assumptions and on the information available to us at the time that these disclosures were prepared. These forward-looking statements involve risks and uncertainties and may not be realized due to a variety of factors, including, but not limited to, the following:

- the unfavorable effects of future economic conditions, including inflation, recession or a continuing decrease in real estate values;
- the failure of assumptions underlying the establishment of our allowance for loan losses, that may prove to be materially incorrect or may not be borne out by subsequent events;
- the success and timing of our business strategies and our ability to effectively carry out our business plan;
- our inability to realize the benefits from our cost saving initiatives, branch sales, and/or branch closings;
- our inability to continue to operate as a going concern;
- increased loan delinquencies;
- an escalation in problem assets and foreclosures;
- a decline in demand for our products and services;

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- a reduction in the value of the collateral for loans made by us, especially real estate, which, in turn would likely reduce our customers borrowing power and the value of assets and collateral associated with our existing loans;
- a reduction in the value of certain assets held by us;
- an inability to meet our liquidity needs;
- an inability to raise sufficient capital to comply with the requirements of our regulators and for continued support of operations;
- adverse changes in the securities markets;
- the effect of changes in accounting policies and practices, as may be adopted from time-to-time by bank regulatory agencies, the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, or other accounting standards setters;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board, inflation, interest rate, market and monetary fluctuations;
- the risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities, and interest sensitive assets and liabilities;
- the imposition of additional enforcement action by bank regulatory authorities upon First Mariner Bank or First Mariner Bancorp;
- further governmental action as a result of our inability to comply with regulatory orders and agreements;
- unanticipated regulatory or judicial proceedings;

Table of Contents

- changes in consumer spending and savings habits;

- the effect of the amendments to Regulation E that prohibit financial institutions from charging consumer fees for paying overdrafts on ATM and one-time debit card transactions, unless the consumer consents or opts-in to the overdraft service for those types of transactions;

- our ability to effectively manage market risk, credit risk, and operational risk;

- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds, and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally, and internationally, together with competitors offering banking products and services by mail, telephone, and the Internet;

- our ability to successfully implement our capital plan;

- our ability to successfully implement our plan to reduce First Mariner Bank's risk exposure on each asset classified as Substandard;

- our ability to successfully implement our liquidity contingency plan;

- the effect of an impairment charge on our deferred tax asset;

- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;

- geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;

- the timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;

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- the willingness of users to substitute competitors' products and services for our products and services;
- the effect of any mergers, acquisitions, or other transactions to which we or our subsidiaries may from time to time be a party, including our ability to successfully integrate any businesses that we acquire; and
- the risks described in our most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, including this Form 10-Q.

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks, and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, please read the "Risk Factors" in Item 1A in Part I of our Annual Report on Form 10-K for the year ended December 31, 2009 and Item 1A in Part II of this Form 10-Q. Any forward-looking statement speaks only as of the date which such statement was made, and, except as required by law, we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1 Financial Statements****First Mariner Bancorp and Subsidiaries****Consolidated Statements of Financial Condition***(dollars in thousands, except per share data)*

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Cash and due from banks	\$ 138,220	\$ 166,374
Federal funds sold and interest-bearing deposits	39,024	7,329
Trading securities, at fair value		10,749
Securities available for sale, at fair value	24,903	28,275
Loans held for sale (2010 at fair value)	151,623	122,085
Loans receivable	832,902	890,951
Allowance for loan losses	(15,176)	(11,639)
Loans, net	817,726	879,312
Real estate acquired through foreclosure	21,639	21,630
Restricted stock investments	7,370	7,934
Premises and equipment, net	42,044	44,504
Accrued interest receivable	4,245	4,960
Income taxes recoverable	1,256	5,670
Deferred income taxes	30,684	28,214
Bank-owned life insurance	35,839	34,773
Prepaid expenses and other assets	18,766	22,742
Total assets	\$ 1,333,339	\$ 1,384,551
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 103,798	\$ 112,192
Interest-bearing	1,002,706	1,034,312
Total deposits	1,106,504	1,146,504
Short-term borrowings	86,267	26,365
Long-term borrowings, at fair value		61,592
Long-term borrowings	33,948	34,080
Junior subordinated deferrable interest debentures	52,068	73,724
Accrued expenses and other liabilities (\$199 and \$0 are at fair value, respectively)	15,781	15,299
Total liabilities	1,294,568	1,357,564
Stockholders equity:		
Common stock, \$.05 par value; 75,000,000 shares authorized; 17,962,449 and 6,452,631 shares issued and outstanding, respectively	893	323

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Additional paid-in capital	79,727	56,771
Retained deficit	(39,557)	(26,621)
Accumulated other comprehensive loss	(2,292)	(3,486)
Total stockholders' equity	38,771	26,987
Total liabilities and stockholders' equity	\$ 1,333,339	\$ 1,384,551

See accompanying notes to the consolidated financial statements

Table of Contents**First Mariner Bancorp and Subsidiaries****Consolidated Statements of Operations***(dollars in thousands except per share data)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010 (unaudited)	2009	2010 (unaudited)	2009
Interest income:				
Loans	\$ 13,270	\$ 14,229	\$ 39,531	\$ 42,381
Investments and other earning assets	509	776	1,945	2,356
Total interest income	13,779	15,005	41,476	44,737
Interest expense:				
Deposits	4,895	6,289	15,957	18,977
Short-term borrowings	99	147	232	583
Long-term borrowings	932	1,832	3,583	5,739
Total interest expense	5,926	8,268	19,772	25,299
Net interest income	7,853	6,737	21,704	19,438
Provision for loan losses	9,750	2,100	16,290	8,360
Net interest (loss) income after provision for loan losses	(1,897)	4,637	5,414	11,078
Noninterest income:				
Total other-than-temporary impairment charges	(302)	(505)	(609)	(2,676)
Less: Portion included in other comprehensive income (pre-tax)	(514)	104	(640)	470
Net other-than-temporary impairment charges on securities available for sale	(816)	(401)	(1,249)	(2,206)
Mortgage-banking revenue	8,804	3,443	13,499	12,756
Gain on early extinguishment of debt			958	
ATM fees	745	788	2,279	2,300
Service fees on deposits	933	1,353	3,109	3,992
Gain on sale of securities		330	54	330
Gain on financial instruments carried at fair value	331	801	1,661	2,239
Gain (loss) on sale of premises and equipment	2	(3)	192	(20)
Commissions on sales of nondeposit investment products	110	156	381	423
Income from bank-owned life insurance	353	333	1,066	1,005
Other	154	139	589	1,370
Total noninterest income	10,616	6,939	22,539	22,189
Noninterest expense:				
Salaries and employee benefits	6,501	7,543	19,409	19,681
Occupancy	2,297	2,219	6,863	6,809
FDIC premiums	1,029	903	2,927	2,411
Furniture, fixtures, and equipment	585	685	1,800	2,296
Professional services	838	962	2,149	2,419
Advertising	153	141	420	731
Data processing	460	449	1,343	1,422
ATM servicing expenses	227	231	655	717
Write-downs, losses, and costs of real estate acquired through foreclosure	1,849	1,674	6,393	5,670
Service and maintenance	559	631	1,756	1,744

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Other	3,281	2,577	7,491	6,976
Total noninterest expense	17,779	18,015	51,206	50,876
Net loss from continuing operations before income taxes and discontinued operations	(9,060)	(6,439)	(23,253)	(17,609)
Income tax benefit - continuing operations	(4,452)	(3,292)	(10,748)	(8,108)
Net loss from continuing operations	(4,608)	(3,147)	(12,505)	(9,501)
Loss from discontinued operations		(9,809)	(200)	(8,965)
Net loss	\$ (4,608)	\$ (12,956)	\$ (12,705)	\$ (18,466)

Table of Contents**First Mariner Bancorp and Subsidiaries****Consolidated Statements of Operations (Continued)**

	Three Months Ended September 30, 2010		2009		Nine Months Ended September 30, 2010		2009	
	(dollars in thousands, except per share data)							
Net loss per common share from continuing operations:								
Basic	\$	(0.26)	\$	(0.49)	\$	(0.92)	\$	(1.47)
Diluted	\$	(0.26)	\$	(0.49)	\$	(0.92)	\$	(1.47)
Net loss per common share from discontinued operations:								
Basic	\$		\$	(1.52)	\$	(0.01)	\$	(1.39)
Diluted	\$		\$	(1.52)	\$	(0.01)	\$	(1.39)
Net loss per common share:								
Basic	\$	(0.26)	\$	(2.01)	\$	(0.93)	\$	(2.86)
Diluted	\$	(0.26)	\$	(2.01)	\$	(0.93)	\$	(2.86)

See accompanying notes to the consolidated financial statements.

Table of Contents**First Mariner Bancorp and Subsidiaries****Consolidated Statements of Changes in Stockholders Equity***(dollars in thousands except per share data)*

	Number of Shares of Common Stock	For the Nine Months Ended September 30, 2010 (unaudited)				Accumulated Other Comprehensive Loss	Total Stockholders Equity
		Common Stock	Additional Paid-in Capital	Retained Deficit			
Balance at December 31, 2009	6,452,631	\$ 323	\$ 56,771	\$ (26,621)	\$ (3,486)	\$ 26,987	
Net loss				(12,705)		(12,705)	
Other			231	(231)			
Common stock issued, net of costs	11,509,818	570	22,704			23,274	
Stock-based compensation expense			21			21	
Other comprehensive income					1,194	1,194	
Balance at September 30, 2010	17,962,449	\$ 893	\$ 79,727	\$ (39,557)	\$ (2,292)	\$ 38,771	

	Number of Shares of Common Stock	For the Nine Months Ended September 30, 2009 (unaudited)				Accumulated Other Comprehensive Loss	Total Stockholders Equity
		Common Stock	Additional Paid-in Capital	Retained Deficit			
Balance at December 31, 2008	6,452,631	\$ 323	\$ 56,741	\$ (5,485)	\$ (5,564)	\$ 46,015	
Cumulative effect of accounting change				1,148		1,148	
Net loss				(18,466)		(18,466)	
Stock-based compensation expense			29			29	
Other comprehensive income					709	709	
Balance at September 30, 2009	6,452,631	\$ 323	\$ 56,770	\$ (22,803)	\$ (4,855)	\$ 29,435	

See accompanying notes to the consolidated financial statements.

