

FIRST MARINER BANCORP
Form 10-Q
November 16, 2012

**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, 2012.

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)

Maryland
(State of Incorporation)

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

**1501 South Clinton Street, Baltimore,
MD**

21224

410-342-2600

(Address of principal executive offices)

(Zip Code)

(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

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

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 9, 2012 is 18,860,482 shares.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

EXPLANATORY NOTE

First Mariner Bancorp (the Company) was unable to meet the filing deadline of November 14, 2012 with respect to this Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (the Form 10-Q) due to Hurricane Sandy and its aftermath. The Company is relying on the Order Under Section 17A and Section 36 of the Securities Exchange Act of 1934 Granting Exemptions from Specified Provisions of the Exchange Act and Certain Rules Thereunder issued by the Securities Exchange Commission (the Commission) on November 14, 2012, pursuant to which a registrant subject to the reporting requirements of Exchange Act Section 13(a) or 15(d) is exempt from any requirement to file or furnish materials with the Commission under Exchange Act Sections 13(a), 13(d), 13(f), 13(g), 14(a), 14(c), 15(d) and 16(a) and certain other rules and regulations of the Commission, as applicable, for the period from and including October 29, 2012 to November 20, 2012, where certain conditions are satisfied. The Company was unable to file the Form 10-Q on a timely basis because the Company's EDGAR service provider, which is located in lower Manhattan, was severely impacted by Hurricane Sandy and was delayed in preparing the Form 10-Q, including the Interactive Data Files filed as an exhibit thereto. The Company was not advised of a delay in the preparation of the Form 10-Q, including the Interactive Data Files, until shortly before the filing deadline, at which point there was insufficient time to make alternative arrangements to meet the filing deadline.

FIRST MARINER BANCORP AND SUBSIDIARY
TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

<u>Item 1 -</u>	<u>Financial Statements</u>	5
	<u>Consolidated Statements of Financial Condition as of September 30, 2012 (unaudited) and December 31, 2011</u>	5
	<u>Consolidated Statements of Operations (unaudited) for the three and nine months ended September 30, 2012 and 2011</u>	6
	<u>Consolidated Statements of Comprehensive Income (Loss) (unaudited) for the three and nine months ended September 30, 2012 and 2011</u>	7
	<u>Consolidated Statements of Changes in Stockholders' (Deficit) Equity (unaudited) for the nine months ended September 30, 2012 and 2011</u>	8
	<u>Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2012 and 2011</u>	9
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	10
<u>Item 2 -</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>Item 3 -</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	59
<u>Item 4 -</u>	<u>Controls and Procedures</u>	60
<u>PART II - OTHER INFORMATION</u>		
<u>Item 1 -</u>	<u>Legal Proceedings</u>	60
<u>Item 1A -</u>	<u>Risk Factors</u>	60
<u>Item 2 -</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	61
<u>Item 3 -</u>	<u>Defaults Upon Senior Securities</u>	61
<u>Item 4 -</u>	<u>Mine Safety Disclosures</u>	61
<u>Item 5 -</u>	<u>Other Information</u>	61
<u>Item 6 -</u>	<u>Exhibits</u>	61
	<u>Signatures</u>	62
	<u>Exhibit Index</u>	

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 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 strength of the United States economy in general, the strength of the local economies in which we conduct operations, and the effects of future economic conditions, including inflation, recession, and/or decreasing real estate values;

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 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 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 Financial Accounting Standards Board, or other accounting standards setters;

adverse changes in the securities markets;

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;

costs and potential disruption or interruption of operations due to cyber security incidents;

a decline in demand for our products and services;

an inability to attract and retain deposits;

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

changes in consumer spending and savings habits;

the effect of any mergers, acquisitions, or other transactions to which we or our subsidiary may from time to time be a party;