Table of Contents**First Mariner Bancorp and Subsidiaries****Consolidated Statements of Cash Flows***(dollars in thousands)*

	Nine Months Ended September 30,	
	2010	2009
	(unaudited)	
Cash flows from operating activities:		
Net loss	\$ (12,705)	\$ (18,466)
Adjustments to reconcile net loss to net cash from operating activities:		
Loss from discontinued operations	200	8,965
Stock-based compensation	21	29
Gain on early extinguishment of debt	(958)	
Depreciation and amortization	2,947	3,556
Amortization of unearned loan fees and costs, net	144	97
(Accretion) amortization of premiums and discounts on mortgage-backed securities, net	(22)	2
Gain on financial instruments carried at fair value	(1,661)	(2,239)
Origination fees and gains on sale of mortgage loans	(11,481)	(9,552)
Net other-than-temporary impairment charges on securities available for sale	1,249	2,206
Gain on sales of securities available for sale	(54)	(330)
Decrease (increase) in accrued interest receivable	715	(95)
Provision for loan losses	16,290	8,360
Write-downs and losses on sale of real estate acquired through foreclosure	4,936	5,361
(Gain) loss on sale of premises and equipment	(192)	20
Increase in cash surrender value of bank-owned life insurance	(1,066)	(1,005)
Originations of loans held for sale	(915,771)	(1,313,763)
Proceeds from loans held for sale	897,714	1,280,449
Net increase in accrued expenses and other liabilities	735	1,055
Net increase in prepaids and other assets	(6,561)	(15,514)
Net cash used in operating activities	(25,520)	(50,864)
Cash flows from investing activities:		
Loan principal repayments, net of (disbursements)	32,441	(55,532)
Repurchase of loans previously sold	(1,208)	(113)
Purchases of premises and equipment	(1,070)	(418)
Proceeds from disposals of premises and equipment	775	22
Redemptions (purchases) of restricted stock investments	564	(868)
Maturities/calls/repayments of trading securities	735	1,840
Sales of trading securities	10,083	
Activity in securities available for sale:		
Maturities/calls/repayments	4,280	3,778
Sales	8,011	8,752
Purchases	(8,090)	(1,749)
Redemptions of bank-owned life insurance		3,039
Proceeds from sales of real estate acquired through foreclosure	12,974	5,998
Net cash provided by (used in) investing activities	59,495	(35,251)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(40,000)	129,160
Net decrease in other borrowed funds	(887)	(10,218)
Proceeds from stock issuance, net of costs	10,453	
Net cash (used in) provided by financing activities	(30,434)	118,942
Increase in cash and cash equivalents	3,541	32,827
Cash and cash equivalents at beginning of period	173,703	67,339

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Cash and cash equivalents at end of period	\$	177,244	\$	100,166
Supplemental information:				
Interest paid on deposits and borrowed funds	\$	20,420	\$	24,518
Real estate acquired in satisfaction of loans	\$	17,919	\$	17,446
Transfer of loans held for sale to loan portfolio	\$		\$	500

See accompanying notes to the consolidated financial statements

Table of Contents

First Mariner Bancorp and Subsidiaries

Notes to Consolidated Financial Statements

*(Information as of and for the three and nine months
ended September 30, 2010 and 2009 is unaudited)*

(1) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements for First Mariner Bancorp have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes necessary for a full presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America (U.S.). The consolidated financial statements should be read in conjunction with the audited financial statements included in First Mariner Bancorp's Annual Report on Form 10-K for the year ended December 31, 2009. When used in these notes, the terms the Company, we, us, and our refer to First Mariner Bancorp and, unless the context requires otherwise, its consolidated subsidiaries.

The consolidated financial statements include the accounts of the Company's subsidiaries, First Mariner Bank (the Bank), and FM Appraisals, LLC (FM Appraisals) (through July, 2010, when FM Appraisals was pushed down to the Bank). All significant intercompany balances and transactions have been eliminated. Events occurring after the date of the financial statements were considered in the preparation of the financial statements. Certain reclassifications have been made to amounts previously reported to conform to classifications made in 2010.

The consolidated financial statements as of September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 are unaudited but include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of financial position and results of operations for those periods. The results of operations for three and nine months ended September 30, 2010 are not necessarily indicative of the results that will be achieved for the entire year or any future interim period.

The preparation of the financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses (the allowance), loan repurchases and related valuations, real estate acquired through foreclosure, impairment of securities available for sale (AFS), and deferred taxes. In connection with these determinations, management evaluates historical trends and ratios and, where appropriate, obtains independent appraisals for significant properties and prepares fair value analyses. Actual results could differ significantly from those estimates.

Loans Held for Sale

Prior to July 1, 2010, loans originated for sale were carried at the lower of aggregate cost or market value. Effective July 1, 2010, we began carrying loans originated for sale at fair value. Fair value is determined based on outstanding investor commitments or, in the absence of such commitments, based on current investor yield requirements or third party pricing models. Gains and losses on loan sales are determined using the specific-identification method. Changes in fair value are recognized in the Consolidated Statements of Operations as part of mortgage-banking revenue.

(2) Discontinued Operations

In December, 2009, we completed the sale of our consumer finance company subsidiary, Mariner Finance, LLC (Mariner Finance). The agreement related to the sale was entered into in October, 2009. In accordance with the Financial Accounting Standards Board's (FASB) guidance, we accounted for Mariner Finance as an asset held for sale as of September 30, 2009, with a corresponding reduction of the asset to fair value. The operating results of Mariner Finance, along with the loss recognized from the valuation are included in the Consolidated Statements of Operations as discontinued operations. Such discontinued operations are detailed as follows for the three and nine months ended September 30, 2010 and 2009:

Table of Contents

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,		
	2010	2009	2010	2009	
Interest income	\$	\$	6,717	\$	18,895
Interest expense			(832)		(2,458)
Net interest income			5,885		16,437
Provision for loan losses			(1,380)		(3,860)
Noninterest income			1,275		3,453
Noninterest expenses			(4,501)		(13,356)
Net income before income taxes			1,279		2,674
Income tax expense			(504)		(1,055)
Mariner Finance net income			775		1,619
Net loss on disposal of Mariner Finance			(10,584)	(200)	(10,584)
Net loss from discontinued operations	\$	\$	(9,809)	\$	(8,965)

(3) Securities

The composition of our securities portfolio is as follows:

(dollars in thousands)	September 30, 2010			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available for Sale:				
Mortgage-backed securities	\$ 3,368	\$ 142	\$	\$ 3,510
Trust preferred securities	14,274	89	4,063	10,300
Equity securities - Banks	215		14	201
Equity securities - Mutual funds	750	26		776
U.S. Treasury securities	1,000	2		1,002
U.S. government agency notes	8,086	28		8,114
Corporate obligations	904	96		1,000
	\$ 28,597	\$ 383	\$ 4,077	\$ 24,903

(dollars in thousands)	December 31, 2009			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available for Sale:				
Mortgage-backed securities	\$ 11,272	\$ 477	\$ 7	\$ 11,742
Trust preferred securities	19,481	47	6,190	13,338
Equity securities - Banks	215		54	161
Equity securities - Mutual funds	750	1		751
U.S. Treasury securities	999	4		1,003
Corporate obligations	877	53		930
Foreign government bonds	350			350
	\$ 33,944	\$ 582	\$ 6,251	28,275
Trading:				
Mortgage-backed securities				10,749
			\$	39,024

The amount of other-than-temporary impairment (OTTI) recorded as accumulated other comprehensive income as of September 30, 2010 and December 31, 2010 was \$3.6 million and \$4.3 million, respectively, on trust preferred securities.

Contractual maturities of debt securities at September 30, 2010 are shown below. Actual maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Table of Contents

(dollars in thousands)	Amortized Cost	Estimated Fair Value
Available for Sale:		
Due in one year or less	\$ 2,000	\$ 2,003
Due after one year through five years	8,493	8,653
Due after five years through ten years	1,028	1,010
Due after ten years	12,743	8,750
Mortgage-backed securities	3,368	3,510
	\$ 27,632	\$ 23,926

The following table shows the level of our gross unrealized losses and the fair value of the associated securities by type and maturity for AFS securities at September 30, 2010:

(dollars in thousands)	Estimated Fair Value	12 months or more Unrealized Losses
Trust preferred securities	\$ 6,658	\$ 4,063
Equity securities - Banks	201	14
	\$ 6,859	\$ 4,077

The trust preferred securities that we hold in our securities portfolio are issued by other banks and bank holding companies. Certain of these securities have experienced declines in value since acquisition. These declines have occurred due to changes in the market which has limited the demand for these securities and reduced their liquidity. We recorded net OTTI charges on positions in pooled trust preferred collateralized debt obligations of \$816,000 and \$1.2 million, respectively, for the three and nine months ended September 30, 2010 and \$401,000 and \$2.2 million, respectively, for the three and nine months ended September 30, 2009.

The following shows the activity in net OTTI related to credit losses for the three and nine months ended September 30, 2010 and 2009:

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Balance at beginning of period	\$ 7,076	\$ 5,512	\$ 6,643	\$ 5,605
Reduction - cumulative effect of accounting change				(1,898)
Additional net OTTI taken for credit losses	816	401	1,249	2,206
Balance at end of period	\$ 7,892	\$ 5,913	\$ 7,892	\$ 5,913

All of the remaining securities that are temporarily impaired are impaired due to declines in fair values resulting from changes in interest rates or increased credit/liquidity spreads since the time they were purchased. We have the intent to hold these debt securities to maturity, and, for debt and equity securities in a loss position, for the foreseeable future and do not intend, nor do we believe it is more likely than not, that we will be required to sell the securities before anticipated recovery. We expect these securities will be repaid in full, with no losses realized. As such, management considers the impairments to be temporary.

At September 30, 2010, we held securities with an aggregate carrying value (fair value) of \$18.2 million that we have pledged as collateral for certain hedging activities, borrowings, government deposits, and customer deposits.

(4) Loans Receivable and Allowance for Loan Losses

Loans receivable are summarized as follows:

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Table of Contents

(dollars in thousands)	September 30, 2010		December 31, 2009	
Loans secured by first mortgages on real estate:				
Residential	\$	142,547	\$	176,084
Commercial		373,359		340,349
Consumer residential construction		33,999		47,689
Commercial construction		56,935		99,562
		606,840		663,684
Commercial loans and lines of credit		74,074		77,474
Loans secured by second mortgages on real estate		123,020		127,011
Consumer		22,271		17,181
Loans secured by deposits and other		5,042		4,598
Total loans		831,247		889,948
Unearned loan fees, net		1,655		1,003
	\$	832,902	\$	890,951

Included in consumer loan totals in the above table are overdrawn commercial and retail checking accounts totaling \$179,000 and \$247,000 as of September 30, 2010 and December 31, 2009, respectively.

In accordance with FASB guidance on mortgage-banking activities, any loans which are originally originated for sale into the secondary market and which we subsequently elect to transfer into the Company's loan portfolio are valued at fair value at the time of the transfer with any decline in value recorded as a charge to operating expense.

Information on the activity in transferred loans and related accretable yield is as follows for the three months ended September 30:

(dollars in thousands)	Loan Balance		Accretable Yield		Total	
	2010	2009	2010	2009	2010	2009
Beginning balance	\$ 22,198	\$ 13,148	\$ 267	\$ 591	\$ 21,931	\$ 12,557
Loans moved to real estate						
acquired through foreclosure		(84)		(4)		(80)
Charge-offs		(364)		(35)		(329)
Payments/amortization	(382)	(75)	(48)	(57)	(334)	(18)
Ending balance	\$ 21,816	\$ 12,625	\$ 219	\$ 495	\$ 21,597	\$ 12,130

Information on the activity in transferred loans and related accretable yield is as follows for the nine months ended September 30:

(dollars in thousands)	Loan Balance		Accretable Yield		Total	
	2010	2009	2010	2009	2010	2009
Beginning balance	\$ 24,575	\$ 15,441	\$ 423	\$ 831	\$ 24,152	\$ 14,610
Additional transfers		500				500
Loans moved to real estate						
acquired through foreclosure	(281)	(1,302)	(8)	(10)	(273)	(1,292)
Charge-offs	(962)	(1,881)	(33)	(142)	(929)	(1,739)
Payments/amortization	(1,516)	(133)	(163)	(184)	(1,353)	51
Ending balance	\$ 21,816	\$ 12,625	\$ 219	\$ 495	\$ 21,597	\$ 12,130

The following table provides information concerning nonperforming assets and past-due loans:

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Table of Contents

(dollars in thousands)	September 30, 2010	December 31, 2009	September 30, 2009
Nonaccruing loans	\$ 48,601	\$ 35,799	\$ 29,654
Real estate acquired through foreclosure	21,639	21,630	24,703
Total nonperforming assets	\$ 70,240	\$ 57,429	\$ 54,357
Loans past-due 90 days or more and accruing	\$ 5,129	\$ 9,224	\$ 20,159

The interest income which would have been recorded on nonaccrual loans if those loans had been performing in accordance with their contractual terms was approximately \$2.2 million and \$3.8 million for the nine months ended September 30, 2010 and 2009, respectively. The actual interest income recorded on these loans for the nine months ended September 30, 2010 and 2009 was approximately \$812,000 and \$611,000, respectively.