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

unanticipated regulatory or judicial proceedings;

the success and timing of our business strategies and our ability to effectively carry out our business and capital plans;

our ability to continue to operate as a going concern;

our ability to realize the benefits from our cost saving initiatives;

our ability to meet our interest payment obligations on our junior subordinated deferrable interest debentures upon expiration of the deferral period in 2013;

an ability to raise sufficient capital to comply with the requirements of our regulators and for continued support of operations;

the imposition of additional enforcement actions by bank regulatory authorities upon First Mariner Bank or First Mariner Bancorp;

our ability to successfully implement our plan to reduce First Mariner Bank's risk exposure to problem assets;

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;

increased loan delinquencies and/or an escalation in problem assets and foreclosures;

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;

our ability to successfully implement our liquidity contingency plan and meet our liquidity needs;

the risks described in this Quarterly Report on Form 10-Q, our Quarterly Report on Form 10-Q for the six months ended June 30, 2012, our Quarterly Report on Form 10-Q for the three months ended March 31, 2012, and our Annual Report on Form 10-K as of and for the year ended December 31, 2011.

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 of Part II of this Quarterly Report on Form 10-Q, our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2012 and March 31, 2012 and in Item 1A of Part I of our Annual Report on Form 10-K as of and for the year ended December 31, 2011. 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.

PART I FINANCIAL INFORMATION

Item 1 Financial Statements

First Mariner Bancorp and Subsidiary
Consolidated Statements of Financial Condition
(dollars in thousands, except per share data)

	September 30, 2012	December 31, 2011
	<i>(unaudited)</i>	
ASSETS		
Cash and due from banks	\$ 78,897	\$ 104,204
Federal funds sold and interest-bearing deposits	32,310	44,585
Securities available for sale (AFS), at fair value	45,334	22,682
Loans held for sale (LHFS), at fair value	371,554	182,992
Loans receivable	643,468	701,751
Allowance for loan losses	(12,096)	(13,801)
	<hr/>	<hr/>
Loans, net	631,372	687,950
Real estate acquired through foreclosure	19,978	25,235
Restricted stock investments	6,829	7,085
Premises and equipment, net	37,534	38,278
Accrued interest receivable	4,015	4,025
Bank-owned life insurance (BOLI)	38,332	37,478
Prepaid expenses and other assets	27,879	24,503
	<hr/>	<hr/>
Total assets	\$ 1,294,034	\$ 1,179,017
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 99,372	\$ 100,303
Interest-bearing	1,008,779	914,457
	<hr/>	<hr/>
Total deposits	1,108,151	1,014,760
Short-term borrowings	47,261	47,981
Long-term borrowings	73,567	73,698
Junior subordinated deferrable interest debentures	52,068	52,068
Accrued expenses and other liabilities (of which, \$115 and \$18 are at fair value, respectively)	21,756	15,922
	<hr/>	<hr/>
Total liabilities	1,302,803	1,204,429
	<hr/>	<hr/>
Stockholders' deficit:		
Common stock, \$.05 par value; 75,000,000 shares authorized; 18,860,482 shares issued and outstanding at both September 30, 2012 and December 31, 2011	939	939
Additional paid-in capital	80,006	80,125
Retained deficit	(88,036)	(103,454)
Accumulated other comprehensive loss	(1,678)	(3,022)
	<hr/>	<hr/>
Total stockholders' deficit	(8,769)	(25,412)
	<hr/>	<hr/>

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Total liabilities and stockholders' deficit	\$ 1,294,034	\$ 1,179,017
---	--------------	--------------