The following tables show the breakout of impaired loans:

(dollars in thousands)	Commercial Loans		Consumer Loans	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
Impaired loans with allocated allowance for loan losses	\$ 6,111	\$ 6,482	\$ 10,428	\$ 4,687
Impaired loans with no allocated allowance for loan losses	31,226	27,157	16,931	10,521
	\$ 37,337	\$ 33,639	\$ 27,359	\$ 15,208

The reserve for loan losses for commercial impaired loans was approximately \$284,000 at September 30, 2010 and \$328,000 at December 31, 2009. The reserve for loan losses for consumer impaired loans was approximately \$291,000 at September 30, 2010 and \$405,000 at December 31, 2009.

Troubled debt restructures (TDRs), which are loans that have been restructured due to the borrower's inability to maintain a current status on the loan, that are not included in the nonaccrual balance above amounted to \$16.1 million as of September 30, 2010 and \$13.0 million as of December 31, 2009 and consist of the following:

(dollars in thousands)	September 30, 2010	December 31, 2009
Commercial loans and lines of credit	\$ 2,850	\$ 2,850
Commercial construction	2,592	4,876
Commercial mortgages	1,998	799
Alt A first- and second-lien mortgages (1)	1,472	4,523
Other residential mortgages	10,033	
	\$ 16,095	\$ 13,048

(1) Alt A loans are high loan-to-value/low documentation loans

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Our TDRs are generally reviewed individually to determine impairment, accrual status, and the need for specific reserves. For collateral dependent loans, we utilize the fair value of the collateral in determining impairment. For noncollateral dependent loans, we calculate the present value of expected future cash flows to determine fair value and impairment.

Changes in the allowance for losses on loans are summarized as follows for the three and nine months ended September 30:

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Balance at beginning of period	\$ 12,018	\$ 16,318	\$ 11,639	\$ 16,777
Provision for loan losses	9,750	2,100	16,290	8,360
Charge-offs	(7,018)	(2,631)	(13,344)	(9,578)
Recoveries	426	55	591	127
Mariner Finance allowance		(4,788)		(4,632)
Balance at end of period	\$ 15,176	\$ 11,054	\$ 15,176	\$ 11,054

As of September 30, 2010, we maintained servicing on mortgage loans sold to Fannie Mae of approximately \$320.2 million.

Table of Contents

At September 30, 2010, we have pledged loans with a carrying value of \$328.0 million as collateral for short-term promissory notes and Federal Home Loan Bank (FHLB) advances.

(5) Junior Subordinated Deferrable Interest Debentures

The following table shows the subordinated debt issued by First Mariner Bancorp and the related trust preferred securities (Trust Preferred Securities) issued at September 30, 2010 and December 31, 2009:

Trust	Subordinated Debt Issued to Trust		Trust Preferred Securities Issued by Trust	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
MCT II	\$ 6,186	\$ 10,310	\$ 6,000	\$ 10,000
MCT III	14,949	14,949	14,500	14,500
MCT IV	5,158	12,380	5,000	12,000
MCT V	10,310	10,310	10,000	10,000
MCT VI	10,310	10,310	10,000	10,000
MCT VII	5,155	5,155	5,000	5,000
MCT VIII		10,310		10,000
	\$ 52,068	\$ 73,724	\$ 50,500	\$ 71,500

First Mariner issued junior subordinated deferrable interest debentures to seven statutory trust subsidiaries, Mariner Capital Trust (MCT) II, MCT III, MCT IV, MCT V, MCT VI, MCT VII, and MCT VIII (collectively, the Trusts). The Trusts are Delaware business trusts for which all the common securities are owned by First Mariner and which were formed for the purpose of issuing trust preferred securities. In accordance with FASB guidance, we have deconsolidated the Trusts, and their financial position and results of operations are not included in our consolidated financial position and results of operations. The payment and redemption terms of the debentures and related Trust Preferred Securities are substantially identical.

In February, 2010, the Company executed an Exchange agreement (the Exchange) with its Chairman and Chief Executive Officer (CEO), Edwin F. Hale, Sr., who purchased, from an independent third party, trust preferred securities issued by MCT II, MCT IV, and MCT VIII. On March 30, 2010, pursuant to the terms of the Exchange, the \$20.0 million of the trust preferred securities held by Mr. Hale were exchanged for 1,626,016 shares of common stock plus warrants to purchase 325,203 shares at \$1.15 per share. Upon completion of the Exchange, the Company canceled the \$20.0 million in trust preferred securities and the \$1.4 million in accrued interest on the securities in exchange for the common stock and warrants, eliminating this long term debt. As the Exchange was a related party transaction, the resultant gain of \$13.1 million, net of taxes of \$7.5 million, was recorded as an addition to additional paid in capital in accordance with FASB guidance. See Note 6 for additional information regarding the Exchange agreement.

In June, 2010, the Company executed a second Exchange agreement (the Second Exchange) with an unaffiliated third party who purchased, from an independent third party, \$1.0 million of trust preferred securities issued by MCT IV. On June 30, 2010, pursuant to the terms of the Second Exchange, the \$1.0 million of trust preferred securities held by the third party were exchanged for 91,743 shares of common stock plus warrants to purchase 18,348 shares at \$1.09 per share. Upon completion of the Second Exchange, the Company canceled the \$1.0 million of trust preferred securities and the related accrued interest on the securities in exchange for the common stock and warrants, eliminating this long term debt. The transaction resulted in a gain of \$571,000, net of taxes of \$387,000.

The interest expense (including amortization of the cost of issuance) on junior subordinated deferrable interest debentures relating to the Trusts was \$436,000 and \$771,000 for the three months ended September 30, 2010 and 2009, respectively, and \$1.5 million and \$2.5 million for the nine months ended September 30, 2010 and 2009, respectively. In 2009, we elected to defer interest payments on the debentures. This deferment is permitted by the terms of the debentures and does not constitute an event of default thereunder. Interest on the debentures and dividends on the related Trust Preferred Securities continue to accrue and will have to be paid in full prior to the expiration of the deferral period. The total deferral period may not exceed 20 consecutive quarters and expires with the last quarter of 2013.

The junior subordinated deferrable interest debentures are the sole assets of the Trusts. First Mariner has fully and unconditionally guaranteed all of the obligations of the Trusts.

(6) Capital and Other Regulatory Matters

Various regulatory capital requirements administered by the federal banking agencies apply to First Mariner and the Bank. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank s

Table of Contents

capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. As of September 30, 2010 and December 31, 2009, the Bank was adequately capitalized under the regulatory framework for prompt corrective action.

Our regulatory capital amounts and ratios as of September 30, 2010 and December 31, 2009 were as follows:

(dollars in thousands)	Actual		Minimum Requirements for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2010						
Total capital (to risk-weighted assets):						
Consolidated	\$ 70,582	7.2%	\$ 78,616	8.0%	\$ 98,270	10.0%
Bank	86,861	8.9%	78,398	8.0%	97,998	10.0%
Tier 1 capital (to risk-weighted assets):						
Consolidated	35,291	3.6%	39,308	4.0%	58,962	6.0%
Bank	74,563	7.6%	39,199	4.0%	58,799	6.0%
Tier 1 capital (to average third quarter assets):						
Consolidated	35,291	2.7%	52,155	4.0%	65,194	5.0%
Bank	74,563	5.7%	51,998	4.0%	64,998	5.0%
As of December 31, 2009						
Total capital (to risk-weighted assets):						
Consolidated	\$ 37,124	3.6%	\$ 82,070	8.0%	\$ 102,588	10.0%
Bank	92,651	9.1%	81,778	8.0%	102,222	10.0%
Tier 1 capital (to risk-weighted assets):						
Consolidated	18,562	1.8%	41,035	4.0%	61,553	6.0%
Bank	80,946	7.9%	40,889	4.0%	61,333	6.0%
Tier 1 capital (to average fourth quarter assets):						
Consolidated	18,562	1.4%	52,703	4.0%	65,879	5.0%
Bank	80,946	6.2%	51,910	4.0%	64,888	5.0%

The Federal Deposit Insurance Corporation (FDIC), through the Deposit Insurance Fund (DIF), insures deposits of accountholders up to \$250,000. The Bank pays an annual premium to provide for this insurance. As part of the Emergency Economic Stabilization Act of 2008 and subsequent regulatory developments, this maximum was raised from \$100,000 to \$250,000 through December 31, 2013. On July 21, 2010, this increase in coverage to \$250,000 per accountholder was made permanent.

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The Bank is a member of the FHLB System and is required to maintain an investment in the stock of the FHLB based on specific percentages of outstanding mortgages, total assets, or FHLB advances. Purchases and sales of stock are made directly with the Bank at par value.

On September 18, 2009, the Bank entered into an Agreement with the FDIC and the Commissioner of Financial Regulation for the state of Maryland (the Commissioner), pursuant to which it consented to the entry of an Order to Cease and Desist (the September Order), which directs the Bank to (i) increase its capitalization, (ii) improve earnings, (iii) reduce nonperforming loans, (iv) strengthen management policies and practices, and (v) reduce reliance on noncore funding. The September Order required the Bank to adopt a plan to achieve and maintain a Tier 1 leverage capital ratio of at least 7.5% and a total risk-based capital ratio of at least 11% by June 30, 2010. We did not meet the requirements at June 30, 2010 or September 30, 2010. The failure to achieve these capital requirements could result in further action by our regulators. For additional information, see Item 1A, Risk Factors, in Part II of this Form 10-Q and in Item 1A in Part I of our Annual Report on Form 10-K for the year ended December 31, 2009.

As part of the September Order, within 30 days after the end of each calendar year, the Bank must submit an annual budget and profit plan and a plan that takes into account the Bank's pricing structure, the Bank's cost of funds and how this can be reduced, and the level of provision expense for adversely classified loans. To address reliance on noncore funding, the Bank must adopt and submit a liquidity plan intended to reduce the Bank's reliance on noncore funding, wholesale funding sources, and high-cost rate-sensitive deposits. While the September Order is in effect, the Bank may not pay dividends or management fees without the FDIC's prior consent, the Bank may not accept, renew, or roll over any brokered deposits, and is restricted in the yields that it may pay on

Table of Contents

deposits.

First Mariner Bancorp is also a party to agreements with the Federal Reserve Board (FRB) (the FRB Agreements), which, together, require it to: (i) develop and implement a strategic business plan that includes (a) actions that will be taken to improve our operating performance and reduce the level of parent company leverage, (b) a comprehensive budget and an expanded budget review process, (c) a description of the operating assumptions that form the basis for major projected income and expense components and provisions needed to maintain an adequate loan loss reserve, and (d) a capital plan incorporating all capital needs, risks, and regulatory guidelines; and (ii) submit plans to improve enterprise-wide risk management and effectiveness of internal audit programs. First Mariner Bancorp has also agreed to provide the FRB with advance notice of any significant capital transactions. The FRB Agreements also prohibit First Mariner and the Bank from taking any of the following actions without the FRB's prior written approval: (i) declaring or paying any dividends; (ii) taking dividends from the Bank; (iii) making any distributions of interest, principal or other sums on First Mariner's subordinated debentures or trust preferred securities; (iv) incurring, increasing or guaranteeing any debt; or (v) repurchasing, redeeming any shares of its stock. To satisfy the FRB's minimum capital requirements, First Mariner's consolidated Tier 1 capital to average assets, Tier 1 capital to risk-weighted assets, and total capital to risk-weighted assets ratios at each quarter end must be at least 4.0%, 4.0%, and 8.0%, respectively. At September 30, 2010, those capital ratios were 2.7%, 3.6%, and 7.2%, respectively, which were not in compliance with the minimum requirements. The failure to achieve these capital requirements could result in further action by our regulators. For additional information, see Item 1A, Risk Factors, in Part II of this Form 10-Q and in Item 1A in Part I of our Annual Report on Form 10-K for the year ended December 31, 2009.