See accompanying notes to consolidated financial statements

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

First Mariner Bancorp and Subsidiary
Consolidated Statements of Operations
(dollars in thousands except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	<i>(unaudited)</i>			
Interest income:				
Loans	\$ 11,567	\$ 11,222	\$ 33,644	\$ 33,867
Investments and other earning assets	352	455	1,063	1,651
Total interest income	11,919	11,677	34,707	35,518
Interest expense:				
Deposits	2,898	3,625	8,857	12,217
Short-term borrowings	35	61	99	232
Long-term borrowings	927	852	2,780	2,476
Total interest expense	3,860	4,538	11,736	14,925
Net interest income	8,059	7,139	22,971	20,593
Provision for loan losses		5,000	572	11,580
Net interest income after provision for loan losses	8,059	2,139	22,399	9,013
Noninterest income:				
Total other-than-temporary impairment (OTTI) charges		(299)	175	(327)
Less: Portion included in other comprehensive income (pre-tax)		(382)	(635)	(491)
Net OTTI charges on AFS securities		(681)	(460)	(818)
Mortgage-banking revenue	15,384	4,609	35,450	7,942
ATM fees	649	755	2,067	2,314
Service fees on deposits	623	717	1,927	2,194
Gain on sale of AFS securities		638		781
(Loss) gain on sales and disposals of premises and equipment and other assets	(949)	2	(1,271)	4
Commissions on sales of nondeposit investment products	62	75	211	347
Income from BOLI	273	316	853	984
Other	238	1,289	717	1,779
Total noninterest income	16,280	7,720	39,494	15,527
Noninterest expense:				
Salaries and employee benefits	6,107	5,876	17,438	18,003
Occupancy	1,835	2,202	6,343	6,407
Furniture, fixtures, and equipment	332	426	1,018	1,357
Professional services	973	1,259	2,085	3,742
Advertising	189	219	609	470
Data processing	403	393	1,237	1,237
ATM servicing expenses	225	217	678	655
Write-downs, losses, and costs of real estate acquired through foreclosure	1,325	3,218	3,539	6,635
Federal Deposit Insurance Corporation (FDIC) insurance premiums	1,009	878	3,131	3,390
Service and maintenance	644	594	1,799	1,872
Corporate Insurance	695	388	1,571	1,069
Consulting fees	395	377	1,319	1,042

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Loan collection expenses	101	329	290	608
Other	2,180	1,443	5,623	4,322
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total noninterest expense	16,413	17,819	46,680	50,809
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income (loss) before income taxes	7,926	(7,960)	15,213	(26,269)
Income tax benefit			(205)	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income (loss)	\$ 7,926	\$ (7,960)	\$ 15,418	\$ (26,269)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income (loss) per common share - basic and diluted	\$ 0.42	\$ (0.42)	\$ 0.82	\$ (1.41)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to consolidated financial statements.

First Mariner Bancorp and Subsidiary
Consolidated Statements of Comprehensive Income (Loss)
(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	<i>(unaudited)</i>			
Net income (loss)	\$ 7,926	\$ (7,960)	\$ 15,418	\$ (26,269)
Other comprehensive income items:				
Unrealized holding gains (losses) on securities arising during the period (net of tax expense (benefit) of \$293, \$(219), \$724, and \$309, respectively)	433	(324)	1,070	457
Reclassification adjustment for net losses on securities (net of tax benefit of \$0, \$17, \$186, and \$15, respectively) included in net income (loss)		26	274	22
Total other comprehensive income (loss)	433	(298)	1,344	479
Total comprehensive income (loss)	\$ 8,359	\$ (8,258)	\$ 16,762	\$ (25,790)

See accompanying notes to consolidated financial statements.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

First Mariner Bancorp and Subsidiary
Consolidated Statements of Changes in Stockholders (Deficit) Equity
(dollars in thousands except per share data)

Nine Months Ended September 30, 2012

(unaudited)

	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total Stockholders Deficit
Balance at December 31, 2011	18,860,482	\$ 939	\$ 80,125	\$ (103,454)	\$ (3,022)	\$ (25,412)
Net income				15,418		15,418
Costs of common stock issued, net			(22)			(22)
Change in fair value of warrants			(97)			(97)
Changes in unrealized gains on securities, net of taxes					1,344	1,344
Balance at September 30, 2012	18,860,482	\$ 939	\$ 80,006	\$ (88,036)	\$ (1,678)	\$ (8,769)

Nine Months Ended September 30, 2011

(unaudited)

	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total Stockholders Equity (Deficit)
Balance at December 31, 2010	18,050,117	\$ 902	\$ 79,667	\$ (73,210)	\$ (3,613)	\$ 3,746
Net loss				(26,269)		(26,269)
Common stock issued, net of costs	810,365	37	341			378
Stock-based compensation expense			5			5
Change in fair value of warrants			89			89
Changes in unrealized gains on securities, net of taxes					479	479
Balance at September 30, 2011	18,860,482	\$ 939	\$ 80,102	\$ (99,479)	\$ (3,134)	\$ (21,572)