On April 22, 2009, the Bank entered into an agreement (the April Agreement) with the FDIC relating to alleged violations of consumer protection regulations relative to its fair lending practices pursuant to which it consented to the issuance of an Order (April Order). The April Order requires the Bank to pay up to \$950,000 in restitution to the Affected Borrowers. It also imposes a civil money penalty of \$50,000, all amounts for which were fully reserved in the final quarter of 2008. In addition to requiring the Bank to cease and desist from violating certain federal fair lending laws, the April Order also requires the Bank to develop and implement policies and procedures to (i) monitor and ensure compliance with fair lending laws and disclosure laws and regulations, (ii) ensure that the costs, terms, features and risks of the loans and services are adequately disclosed to applicants, and (iii) develop an operating plan to maintain quality control, internal audit, and compliance management systems that are effective in ensuring that the Bank's residential mortgage lending activities comply with all applicable laws, regulations, and Bank policies. The Bank must also conduct or sponsor quarterly financial literacy and education courses where it provides residential mortgage loans. Further, the Bank is prohibited from offering payment-option adjustable rate mortgage loans, although the Bank ceased offering these loans in 2007. On April 27, 2010, we received notification from the FDIC to discontinue the restitution process after providing restitution in the amount of \$731,000. The FDIC directed us to apply any remaining settlement funds to our charitable programs, specifically financial literacy programs, while the April Order remains in effect. If any settlement funds remain at the time the April Order is discontinued, those remaining funds will then be applied to the Mariner Charitable Foundation programs.

The April Order has not had and is not expected to have a material impact on the Bank's financial performance. Management believes the ultimate successful satisfaction of the September Order's requirements and the requirements of the FRB Agreements will strengthen the financial condition of the Bank and Company for future periods.

The foregoing will subject us to increased regulatory scrutiny and may have an adverse impact on our business operations. Failure to comply with the provisions of these regulatory requirements may result in more restrictive actions from our regulators, including more severe and restrictive enforcement actions.

In April, 2010, we completed the sale of \$10.9 million, or 9,484,998 shares of common stock, to participants in a rights offering (Rights Offering) and to purchasers in our public offering (Public Offering) of common stock. The Company was required to raise at least \$10.0 million in aggregate proceeds before completing the Rights Offering and the Public Offering. The Company sold 3,410,082 shares of common stock,

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totaling \$3.9 million in connection with the Rights Offering, and 6,074,916 shares of common stock, totaling \$7.0 million in connection with the Public Offering. The purchase price for all shares purchased was \$1.15 per share.

As further described in Note 5, the Exchange agreement with Mr. Hale provided that if the Company completed, by June 30, 2010, a public or private offering of its common stock at a price per share below the per share price at which Mr. Hale converted his ownership interest in trust preferred securities into shares of Company common stock (i.e. below \$1.23 per share), then Mr. Hale would be issued additional shares of common stock such that the total shares issued to Mr. Hale would equal \$2.0 million divided by the price per share at which shares were sold in the subsequent public or private offering. Shares sold in our April 12, 2010 Rights and Public Offerings were sold at \$1.15 per share. Accordingly, 113,114 additional shares were issued to Mr. Hale on April 12, 2010 in conjunction with those offerings.

See information related to the Second Exchange agreement in Note 5 above.

Table of Contents**(7) Loss per Share**

Basic loss per share is computed by dividing loss available to common stockholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed after adjusting the denominator of the basic loss per share computation for the effects of all dilutive potential common shares outstanding during the period. The dilutive effects of options, warrants and their equivalents are computed using the treasury stock method. For the three- and nine-month periods ended September 30, 2010 and 2009, all options were antidilutive and excluded from the computations due to our realized net losses.

Information relating to the calculation of loss per common share is summarized as follows for the three and nine months ended September 30:

(dollars in thousands, except for per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Weighted-average share outstanding - basic	17,871,565	6,452,631	13,674,155	6,452,631
Dilutive securities - options and warrants				
Adjusted weighted-average shares outstanding - dilutive	17,871,565	6,452,631	13,674,155	6,452,631
Net loss from continuing operations	\$ (4,608)	\$ (3,147)	\$ (12,505)	\$ (9,501)
Net loss from discontinued operations		(9,809)	(200)	(8,965)
Net loss	\$ (4,608)	\$ (12,956)	\$ (12,705)	\$ (18,466)
Basic:				
Net loss from continuing operations	\$ (0.26)	\$ (0.49)	\$ (0.92)	\$ (1.47)
Net loss from discontinued operations		(1.52)	(0.01)	(1.39)
Net loss	\$ (0.26)	\$ (2.01)	\$ (0.93)	\$ (2.86)
Diluted:				
Net loss from continuing operations	\$ (0.26)	\$ (0.49)	\$ (0.92)	\$ (1.47)
Net loss from discontinued operations		(1.52)	(0.01)	(1.39)
Net loss	\$ (0.26)	\$ (2.01)	\$ (0.93)	\$ (2.86)

(8) Comprehensive Loss

Comprehensive income (loss) is defined as net income (loss) plus transactions and other occurrences which are the result of nonowner changes in equity. Our nonowner equity changes are comprised of unrealized gains or losses on AFS securities that are accumulated with net income (loss) in determining comprehensive income (loss).

Components of our comprehensive loss are as follows for the three and nine months ended September 30:

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009

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Net loss	\$	(4,608)	\$	(12,956)	\$	(12,705)	\$	(18,466)
Other comprehensive income items:								
Cumulative effect of accounting change for certain investments (net of tax expense of \$0, \$0, \$0, and \$750, respectively)								1,148
Unrealized holding gains (losses) on securities arising during the period (net of tax expense (benefit) of \$73, \$(571), \$326, and \$(1,538), respectively)		108		(844)		481		(2,273)
Deconsolidation of discontinued subsidiary				1,041				715
Reclassification adjustment for net losses on securities (net of tax benefit of \$330, \$28, \$483, and \$757, respectively) included in net loss		487		42		713		1,119
Total other comprehensive income		595		239		1,194		709
Total comprehensive loss	\$	(4,013)	\$	(12,717)	\$	(11,511)	\$	(17,757)

Table of Contents**(9) Employee Benefit Plans*****Profit Sharing Plan***

We established a defined contribution plan in 1997, covering our employees meeting certain age and service eligibility requirements. The Plan provides for cash deferrals qualifying under Section 401(k). As of December 31, 2008, we suspended the company-match contributions.

Stock Options and Warrants

We have stock option plans, which provide for the granting of options to acquire First Mariner common stock to our directors and key employees. Option exercise prices are equal to or greater than the fair market value of the common stock on the date of the grant.

We account for stock options issued under our stockholder-approved Long-Term Incentive Plan (the Plan) in accordance with FASB guidance on share-based payments. The plan permits the granting of share options and shares to our directors and key employees. We recognized stock based compensation costs of \$7,000 in each of the three months ended September 30, 2010 and 2009 and \$21,000 and \$29,000 for the nine months ended September 30, 2010 and 2009, respectively.

During the first nine months of 2010, we issued warrants to purchase 366,174 shares of common stock in Exchange transactions with Mr. Hale, the Company's Chairman and CEO and with an unaffiliated third party. The warrants vested immediately upon issuance. See additional information on the transactions in Notes 5 and 6.

As of September 30, 2010, options and warrants to purchase 926,428 shares of common stock were fully vested and options to purchase 5,000 shares of common stock vest over the next five months. All options expire 10 years after the date of grant. The warrants expire five years after date of issuance.

Information with respect to stock options and warrants is as follows for the nine months ended September 30, 2010 and 2009:

	2010			2009		
	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)
			Aggregate Intrinsic Value (in thousands)			Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of year	668,593	\$ 12.20		850,919	\$ 12.09	
Granted	366,174	1.15				

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Forfeited/cancelled	(103,339)	11.63		(128,326)	11.74	
Outstanding at end of period	931,428	7.92	3.6 \$	722,593	12.15	4.0 \$
Exercisable at end of period	926,428	7.93	3.6 \$	705,593	12.31	3.9 \$

The weighted average fair value of the warrants issued for the nine months ended September 30, 2010 at the time of issuance was \$0.74. There were no options granted or warrants issued in 2009. The fair values of the warrants were calculated using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions at the time of issuance:

	2010
Dividend yield	
Expected volatility	92.87%
Risk-free interest rate	2.60%
Expected lives	5 years

There were no options or warrants exercised during 2010 or 2009.

Table of Contents

Options and warrants outstanding are summarized as follows at September 30, 2010:

Exercise Price	Options and Warrants Outstanding (shares)	Weighted Average Remaining Contractual Life (in years)	Options and Warrants Exercisable (shares)
\$ 1.09	18,348	4.7	18,348
1.15	347,826	4.5	347,826
4.00	1,200	0.2	1,200
4.15	11,200	7.6	11,200
5.41	2,754	7.2	2,754
5.50	72,750	0.3	72,750
5.70	34,500	7.5	29,500
6.45	400	0.7	400
7.10	2,500	0.6	2,500
7.40	250	1.0	250
9.16	850	1.2	850
9.86	1,350	2.0	1,350
10.45	94,000	1.3	94,000
10.70	650	1.5	650
11.68	128,000	2.3	128,000
11.95	600	2.3	600
12.03	2,500	1.6	2,500
13.00	700	2.5	700
13.33	7,300	6.6	7,300
13.52	3,000	2.6	3,000
16.67	4,800	4.6	4,800
16.70	1,800	5.1	1,800
16.95	2,300	3.1	2,300
17.45	21,250	5.2	21,250
17.77	135,850	4.3	135,850
18.20	4,950	3.6	4,950
18.38	21,400	3.3	21,400
18.94	2,350	6.1	2,350
19.30	6,050	5.6	6,050
	931,428		926,428

(10) Fair Value of Financial Instruments

We group financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are

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observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3

Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

We record transfers between levels at the end of the reporting period in which the change in significant inputs occurs.

Table of Contents**Financial Instruments Measured on a Recurring Basis**

The following table presents fair value measurements for assets, liabilities, and off-balance sheet items that are measured at fair value on a recurring basis as of September 30, 2010:

(dollars in thousands)	Carrying Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Changes In Fair Values Included In Period Earnings
Securities available for sale:					
Mortgage-backed securities	\$ 3,510	\$	\$ 3,510	\$	\$
Trust preferred securities	10,300		9,415	885	(1,249)(1)
Equity securities - Banks	201		201		
Equity securities - Mutual funds	776		776		
U.S. Treasury securities	1,002		1,002		
U.S. government agency notes	8,114		8,114		
Corporate obligations	1,000		1,000		
	\$ 24,903	\$	\$ 24,018	\$ 885	\$ (1,249)
Loans held for sale	\$ 151,623	\$	\$ 151,623	\$	\$ 2,223
Mortgage servicing rights	942			942	(235)
Interest rate lock commitments (notional amount of \$169,384)	172,251		172,251		2,820
Forward contracts to sell mortgage-backed securities (notional amount of \$140,000)	139,264		139,264		(6,767)
Warrants	199			199	

(1) Represents net OTTI charges taken on certain Level 3 securities

Securities available for sale

The fair value of AFS securities is based on bid quotations received from securities dealers, bid prices received from an external pricing service, or modeling utilizing estimated cash flows, depending on the circumstances of the individual security.