See accompanying notes to consolidated financial statements.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

First Mariner Bancorp and Subsidiary
Consolidated Statements of Cash Flows
(dollars in thousands)

	Nine Months Ended September 30,	
	2012	2011
	<i>(unaudited)</i>	
Cash flows from operating activities:		
Net income (loss)	\$ 15,418	\$ (26,269)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	2,043	2,472
Amortization of unearned loan fees and costs, net	496	283
Amortization of discounts on mortgage-backed securities, net	6	29
Origination fees and gains on sale of mortgage loans	(33,615)	(6,750)
Net OTTI charges on AFS securities	460	818
Gain on sale of AFS securities		(781)
Loss (gain) on disposition and sale of premises and equipment and other assets	1,271	(4)
Decrease (increase) in accrued interest receivable	10	(4)
Provision for loan losses	572	11,580
Write-downs and losses on sale of real estate acquired through foreclosure	1,818	5,704
Increase in cash surrender value of BOLI	(853)	(984)
Originations of mortgage LHFS	(1,773,267)	(691,831)
Proceeds from sales of mortgage LHFS	1,617,977	710,702
Net increase in accrued expenses and other liabilities	5,736	4,318
Net increase in prepaids and other assets	(4,283)	(11,710)
Net cash used in operating activities	(166,211)	(2,427)
Cash flows from investing activities:		
Loan principal repayments, net	49,315	49,542
Repurchase of loans previously sold	(827)	(435)
Sale of restricted stock investments	256	126
Purchases of premises and equipment	(2,571)	(327)
Activity in AFS securities:		
Maturities/calls/repayments	9,217	16,206
Sales		49,511
Purchases	(29,001)	(59,799)
Additional funds disbursed on real estate acquired through foreclosure		(1,755)
Proceeds from sales of real estate acquired through foreclosure	9,722	8,570
Net cash provided investing activities	36,111	61,639
Cash flows from financing activities:		
Net increase (decrease) in deposits	93,392	(90,010)
Net decrease in other borrowed funds	(852)	(479)
Net costs of stock issuance	(22)	(20)
Net cash provided by (used in) financing activities	92,518	(90,509)
Decrease in cash and cash equivalents	(37,582)	(31,297)
Cash and cash equivalents at beginning of period	148,789	217,961
Cash and cash equivalents at end of period	\$ 111,207	\$ 186,664

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Supplemental information:

Interest paid on deposits and borrowed funds	\$ 10,522	\$ 13,997
	<hr/>	<hr/>
Real estate acquired in satisfaction of loans	\$ 6,283	\$ 16,073
	<hr/>	<hr/>
Transfers of LHFS to loan portfolio	\$ 342	\$ 2,031
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements

First Mariner Bancorp and Subsidiary
Notes to Consolidated Financial Statements
(Information as of and for the three and nine months
ended September 30, 2012 and 2011 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.) (GAAP). 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 as of and for the year ended December 31, 2011. 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 subsidiary.

The consolidated financial statements include the accounts of First Mariner and its wholly owned subsidiary, First Mariner Bank (the Bank). All significant intercompany accounts and transactions have been eliminated in consolidation. 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 2012.

The consolidated financial statements as of and for the three and nine months ended September 30, 2012 and 2011 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 the three and nine months ended September 30, 2012 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 GAAP 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.

(2) Going Concern Consideration

Due to the conditions and events discussed later in Note 5, there is substantial doubt regarding our ability to continue as a going concern. Management is taking various steps designed to improve the Bank 's capital position. The Bank has developed a written alternative capital plan designed to improve the Bank 's capital ratios. Such plan is dependent upon a capital infusion to meet the capital requirements of the various regulatory agreements (see Note 5 for more information on the agreements). The Company continues to work with its advisors in an attempt to improve capital ratios.

The consolidated financial statements presented above and the accompanying Notes have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future, and does not include any adjustment to reflect the possible future effects on the recoverability and classification of assets, or the amounts and classification of liabilities that may result from the outcome of any extraordinary regulatory action, which would affect our ability to continue as a going concern.

(3) Securities

The composition of our securities portfolio (all AFS) is as follows:

September 30, 2012				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
<i>(dollars in thousands)</i>				
Mortgage-backed securities	\$ 5,341	\$ 215	\$	\$ 5,556
Trust preferred securities	11,264	96	2,279	9,081
U.S. government agency notes	25,349	110	1	25,458
U.S. Treasury securities	3,037	1		3,038
Equity securities - banks	1,288	134	18	1,404
Equity securities - mutual funds	750	47		797
	\$ 47,029	\$ 603	\$ 2,298	\$ 45,334

December 31, 2011				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
<i>(dollars in thousands)</i>				
Mortgage-backed securities	\$ 1,834	\$ 125	\$	\$ 1,959
Trust preferred securities	13,420	103	3,255	10,268
U.S. government agency notes	8,507	11		8,518
U.S. Treasury securities	1,004			1,004
Equity securities - banks	189	6	44	151
Equity securities - mutual funds	750	32		782
	\$ 25,704	\$ 277	\$ 3,299	\$ 22,682

Contractual maturities of debt securities at September 30, 2012 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.

	Amortized Cost	Estimated Fair Value
<i>(dollars in thousands)</i>		
Due in one year or less	\$ 8,004	\$ 8,024
Due after one year through five years	20,382	20,471

Due after five years through ten years	1,020	1,008
Due after ten years	10,244	8,074
Mortgage-backed securities	5,341	5,556
	<u> </u>	<u> </u>
	\$ 44,991	\$ 43,133
	<u> </u>	<u> </u>

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The following tables show the level of our gross unrealized losses and the fair value of the associated securities by type and maturity for AFS securities:

September 30, 2012

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
Trust preferred securities	\$	\$	\$ 4,910	\$ 2,279	\$ 4,910	\$ 2,279
U.S. government agency notes	3,025	1			3,025	1
Equity securities - banks			107	18	107	18
	<u>\$ 3,025</u>	<u>\$ 1</u>	<u>\$ 5,017</u>	<u>\$ 2,297</u>	<u>\$ 8,042</u>	<u>\$ 2,298</u>

December 31, 2011

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
Trust preferred securities	\$ 1,967	\$ 66	\$ 4,542	\$ 3,189	\$ 6,509	\$ 3,255
Equity securities - banks			63	44	63	44
	<u>\$ 1,967</u>	<u>\$ 66</u>	<u>\$ 4,605</u>	<u>\$ 3,233</u>	<u>\$ 6,572</u>	<u>\$ 3,299</u>

The trust preferred securities that we hold in our securities portfolio are issued by other banks, bank holding companies, and insurance 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 consider the decline in value for four of the pooled trust preferred securities to be other than temporary and recorded the credit-related portion of the impairment as net OTTI of \$460,000 for the nine months ended September 30, 2012. We did not record any additional OTTI during the three months ended September 30, 2012. We recorded net OTTI of \$681,000 and \$818,000 for the three and nine months ended September 30, 2011, respectively. See additional information on the pooled trust preferred securities in Note 8.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<i>(dollars in thousands)</i>				
Balance at beginning of period	\$ 9,190	\$ 8,029	\$ 8,730	\$ 7,892
Additional OTTI taken for credit losses		681	460	818
Balance at end of period	<u>\$ 9,190</u>	<u>\$ 8,710</u>	<u>\$ 9,190</u>	<u>\$ 8,710</u>

All of the remaining securities that are impaired are so 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

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

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, 2012, we held securities with an aggregate carrying value (fair value) of \$40.1 million that we have pledged as collateral for certain mortgage-banking and hedging activities, borrowings, government deposits, and customer deposits.