During the nine months ended September 30, 2010, we determined that, based on our most recent estimate of cash flows, OTTI had occurred with respect to four of our pooled preferred securities. The amount of OTTI that is recognized through earnings is determined by comparing the present value of the expected cash flows to the amortized cost of the security. The discount rate used to determine the credit loss is the expected book yield on the security. The credit loss estimated under this method that was charged to operating earnings totaled \$816,000 and \$1.2 million for the three and nine months ended September 30, 2010, respectively, and \$401,000 and \$2.2 million for the three and nine months ended September 30, 2009, respectively.

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The tables later in this Note show details concerning assumptions used to determine credit- and noncredit-related losses and other details on our pooled trust preferred securities.

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies, or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. As of September 30, 2010, \$885,000 (\$10.9 million par value) of our AFS securities (four securities) were classified as Level 3, all of which are pooled trust preferred securities. The market environment has continued to be inactive for these security types and made fair value pricing more subjective. The amount of Level 3 securities will likely continue to be a function of market conditions and additional security transfers from Level 2 to Level 3 could result if further market inactivity occurs.

The following table details the four Level 3 securities:

(dollars in thousands)	Class	Remaining Par Value	Current Rating/Outlook (1)		Maturity	(2) Auction Call Date	(3) Index
			Moody's	Fitch			
ALESCO Preferred Funding VII	C-1	\$ 1,000	Ca	C	07/23/2035	MAR 2015	3ML + 1.5%
ALESCO Preferred Funding XI	C-1	4,938	C	C	12/23/2036	JUNE 2016	3ML + 1.2%
MM Community Funding	B	2,500	Ca	C	08/01/2031	N/A	6ML + 3.1%
MM Community Funding IX	B-1	2,500	Caa3	C	05/01/2033	N/A	3ML + 1.8%

(1) Ratings as of September 30, 2010

(2) Under the terms of the offering, if the notes have not been redeemed in full prior to the indicated call date then an auction of the Collateral Debt Securities will be conducted and the collateral will be sold and the notes redeemed. If the auction is not successful, the Collateral Manager will conduct auctions on a quarterly basis until the rated notes are redeemed in full.

(3) 3/6ML - 3 or 6 Month LIBOR. LIBOR (London Interbank Offered Rate) daily reference rate based on the interest rates at which banks offer to lend unsecured funds to other banks in the London wholesale money market or interbank market.

Classification of Level 3 indicates that significant valuation assumptions are not consistently observable in the market and, as such, fair values are derived using the best available data. We calculated fair value for these four securities by using a present value of future cash flows model, which incorporated assumptions as follows:

Table of Contents

	Key Model Assumptions Used In Pricing				
	Cumulative Default (1)	Deferrals Cured (2)	Credit MTM (3) (6)	Liquidity Premium (4)	Liquidity MTM Adj (5) (6)
ALESCO Preferred Funding VII	36.0%	1.3%	\$ 55.96	12.00%	\$ 43.85
ALESCO Preferred Funding XI	36.0%	4.0%	43.76	12.00%	37.48
MM Community Funding	68.0%	14.4%	24.89	12.00%	15.24
MM Community Funding IX	47.0%	10.3%	59.67	12.00%	51.17

-
- (1) The anticipated level of total defaults from the issuers within the pool of performing collateral as of September 30, 2010. There are no recoveries assumed on any default.
- (2) Deferrals that are cured occur 60 months after the initial deferral starts.
- (3) The credit mark to market represents the discounted value of future cash flows after the assumption of current and future defaults discounted at the book rate of interest on the security.
- (4) The risk of being unable to sell the instrument for cash at short notice without significant costs, usually indicative of the level of trading activity for a specific security or class of securities.
- (5) The liquidity mark to market adjustment on the security represents the difference between the value of the discounted cash flows based on the book interest rate and the value discounted at the liquidity premium. The credit MTM less the liquidity MTM equals the estimated fair value price of the security.
- (6) Price per \$100

	Model Result (1)	Fair Value (in thousands)
ALESCO Preferred Funding VII	\$ 12.11	\$ 121
ALESCO Preferred Funding XI	6.28	310
MM Community Funding	9.65	241
MM Community Funding IX	8.50	213
		\$ 885

-
- (1) Price per \$100

Loans Held for Sale

Loans held for sale are carried at fair value, which is determined based on outstanding investor commitments or, in the absence of such commitments, based on current investor yield requirements or third party pricing models.

Servicing Rights

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As of September 30, 2010, mortgage servicing rights (MSRs) were classified as Level 3. We calculate the fair value of MSRs by using a present value of future cash flows model.

Fair value of servicing rights are estimated based on the future servicing income of the servicing receivables utilizing management's best estimate of remaining loan lives and discounted at the original discount rate.

A summary of the key economic assumptions used to measure total MSRs as of September 30, 2010 follows (*dollars in thousands*):

Fair value of MSRs	\$	942
Weighted-average life (<i>in years</i>) (1)		3.2
Discount rate		6.75%
Option-adjusted spread (OAS)		2.75%

(1) The majority of our MSRs are related to reverse mortgages for which there are no calculable contractual lives

The value of MSRs is derived from the net positive cash flows associated with the servicing contracts. The Company receives a net servicing fee of generally \$240 per loan annually. The precise market value of MSRs cannot be readily determined because these assets are not actively traded in stand-alone markets. Our MSRs valuation process uses a discounted cash flow model combined with analysis of current market data to arrive at an estimate of fair value at each balance sheet date. The key assumptions used in the valuation of MSRs include mortgage prepayment speeds (average lives), which are a function of the age of the borrower, and the discount rate (projected LIBOR plus option-adjusted spread). Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear.

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Table of Contents

Also, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. The discount rate used to determine the present value of estimated future net servicing income represents management's expectation of the required rate of return investors in the market would expect for an asset with similar risk.

The table below presents a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended September 30:

(dollars in thousands)	Securities	2010 MSRs	Warrants	Securities	2009 MSRs
Balance at beginning of period	\$ 1,125	\$ 1,009	\$ 251	\$ 2,091	\$ 1,325
Originated MSRs		1			4
MSR amortization		(63)			(57)
Reduction in fair value included in additional paid-in capital			(52)		
Total realized losses included in other comprehensive income	(816)	(5)		(401)	(8)
Total unrealized gains (losses) included in other comprehensive income	576			(104)	
Balance at end of period	\$ 885	\$ 942	\$ 199	\$ 1,586	\$ 1,264

The table below presents a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the nine months ended September 30:

(dollars in thousands)	Securities	2010 MSRs	Warrants	Securities	2009 MSRs
Balance at beginning of period	\$ 1,432	\$ 1,176	\$	\$ 2,507	\$ 1,081
Originated MSRs		1			382
Warrants issued			251		
MSR amortization		(218)			(178)
Reduction in fair value included in additional paid-in capital			(52)		
Total realized losses included in other comprehensive income	(1,249)	(17)		(2,206)	(21)
Total realized losses recaptured through retained deficit as cumulative effect of accounting change				1,898	
Total unrealized gains (losses) included in other comprehensive income	702			(613)	
Balance at end of period	\$ 885	\$ 942	\$ 199	\$ 1,586	\$ 1,264

There were no transfers between any of Levels 1, 2, and 3 for the three and nine months ended September 30, 2010 or September 30, 2009.

Commitments to Originate Loans

We engage an experienced third party to estimate the fair market value of our interest rate lock commitments (IRLC). IRLCs are valued based upon mandatory pricing quotes from correspondent lenders less estimated costs to process and settle the loan. Fair value is adjusted for the estimated probability of the loan closing with the borrower.

Forward Sales of Mortgage-Backed Securities Contracts

Fair value of these commitments is determined based upon the quoted market values of the securities.

Warrants

As of September 30, 2010, certain warrants were classified as Level 3. See Note 9 for information related to the calculation of fair value of the warrants.

Table of Contents***Financial Instruments Measured on a Nonrecurring Basis***

We may be required, from time to time, to measure certain other financial assets and liabilities at fair value on a nonrecurring basis. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis as of September 30, 2010, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the assets:

(dollars in thousands)	Carrying Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 64,696	\$	\$	\$ 64,696
Real estate acquired through foreclosure	21,639			21,639

Impaired Loans

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment in accordance with FASB guidance. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method. In our determination of fair value, we have categorized both methods of valuation as estimates based on Level 3 inputs.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal or utilizing some other method of valuation for the collateral and applying a discount factor to the value based on our loan review policy and procedures.

If the impaired loan is determined not to be collateral dependent, then the discounted cash flow method is used. This method requires the impaired loan to be recorded at the present value of expected future cash flows discounted at the loan's effective interest rate. The effective interest rate of a loan is the contractual interest rate adjusted for any net deferred loan fees or costs, premiums, or discounts existing at origination or acquisition of the loan.

Management establishes a specific reserve for loans that have an estimated fair value that is below the carrying value. If management determines that it is probable the loan will proceed to foreclosure, a partial charge-off is recorded to reduce the carrying amount of the loan to its fair value. Therefore, no specific reserve will be recorded for these impaired loans. Total impaired loans had a carrying value of \$64.7 million as of September 30, 2010 with specific reserves of \$575,000.

Real Estate Acquired Through Foreclosure

We record foreclosed real estate assets at the lower of cost or estimated fair value on their acquisition dates and at the lower of such initial amount or estimated fair value less estimated selling costs thereafter. Estimated fair value is generally based upon independent appraisal of the collateral or listing prices supported by broker recommendation. We consider these collateral values to be estimated using Level 3 inputs. We held real estate acquired through foreclosure of \$21.6 million as of both September 30, 2010 and December 31, 2009. During the first nine months of 2010, we added \$17.9 million, net of reserves, to real estate acquired through foreclosure and recorded write-downs and losses on sales, included in noninterest expense, of \$4.9 million. We disposed of \$13.0 million of foreclosed properties.

Other Financial Instruments

The carrying value and estimated fair value of financial instruments are summarized in the following table. Certain financial instruments disclosed previously in this footnote are excluded from this table.

Table of Contents

(dollars in thousands)	September 30, 2010	
	Carrying Value	Estimated Fair Value
Assets:		
Cash and cash equivalents	\$ 177,244	\$ 177,244
Loans receivable	832,902	833,309
Restricted stock investments	7,370	7,370
Liabilities:		
Deposits	1,106,504	1,126,568
Long- and short-term borrowings	120,215	121,833
Junior subordinated deferrable interest debentures	52,068	32,046

Pricing or valuation models are applied using current market information to estimate fair value. In some cases considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

Cash and Cash Equivalents

The carrying amount for cash and cash equivalents approximates fair value due to the short maturity of these instruments.

Loans Receivable

Loans were segmented into portfolios with similar financial characteristics. Loans were also segmented by type such as residential, multifamily, residential and nonresidential construction and land, second mortgage loans, commercial, and consumer. Each loan category was further segmented by fixed and adjustable rate interest terms and performing and nonperforming categories. The fair value of each loan category was calculated by discounting anticipated cash flows based on weighted-average contractual maturity, weighted-average coupon, and discount rate.

The fair value for nonperforming loans was determined utilizing FASB guidance on loan impairment.

Restricted Stock Investments

The carrying value of restricted stock investments is a reasonable estimate of fair value as these investments do not have a readily available market.

Deposits

The fair value of deposits with no stated maturity, such as noninterest-bearing deposits, interest-bearing NOW accounts, money market, and statement savings accounts, is deemed to be equal to the carrying amounts. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate for certificates of deposit was estimated using the rate currently offered for deposits of similar remaining maturities.

Long- and Short-Term Borrowings and Junior Subordinated Deferrable Interest Debentures

Long- and short-term borrowings and junior subordinated notes were segmented into categories with similar financial characteristics. Carrying values were discounted using a cash flow approach based on market rates.

Other Off-Balance Sheet Financial Instruments

The disclosure of fair value amounts does not include the fair values of any intangibles, including core deposit intangibles. Core deposit intangibles represent the value attributable to total deposits based on an expected duration of customer relationships.

Table of Contents**Limitations**

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates do not reflect any premium or discount that could result from a one-time sale of our total holdings of a particular financial instrument. Because no market exists for a significant portion of our financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

(11) Segment Information

We are in the business of providing financial services, and we operate in two business segments commercial and consumer banking and mortgage-banking. Commercial and consumer banking is conducted through the Bank and involves delivering a broad range of financial services, including lending and deposit taking, to individuals and commercial enterprises. This segment also includes our treasury and administrative functions. Mortgage-banking is conducted through First Mariner Mortgage and Next Generation Financial Services, divisions of the Bank, and involves originating first- and second-lien residential mortgages for sale in the secondary market and to the Bank.

The following table presents certain information regarding our business segments:

For the nine month period ended September 30, 2010:

(dollars in thousands)	Commercial and Consumer Banking	Mortgage- Banking	Total
Interest income	\$ 38,328	\$ 3,148	\$ 41,476
Interest expense	17,567	2,205	19,772
Net interest income	20,761	943	21,704
Provision for loan losses	16,290		16,290
Net interest income after provision for loan losses	4,471	943	5,414
Noninterest income	9,040	13,499	22,539
Noninterest expense	44,417	6,789	51,206
Net intersegment income	1,775	(1,775)	
Net (loss) income before income taxes and discontinued operations	\$ (29,131)	\$ 5,878	\$ (23,253)
Total assets	\$ 1,181,716	\$ 151,623	\$ 1,333,339

For the nine month period ended September 30, 2009:

Commercial and Mortgage-

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(dollars in thousands)	Consumer Banking		Banking		Total
Interest income	\$	41,151	\$	3,586	\$ 44,737
Interest expense		22,726		2,573	25,299
Net interest income		18,425		1,013	19,438
Provision for loan losses		8,360			8,360
Net interest income after provision for loan losses		10,065		1,013	11,078
Noninterest income		9,434		12,755	22,189
Noninterest expense		42,547		8,329	50,876
Net intersegment income		1,665		(1,665)	
Net (loss) income before income taxes and discontinued operations	\$	(21,383)	\$	3,774	\$ (17,609)
Total assets	\$	1,307,858	\$	102,569	\$ 1,410,427

(12) Recent Accounting Pronouncements

Pronouncements Adopted

In September 2009, the FASB issued new guidance under Accounting Standards Codification (ASC) 860, *Transfers and Servicing*, which will require entities to provide more information about sales of securitized financial assets and similar transactions,

Table of Contents

particularly if the seller retains some risk to the assets. This guidance is effective for fiscal years beginning after November 15, 2009. The adoption of this guidance did not have a material impact on our financial condition or results of operation.

In September 2009, the FASB issued new guidance under ASC 810, *Consolidation*, which alters how a company determines when an entity that is insufficiently capitalized or not controlled through voting should be consolidated. This guidance is effective for fiscal years beginning after November 15, 2009. The adoption of this guidance did not have a material impact on our financial condition or results of operation.

In April 2010, the FASB issued new guidance under ASC 310, *Receivables: Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset*, which clarifies the treatment for a modified loan that was acquired as part of a pool of assets. The new guidance states that refinancing or restructuring the loan does not make it eligible for removal from the pool. This guidance is effective for loans that are part of an asset pool and are modified during financial reporting periods that end July 15, 2010, or later. The adoption of this guidance did not have a material impact on our financial condition or results of operation.

Pronouncements Not Yet Effective

In July, 2010, the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which requires companies to improve their disclosures about the credit quality of their financing receivables and the credit reserves held against them. The standard is effective for interim and annual reporting periods ending after December 15, 2010.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

When used in this report, the terms the Company, we, us, and, our refer to First Mariner Bancorp and, unless the context requires otherwise, its consolidated subsidiaries. The following discussion should be read and reviewed in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in First Mariner Bancorp's Annual Report on Form 10-K for the year ended December 31, 2009.

The Company

First Mariner Bancorp is a bank holding company incorporated under the laws of Maryland and registered under the federal Bank Holding Company Act of 1956, as amended. First Mariner Bancorp's business is conducted primarily through its wholly-owned subsidiary, First Mariner Bank (the Bank). The Company had over 750 employees (approximately 665 full-time equivalent employees) as of September 30, 2010.

The Bank, which is the largest operating subsidiary of First Mariner Bancorp with assets exceeding \$1.3 billion as of September 30, 2010, is engaged in the general commercial banking business, with particular attention and emphasis on the needs of individuals and small to mid-sized

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businesses, and delivers a wide range of financial products and services that are offered by many larger competitors. The Bank's primary market area for its core banking operations, which consist of traditional commercial and consumer lending, as well as retail and commercial deposit operations, is central Maryland as well as portions of Maryland's eastern shore. Products and services of the Bank include traditional deposit products, a variety of consumer and commercial loans, residential and commercial mortgage and construction loans, wire transfer services, nondeposit investment products, and Internet banking and similar services. Most importantly, the Bank provides customers with access to local Bank officers who are empowered to act with flexibility to meet customers' needs in an effort to foster and develop long-term loan and deposit relationships. The Bank is an independent community bank and its deposits are insured by the Federal Deposit Insurance Corporation (the FDIC).

First Mariner Mortgage, a division of the Bank, engages in mortgage-banking activities, providing mortgages and associated products to customers and selling most of those mortgages into the secondary market. First Mariner Mortgage has offices in Maryland, Delaware, Virginia, and North Carolina.

Next Generation Financial Services (NGFS), a division of the Bank, engages in the origination of reverse and conventional mortgage loans, providing these products directly through commission based loan officers throughout the United States. NGFS originates reverse mortgage loans for sale to unaffiliated parties. The Bank does not originate any reverse mortgage loans for its portfolio, but does retain the servicing rights on reverse mortgage loans originated by NGFS and sold to Fannie Mae. The Bank has entered into a profit sharing agreement with a private company related to NGFS, which may result in the acquisition of NGFS if certain requirements are satisfied by the end of the first quarter of 2011. The closing of the transaction is subject to numerous conditions, including, without limitation, that the parties obtain consents and approvals from certain lenders and governmental agencies that license and supervise the Bank. Accordingly, there can be no assurance that the closing will occur when expected, if at all. The Bank does not anticipate any benefit that results from a sale of NGFS to be material.

Table of Contents

NASDAQ Notification

On August 24, 2010, First Mariner Bancorp (the Company) received a letter from The NASDAQ Stock Market providing notice that, for 30 consecutive business days, the Company's common stock had not maintained a minimum bid price of \$1.00 per share as required for continued inclusion on The NASDAQ Global Market by Listing Rule 5450(a)(1). This notification has no effect on the listing of the Company's securities at this time.

NASDAQ has provided the Company 180 calendar days, or until February 22, 2011, to regain compliance with Listing Rule 5450(a)(1). If, at any time before February 22, 2011, the bid price of the Company's common stock closes at \$1.00 or more for a minimum of 10 consecutive business days, NASDAQ will provide written notification that the Company has achieved compliance with Listing Rule 5450(a)(1) and the Company's shares will continue to trade on The NASDAQ Global Market. If the Company does not regain compliance by February 22, 2011, the NASDAQ Staff will provide written notification that the Company's securities will be delisted. Alternatively, if the Company does not meet the minimum bid requirement by February 22, 2011 but would otherwise meet all NASDAQ Capital Market initial inclusion requirements except bid price and market value of publicly held shares, and the market value of the Company's publicly held shares was at least \$1.0 million, the Company could apply to be listed on the NASDAQ Capital Market and the Company would have 180 additional days to regain compliance with the \$1.00 minimum bid price requirement, which the Company would regain if the bid price of the Company's common stock closes at \$1.00 per share or higher for a minimum of 10 consecutive business days. If the Company does not regain compliance with the minimum closing bid price requirement during this second 180-day compliance period, NASDAQ will provide written notice that the Company's securities will be delisted from the NASDAQ Capital Market. At such time, the Company would be entitled to appeal the delisting determination to a NASDAQ Listing Qualifications Panel.

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and follow general practices within the industry in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, the consolidated financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the consolidated financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. When applying accounting policies in such areas that are subjective in nature, management must use its best judgment to arrive at the carrying value of certain assets and liabilities. Below is a discussion of our critical accounting policies.

Allowance for loan losses

A variety of estimates impact the carrying value of the loan portfolio including the calculation of the allowance for loan losses, valuation of underlying collateral, and the timing of loan charge-offs.

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The allowance is established and maintained at a level that management believes is adequate to cover losses resulting from the inability of borrowers to make required payments on loans. Estimates for loan losses are arrived at by analyzing risks associated with specific loans and the loan portfolio. Current trends in delinquencies and charge-offs, the views of Bank regulators, changes in the size and composition of the loan portfolio, and peer comparisons are also factors. The analysis also requires consideration of the economic climate and direction and change in the interest rate environment, which may impact a borrower's ability to pay, legislation impacting the banking industry, and environmental and economic conditions specific to the Bank's service areas. Because the calculation of the allowance for loan losses relies on estimates and judgments relating to inherently uncertain events, results may differ from our estimates.

Securities available for sale (AFS)

Securities AFS are evaluated periodically to determine whether a decline in their value is other than temporary. The term "other than temporary" is not intended to indicate a permanent decline in value. Rather, it means that the prospects for near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the security.

The initial indications of other-than-temporary impairment (OTTI) for both debt and equity securities are a decline in the market value below the amount recorded for an investment and the severity and duration of the decline. In determining whether an impairment is other than temporary, we consider the length of time and the extent to which the market value has been below cost, recent events specific to the issuer, including investment downgrades by rating agencies and economic conditions of its industry, our

Table of Contents

intent to sell the security, and if it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. For marketable equity securities, we also consider the issuer's financial condition, capital strength, and near-term prospects. For debt securities and for perpetual preferred securities that are treated as debt securities for the purpose of OTTI analysis, we also consider the cause of the price decline (general level of interest rates and industry- and issuer-specific factors), the issuer's financial condition, near-term prospects and current ability to make future payments in a timely manner, the issuer's ability to service debt, and any change in agencies' ratings at evaluation date from acquisition date and any likely imminent action. Once a decline in value is determined to be other than temporary, the security is segmented into credit- and noncredit-related components. Any impairment adjustment due to identified credit-related components is recorded as an adjustment to current period earnings, while noncredit-related fair value adjustments are recorded through accumulated other comprehensive income. In situations where we intend to sell or it is more likely than not that we will be required to sell the security, the entire OTTI loss must be recognized in earnings.

Income Taxes

Income taxes are provided based on the liability method of accounting, which includes the recognition of deferred tax assets and liabilities for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. In general, we record deferred tax assets when the event giving rise to the tax benefit has been recognized in the Consolidated Financial Statements.

A valuation allowance is recognized to reduce any deferred tax assets that, based upon available information, it is more likely than not all, or any portion, of the deferred tax asset will not be realized. Assessing the need for, and amount of, a valuation allowance for deferred tax assets requires significant judgment and analysis of evidence regarding realization of the deferred tax assets. In most cases, the realization of deferred tax assets is dependent upon us generating a sufficient level of taxable income in future periods, which can be difficult to predict. Given the nature of our deferred tax assets, management determined no valuation allowance was required at September 30, 2010.

The calculation of tax liabilities is complex and requires the use of estimates and judgment since it involves the application of complex tax laws that are subject to different interpretations by us and the various tax authorities. These interpretations are subject to challenge by the tax authorities upon audit or to reinterpretation based on management's ongoing assessment of facts and evolving case law.

Periodically and in the ordinary course of business, we are involved in inquiries and reviews by tax authorities that normally require management to provide supplemental information to support certain tax positions we take in our tax returns. Uncertain tax positions are initially recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. Management believes it has taken appropriate positions on its tax returns, although the ultimate outcome of any tax review cannot be predicted with certainty. No assurance can be given that the final outcome of these matters will not be different than what is reflected in the current and historical financial statements.

Loan income recognition

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Interest income on loans is accrued at the contractual rate based on the principal outstanding. Loan origination fees and certain direct loan origination costs are deferred and amortized as a yield adjustment over the contractual loan terms or until the date of sale or disposition. Accrual of interest is discontinued when its receipt is in doubt, which typically occurs when a loan becomes impaired. Any interest accrued to income in the year when interest accruals are discontinued is generally reversed. Management may elect to continue the accrual of interest when a loan is in the process of collection and the estimated fair value of the collateral is sufficient to satisfy the principal balance and accrued interest. Loans are returned to accrual status once the doubt concerning collectibility has been removed and the borrower has demonstrated the ability to pay and remain current. Payments on nonaccrual loans are applied to principal.

Real Estate Acquired Through Foreclosure

We record foreclosed real estate assets at the lower of cost or estimated fair value on the acquisition date and at the lower of such initial amount or estimated fair value less estimated selling costs thereafter. Estimated fair value is based upon many subjective factors, including location and condition of the property and current economic conditions, among other things. Because the calculation of fair value relies on estimates and judgments relating to inherently uncertain events, results may differ from our estimates.

Write-downs at time of transfer are made through the allowance for loan losses. Write-downs subsequent to transfer are included in our noninterest expenses, along with operating income, net of related expenses of such properties and gains or losses realized upon disposition.

Table of Contents

Financial Condition

At September 30, 2010, our total assets were \$1.3 billion compared to \$1.4 billion at December 31, 2009, a decrease of 3.7%. Earning assets decreased \$11.5 million or 1.1% from December 31, 2009 to September 30, 2010. We sold all of our trading securities and \$8.0 million of our AFS securities during the nine months ended September 30, 2010, partially offset by purchases of AFS securities of \$8.1 million. We experienced decreases in loans receivable (-\$58.0 million) and cash and due from banks (-\$28.2 million), partially offset by growth in loans held for sale (+\$29.5 million) and federal funds sold and interest-bearing deposits (+\$31.7 million). Capital increased (+\$11.8 million) due to the completion of a stock offering and the exchanges of common stock and warrants to purchase common stock for certain trust preferred securities during the first nine months of 2010. The two exchange transactions reduced our junior subordinated deferrable interest debentures by \$21.7 million (see discussion below under *Borrowings* for details of the exchange transactions). Deposits and total borrowings decreased by \$40.0 million and \$23.5 million, respectively, from December 31, 2009 to September 30, 2010.

Securities

We utilize the securities portfolio as part of our overall asset/liability management practices to enhance interest revenue while providing necessary liquidity for the funding of loan growth or deposit withdrawals. We continually monitor the credit risk associated with investments and diversify the risk in the securities portfolios. As of September 30, 2010, we held \$24.9 million in securities classified as AFS. We sold our remaining trading securities during the second quarter of 2010. As of December 31, 2009, we held \$10.7 million in securities classified as trading and \$28.3 million in securities classified as AFS.

AFS securities decreased \$3.4 million from December 31, 2009. During the nine months ended September 30, 2010, we sold \$8.0 million in AFS securities for a net gain on the sales of \$54,000. We recorded \$1.2 million in net OTTI charges related to four pooled trust preferred securities during the first nine months of 2010, compared to \$2.2 million in net OTTI charges for the same period in 2009. Overall market values of securities have improved as evidenced by a net unrealized loss on securities classified as AFS of \$3.7 million at September 30, 2010 compared to a net unrealized loss of \$5.7 million at December 31, 2009.

The trust preferred securities we hold in our securities portfolio were issued by other banks and bank holding companies. Certain of these securities have experienced declines in credit ratings from credit rating firms, which have devalued these specific securities. These declines have occurred primarily over the past two years due to changes in the market which has limited the demand for these securities and reduced their liquidity. While some of these issuers have reported weaker financial performance since acquisition of these securities, in management's opinion, they continue to possess acceptable credit risk. We monitor the actual default rates and interest deferrals for possible losses and contractual shortfalls of interest or principal, which could warrant further recognition of impairment.

All of the remaining securities that are temporarily impaired are impaired due to declines in fair values resulting from changes in interest rates or increased credit/liquidity spreads compared to the time they were purchased. We have the intent to hold these securities to maturity and it is not more likely than not that we will be required to sell the securities before recovery of value. As such, management considers the impairments to be temporary.

Our securities AFS portfolio composition is as follows:

(dollars in thousands)	September 30, 2010		December 31, 2009	
Mortgage-backed securities	\$	3,510	\$	11,742
Trust preferred securities		10,300		13,338
U.S. Treasury securities		1,002		1,003
U.S. government agency notes		8,114		
Corporate obligations		1,000		930
Equity securities - Banks		201		161
Equity securities - mutual funds		776		751
Foreign government bonds				350
	\$	24,903	\$	28,275

Loans

Our loan portfolio is expected to produce higher yields than investment securities and other interest-earning assets; the absolute volume and mix of loans and the volume and mix of loans as a percentage of total earning assets is an important determinant of our net interest margin.

Table of Contents

The following table sets forth the composition of our loan portfolio:

(dollars in thousands)	September 30, 2010	December 31, 2009
Commercial loans and lines of credit	\$ 74,240	\$ 77,634
Commercial construction	56,956	99,490
Commercial mortgages	372,825	339,794
Consumer residential construction	34,295	47,379
Residential mortgages	142,650	176,159
Consumer	151,936	150,495
Total loans	\$ 832,902	\$ 890,951

Total loans decreased \$58.0 million during the first nine months of 2010. We experienced lower balances in commercial and consumer residential construction balances (-\$42.5 million and -\$13.1 million, respectively), commercial loans and lines of credit (-\$3.4 million), and residential mortgage loans (-\$33.5 million). Consumer loans increased (+\$1.4 million), as did commercial mortgage loans (+\$33.0 million). During 2010, we reduced our loan origination activity, as we focused on improving asset quality and controlling our growth of assets to improve our capital ratios.

Commercial Construction Portfolio

Our commercial construction portfolio consists of construction and development loans for commercial purposes and includes loans made to builders and developers of residential real estate projects. Of the total included above, \$28.6 million represents loans made to borrowers for the development of residential real estate as of September 30, 2010. This segment of the portfolio has exhibited greater weakness (relative to our other loan portfolios) during 2009 and the first nine months of 2010 due to overall weakness in the residential housing sector.

The breakdown of the portion of the commercial construction portfolio made to borrowers for residential real estate is as follows as of September 30, 2010 and December 31, 2009:

(dollars in thousands)	September 30, 2010	December 31, 2009
Raw residential land	\$ 6,625	\$ 6,946
Residential subdivisions	6,364	17,708
Single residential lots	3,390	5,228
Single family construction	5,048	6,940
Townhome construction	755	1,785
Condominium unit construction		956
Multi-family unit construction	6,448	9,888
	\$ 28,630	\$ 49,451

Credit Risk Management

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Credit risk is the risk of loss arising from the inability of a borrower to meet its obligations and entails both general risks, which are inherent in the process of lending, and risks specific to individual borrowers. Our credit risk is mitigated through portfolio diversification, which limits exposure to any single customer, industry, or collateral type.

We manage credit risk by evaluating the risk profile of the borrower, repayment sources, the nature of the underlying collateral, and other support given current events, conditions, and expectations. We attempt to manage the risk characteristics of our loan portfolio through various control processes, such as credit evaluation of borrowers, establishment of lending limits, and application of lending procedures, including the holding of adequate collateral and the maintenance of compensating balances. However, we seek to rely primarily on the cash flow of our borrowers as the principal source of repayment. Although credit policies and evaluation processes are designed to minimize our risk, management recognizes that loan losses will occur and the amount of these losses will fluctuate depending on the risk characteristics of our loan portfolio, as well as general and regional economic conditions.

We provide for loan losses through the establishment of an allowance for loan losses by provisions charged against earnings. Our allowance represents an estimated reserve for existing losses in the loan portfolio. We utilize a systematic methodology for determining our allowance that includes a quarterly review process and adjustment to our allowance as necessary. We classify our portfolios as either consumer or commercial and monitor credit risk separately as discussed below. We evaluate the adequacy of our

Table of Contents

allowance continually based on a review of all significant loans, with a particular emphasis on nonaccruing, past due, and other loans that we believe require special attention.

The allowance consists of three elements: (1) specific reserves and valuation allowances for individual credits; (2) general reserves for types or portfolios of loans based on historical loan loss experience, adjusted to account for management's assessment of current conditions and credit risk concentrations; and (3) unallocated reserves. Combined specific reserves and general reserves by loan type are considered allocated reserves. All outstanding loans are considered in evaluating the adequacy of the allowance.

Commercial

Credit risk in commercial lending can vary significantly, as losses as a percentage of outstanding loans can shift widely during economic cycles and are particularly sensitive to changing economic conditions. In general, improving economic conditions result in improved operating results on the part of commercial customers, enhancing their ability to meet debt service requirements. However, any improvements in operating cash flows can be offset by the impact of rising interest rates that could occur during improved economic times. Declining economic conditions have an adverse affect on the operating results of commercial customers, reducing their ability to meet debt service obligations.

Our commercial portfolio includes all secured and unsecured loans to borrowers for commercial purposes, including commercial lines of credit and commercial real estate. Our process for evaluating commercial loans includes performing updates on all loans that we have rated for risk. Our commercial loans are generally reviewed individually, in accordance with the Financial Accounting Standards Board's (FASB) guidance on accounting for loan impairment, to determine impairment, accrual status, and the need for specific reserves. Our methodology incorporates a variety of risk considerations, both qualitative and quantitative. Quantitative factors include our historical loss experience by loan type (the period for which has shortened due to economic factors), collateral values, financial condition of borrowers, and other factors. Qualitative factors include judgments concerning general economic conditions that may affect credit quality, credit concentrations, the pace of portfolio growth, and delinquency levels; these qualitative factors are evaluated in connection with the unallocated portion of our allowance for loan losses. We periodically engage outside firms and experts to independently assess our methodology and perform various loan review functions.

Our allowance methodology employs management's assessment as to the level of future losses on existing loans based on our internal review of the loan portfolio, including an analysis of the borrowers' current financial position, and the consideration of current and anticipated economic conditions and their potential effects on specific borrowers and/or lines of business. In determining our ability to collect certain loans, we also consider the fair value of any underlying collateral. In addition, we evaluate credit risk concentrations, including trends in large dollar exposures to related borrowers, industry and geographic concentrations, and economic and environmental factors.

A commercial loan is determined to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. In general, impaired loans (both commercial and consumer) include nonaccrual loans and troubled debt restructure (TDR) loans. Such a loan is not considered impaired during a minimal period of delay in payment if we expect to collect all amounts due, including past-due interest. We generally consider a minimal period of delay in payment to include delinquency up to 90 days. Commercial loans we consider impaired at September 30, 2010 and December 31, 2009 totaled \$37.3 million and \$33.6 million, respectively. The reserve for loan losses for impaired commercial loans was approximately \$284,000 at September 30, 2010 and \$328,000 at December 31, 2009 and no income has been accrued or collected on the majority of these loans while they have been classified as impaired.

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The allowance for impaired loans (both commercial and consumer) represents the fair value deficiencies for those loans for which the estimated fair value of the collateral or the present value of expected future cash flows was less than our carrying amount of the loan as of September 30, 2010 and December 31, 2009. In establishing a loan's estimated fair value, management makes significant assumptions concerning the ultimate collectibility of delinquent loans and their ultimate realizable value. While these projections are made with the most current data available to management, actual realized losses could differ due to the changes in the borrowers' willingness or ability to resolve the delinquency status, changes in the real estate market, or changes in market values of those loans which are liquidated.

Not all of the loans newly classified as impaired since December 31, 2009 required impairment reserves, as some of the loans' collateral had estimated fair values greater than the carrying amount of the loan or the loan has been written down to its estimated fair value.

Consumer

Our consumer portfolio includes first- and second-lien mortgage loans and other loans to individuals. Generally, consumer loans are segregated into homogeneous pools with similar risk characteristics. Trends such as delinquency and loss and current economic conditions in consumer loan pools are analyzed and historical loss experience, is adjusted accordingly. Quantitative and qualitative adjustment factors for the different consumer portfolios are consistent with those for the commercial portfolios. Consumer loans which are greater than 120 days past due are generally charged off.

Table of Contents

Consumer loans we consider impaired at September 30, 2010 and December 31, 2009 totaled \$27.4 million and \$15.2 million, respectively. The reserve for loan losses for impaired consumer loans amounted to \$291,000 at September 30, 2010 and \$405,000 at December 31, 2009.

We place impaired consumer loans on nonaccrual status as deemed necessary by relevant circumstances. Once a loan is placed on nonaccrual, it remains in nonaccrual status until the loan is current as to payment of both principal and interest and the borrower demonstrates the ability to pay and remain current. All payments made on nonaccrual loans are applied to the principal balance of the loan.

Residential Mortgage Loans

As with the other consumer loans, residential mortgage loans are analyzed as pools with historical loss rates applied. Loans delinquent greater than 90 days are individually reviewed and assessed for accrual status and the need for specific reserves.

In accordance with the FASB's guidance on accounting for certain mortgage-banking activities, any loans which are originally originated for sale into the secondary market and which we subsequently transfer into the Company's loan portfolio are valued at fair value at the time of the transfer with any decline in value recorded as a charge to operating expense. We maintained \$20.2 million in first-lien mortgage loans and \$1.4 million in second-lien mortgage loans that were transferred from loans held for sale to our mortgage and consumer loan portfolios, respectively at September 30, 2010. We maintained \$22.4 million in transferred first-lien mortgage loans and \$1.7 million in transferred second-lien mortgage loans at December 31, 2009.

Unallocated

The unallocated portion of the allowance is intended to provide for losses that are not identified when establishing the specific and general portions of the allowance and is based upon management's evaluation of various conditions that are not directly measured in the determination of the formula and specific allowances. Such conditions include general economic and business conditions affecting key lending areas, credit quality trends (including trends in delinquencies and nonperforming loans expected to result from existing conditions), loan volumes and concentrations, specific industry conditions within portfolio categories, recent loss experience in particular loan categories, duration of the current business cycle, bank regulatory examination results, findings of external loan review examiners, and management's judgment with respect to various other conditions including loan administration and management and the quality of risk identification systems. Executive management reviews these conditions quarterly. We have risk management practices designed to ensure timely identification of changes in loan risk profiles; however, undetected losses may exist inherently within the loan portfolio. The assessments aspects involved in analyzing the quality of individual loans and assessing collateral values can also contribute to undetected, but probable, losses.

Our total allowance at September 30, 2010 is considered by management to be sufficient to address the credit losses inherent in the current loan portfolio. However, our determination of the appropriate allowance level is based upon a number of assumptions we make about future events, which we believe are reasonable, but which may or may not prove valid. Thus, there can be no assurance that our charge-offs in future periods will not exceed our allowance for loan losses or that we will not need to make additional increases in our allowance for loan losses.

The changes in the allowance are presented in the following table:

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Table of Contents

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Allowance for loan losses, beginning of period	\$ 12,018	\$ 16,318	\$ 11,639	\$ 16,777
Loans charged off:				
Commercial loans and lines of credit	(1,904)		(1,904)	(517)
Commercial construction	(3,103)	(92)	(3,967)	(2,320)
Commercial mortgages		(62)	(454)	(366)
Consumer residential construction	(12)	(515)	(297)	(1,331)
Residential mortgages	(431)	(1,397)	(3,562)	(3,285)
Consumer	(1,568)	(565)	(3,160)	(1,759)
Total loans charged off	(7,018)	(2,631)	(13,344)	(9,578)
Recoveries:				
Commercial loans and lines of credit				
Commercial construction	7		7	
Commercial mortgages				4
Consumer residential construction				
Residential mortgages	8	44	97	45
Consumer	411	11	487	78
Total recoveries	426	55	591	127
Net charge-offs	(6,592)	(2,576)	(12,753)	(9,451)
Provision for loan losses	9,750	2,100	16,290	8,360
Mariner Finance allowance		(4,788)		(4,632)
Allowance for loan losses, end of period	\$ 15,176	\$ 11,054	\$ 15,176	\$ 11,054
Loans (net of premiums and discounts):				
Period-end balance	\$ 832,902	\$ 899,627	\$ 832,902	\$ 899,627
Average balance during period	845,485	888,657	863,619	884,771
Allowance as a percentage of period-end loan balance	1.82%	1.23%	1.82%	1.23%
Percent of average loans:				
Provision for loan losses	4.58%	0.94%	2.52%	1.26%
Net charge-offs	3.09%	1.15%	1.97%	1.43%

The following table summarizes our allocation of allowance by loan type:

(dollars in thousands)	September 30, 2010			December 31, 2009		
	Amount	Percent of Total	Percent of Loans to Total Loans	Amount	Percent of Total	Percent of Loans to Total Loans
Commercial loans and lines of credit	\$ 488	3.2%	8.9%	\$ 817	7.0%	8.7%
Commercial construction	2,053	13.5%	6.8%	1,647	14.1%	11.2%
Commercial mortgages	2,348	15.5%	44.9%	3,336	28.7%	38.1%
Consumer residential construction	952	6.3%	4.1%	293	2.5%	5.3%
Residential mortgages	3,307	21.8%	17.1%	2,062	17.7%	19.8%
Consumer	2,349	15.5%	18.2%	882	7.6%	16.9%
Unallocated	3,679	24.2%		2,602	22.4%	
Total	\$ 15,176	100.0%	100.0%	\$ 11,639	100.0%	100.0%

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Based upon management's evaluation, provisions are made to maintain the allowance as a best estimate of inherent losses within the portfolio. The allowance for loan losses totaled \$15.2 million and \$11.6 million as of September 30, 2010 and December 31, 2009, respectively. The changes in the allowance from period to period reflect management's ongoing application of its methodologies to establish the allowance, which, in 2010, included increases in the allowance for construction loans, residential mortgage loans, and consumer loans to reflect adverse economic conditions and higher charge-off experience. We also increased the unallocated allowance to reflect negative market trends and other qualitative factors. Recent economic conditions have had a broad impact on our loan portfolio as a whole. While the Mid-Atlantic region may be not be as adversely affected by the current economic conditions as other markets in the nation, we are experiencing a negative impact from the economic pressures that our borrowers are experiencing.

The provision for loan losses recognized to maintain the allowance was \$9.8 million and \$16.3 million for the three and nine months ended September 30, 2010, respectively, compared to \$2.1 million and \$8.4 million, respectively, for the same periods in 2009. We recorded net charge-offs of \$12.8 million during the first nine months of 2010 compared to net charge-offs of \$9.5 million

Table of Contents

for the same period in 2009. We experienced increased charge-offs in most loan categories, with the exception of consumer residential construction loans, for which we recognized \$297,000 in charge-offs during 2010 compared to \$1.3 million in charge-offs in 2009. During the first nine months of 2010, annualized net charge-offs as compared to average loans outstanding increased to 1.97%, compared to 1.43% during the same period of 2009.

The increase in charge offs for commercial loans and lines of credit was due primarily to the charge-off of two loans to one borrower in the amount of \$1.8 million. The increase in charge offs for commercial construction loans was due primarily to the charge-off of two large credits for a total of \$3.0 million. These charge offs were primarily a result of the adverse economic impact on the related businesses and a decline in the value of the real estate collateral.

Our allowance as a percentage of outstanding loans has increased from 1.23% as of September 30, 2009 to 1.82% as of September 30, 2010, reflecting the changes in our loss estimates and the results of the application of our loss estimate methodology. Charge-offs and transfers to real estate acquired through foreclosure continued to be significant during the first nine months of 2010.

Although management uses available information to establish the appropriate level of the allowance for loan losses, future additions or reductions to the allowance may be necessary based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. As a result, our allowance for loan losses may not be sufficient to cover actual loan losses, and future provisions for loan losses could materially adversely affect our operating results. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

Management believes the allowance for loan losses is adequate as of September 30, 2010.

Nonperforming Assets and Loans 90 Days Past Due and Still Accruing

Nonperforming assets, expressed as a percentage of total assets, totaled 5.3% at September 30, 2010, 4.15% at December 31, 2009, and 3.85% at September 30, 2009. While there has been an increase in nonperforming loans since December 31, 2009, the Bank has seen an improvement in its delinquency rates. Total 30-89 day delinquencies were \$21.4 million as of September 30, 2010, which was a decrease of \$29.8 million, or 58.2%, from the December 31, 2009 level of \$51.2 million.

The distribution of our nonperforming assets and loans greater than 90 days past due and accruing is illustrated in the following table:

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Table of Contents

(dollars in thousands)	September 30, 2010	December 31, 2009	September 30, 2009
Nonaccruing loans:			
Commercial loans and lines of credit	\$ 1,150	\$ 535	\$ 308
Commercial construction	7,386	10,992	12,217
Commercial mortgages	22,610	9,773	7,526
Consumer residential construction	1,600	3,815	2,231
Alt A first- and second-lien mortgages (1)	1,951	3,114	2,928
Other residential mortgages	11,286	6,219	3,415
Other consumer	2,618	1,351	1,029
	48,601	35,799	29,654
Real estate acquired through foreclosure:			
Commercial loans and lines of credit			
Commercial construction	8,485	9,347	7,208
Commercial mortgages	3,804	4,112	4,285
Consumer residential construction	5,150	4,203	5,252
Alt A first- and second-lien mortgages (1)	1,513	1,858	4,433
Other residential mortgages	2,619	240	1,012
Other consumer	68	1,870	2,513
	21,639	21,630	24,703
Total nonperforming assets	\$ 70,240	\$ 57,429	\$ 54,357
Loans past-due 90 days or more and accruing:			
Commercial loans and lines of credit	\$	\$ 499	\$ 97
Commercial construction			
Commercial mortgages	1,643	3,886	9,910
Consumer residential construction			1,864
Alt A first- and second-lien mortgages (1)		65	978
Other residential mortgages	2,958	4,642	6,170
Other consumer	528	132	1,140
	\$ 5,129	\$ 9,224	\$ 20,159
Troubled Debt Restructures: (2)			
Commercial loans and lines of credit	\$	\$ 2,850	\$
Commercial construction	2,592	4,876	
Commercial mortgages	1,998	799	
Consumer residential construction			