(4) Loans Receivable and Allowance for Loan Losses

Loans receivable are summarized as follows:

	September 30, 2012	December 31, 2011
	<u> </u>	<u> </u>
	<i>(dollars in thousands)</i>	
Commercial	\$ 45,632	\$ 47,518
Commercial mortgage	296,353	331,943
Commercial construction	48,351	54,433
Consumer construction	19,071	16,456
Residential mortgage	112,811	121,071
Consumer	120,251	129,227
	<u> </u>	<u> </u>
Total loans	642,469	700,648
Unearned loan fees, net	999	1,103
	<u> </u>	<u> </u>
	<u>\$ 643,468</u>	<u>\$ 701,751</u>

Included in consumer loan totals in the above table are overdrawn commercial and retail checking accounts totaling \$171,000 as of September 30, 2012 and \$184,000 as of December 31, 2011.

Transferred Loans

In accordance with the Financial Accounting Standards Board (FASB) guidance on mortgage-banking activities, any loan which is originally originated for sale into the secondary market and which we subsequently elect to transfer into the Company's loan portfolio is valued at fair value at the time of the transfer with any decline in value recorded as a charge against earnings.

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

	Loan Balance		Accretable Yield		Total	
	2012	2011	2012	2011	2012	2011
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<i>(dollars in thousands)</i>					
Beginning balance	\$ 10,873	\$ 26,783	\$ 36	\$ 110	\$ 10,837	\$ 26,673
Loans transferred		1,053				1,053
Charge-offs	(781)		(4)	(10)	(777)	10
Payments/accretion	(1,625)	(10)	(8)	(10)	(1,617)	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Ending balance	\$ 8,467	\$ 27,826	\$ 24	\$ 90	\$ 8,443	\$ 27,736

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

	Loan Balance	Accretable Yield	Total
	<u> </u>	<u> </u>	<u> </u>

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	<i>(dollars in thousands)</i>					
Beginning balance	\$ 14,008	\$ 26,219	\$ 266	\$ 178	\$ 13,742	\$ 26,041
Loans transferred	342	2,031			342	2,031
Loans moved to real estate acquired through foreclosure		(83)				(83)
Charge-offs	(1,066)	(302)	(18)	(16)	(1,048)	(286)
Payments/accretion	(4,817)	(39)	(224)	(72)	(4,593)	33
Ending balance	<u>\$ 8,467</u>	<u>\$ 27,826</u>	<u>\$ 24</u>	<u>\$ 90</u>	<u>\$ 8,443</u>	<u>\$ 27,736</u>

At September 30, 2012, we had pledged loans with a carrying value of \$111.5 million as collateral for Federal Home Loan Bank (FHLB) advances.

Credit Quality

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, we have segmented our loan portfolio by product type. Our portfolio loan segments are commercial, commercial mortgage, commercial construction, consumer construction, residential mortgage, and consumer. We have looked at all segments to determine if subcategorization into classes is warranted based upon our credit review methodology. We have divided consumer loans into two classes, (1) home equity and second mortgage loans and (2) other consumer loans.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

To establish the allowance for loan losses, loans are pooled by portfolio class and an historical loss percentage is applied to each class. The historical loss percentage is based upon a rolling 24 month history. This rolling history is utilized so that we have the most current and relevant charge-off trend data. These charge-offs are segregated by loan segment and compared to their respective loan segment average balances for the same period in order to calculate the charge-off percentage. That percentage is then applied to the current period loan balances to determine the required reserve. That calculation determines the required allowance for loan loss level. We then apply additional loss multipliers to the different segments of loans to reflect various environmental factors. This amount is considered our unallocated reserve. For individually evaluated loans (impaired loans), we do additional analyses to determine the impairment. In general, this impairment is included as part of the allocated allowance for loan losses for modified loans and is charged off for all other impaired loans. These loss estimates are performed under multiple economic scenarios to establish a range of potential outcomes for each criterion. Management applies judgment to develop its own view of loss probability within that range, using external and internal parameters with the objective of establishing an allowance for loss inherent within these portfolios as of the reporting date.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The following table presents by portfolio segment, the changes in the allowance for loan losses, and the recorded investment in loans:

Three months ended September 30, 2012

	Commercial	Commercial Mortgage	Commercial Construction	Consumer Construction	Residential Mortgage	Consumer	Unallocated	Total
<i>(dollars in thousands)</i>								
Beginning Balance	\$ 2,897	\$ 1,562	\$ 1,678	\$ 130	\$ 1,504	\$ 2,250	\$ 3,501	\$ 13,522
Charge-offs		(253)	(206)		(365)	(638)		(1,462)
Recoveries					5	31		36
Net charge-offs		(253)	(206)		(360)	(607)		(1,426)
(Reversal of) provision for loan losses	(901)	299	(992)	91	434	391	678	
Ending Balance	\$ 1,996	\$ 1,608	\$ 480	\$ 221	\$ 1,578	\$ 2,034	\$ 4,179	\$ 12,096

Nine months ended September 30, 2012

	Commercial	Commercial Mortgage	Commercial Construction	Consumer Construction	Residential Mortgage	Consumer	Unallocated	Total
<i>(dollars in thousands)</i>								
Beginning Balance	\$ 2,768	\$ 2,011	\$ 1,809	\$ 156	\$ 2,711	\$ 2,632	\$ 1,714	\$ 13,801
Charge-offs	(187)	(573)	(353)	(7)	(879)	(1,576)		(3,575)
Recoveries		612	52		425	209		1,298
Net (charge-offs) recoveries	(187)	39	(301)	(7)	(454)	(1,367)		(2,277)
(Reversal of) provision for loan losses	(585)	(442)	(1,028)	72	(679)	769	2,465	572
Ending Balance	\$ 1,996	\$ 1,608	\$ 480	\$ 221	\$ 1,578	\$ 2,034	\$ 4,179	\$ 12,096
Ending balance - individually evaluated for impairment	\$ 149	\$ 24	\$	\$	\$ 202	\$	\$	\$ 375
Ending balance - collectively evaluated for impairment	1,847	1,584	480	221	1,376	2,034	4,179	11,721
	\$ 1,996	\$ 1,608	\$ 480	\$ 221	\$ 1,578	\$ 2,034	\$ 4,179	\$ 12,096
Ending loan balance - individually	\$ 9,872	\$ 32,810	\$ 11,652	\$ 655	\$ 17,740	\$ 936		\$ 73,665

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

evaluated for
impairment
Ending loan
balance -
collectively
evaluated for
impairment

	35,845	263,464	36,667	18,231	95,075	120,521	569,803
	<u>45,717</u>	<u>296,274</u>	<u>48,319</u>	<u>18,886</u>	<u>112,815</u>	<u>121,457</u>	<u>643,468</u>

Three months ended September 30, 2011

	<u>Commercial</u>	<u>Commercial Mortgage</u>	<u>Commercial Construction</u>	<u>Consumer Construction</u>	<u>Residential Mortgage</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
	<i>(dollars in thousands)</i>							
Beginning Balance	\$ 233	\$ 2,586	\$ 1,782	\$ 360	\$ 2,895	\$ 3,089	\$ 3,170	\$ 14,115
Charge-offs	(2,367)	(1,325)	(131)		(670)	(590)		(5,083)
Recoveries			24		23	33		80
Net charge-offs	(2,367)	(1,325)	(107)		(647)	(557)		(5,003)
Provision for (reversal of) loan losses	4,823	605	(7)	(125)	976	92	(1,364)	5,000
Ending Balance	\$ 2,689	\$ 1,866	\$ 1,668	\$ 235	\$ 3,224	\$ 2,624	\$ 1,806	\$ 14,112

Nine months ended September 30, 2011

	<u>Commercial</u>	<u>Commercial Mortgage</u>	<u>Commercial Construction</u>	<u>Consumer Construction</u>	<u>Residential Mortgage</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
	<i>(dollars in thousands)</i>							
Beginning Balance	\$ 291	\$ 2,542	\$ 2,053	\$ 817	\$ 3,032	\$ 2,417	\$ 2,963	\$ 14,115
Charge-offs	(5,240)	(1,834)	(728)	(24)	(2,209)	(2,021)		(12,056)
Recoveries		168	24		37	244		473
Net charge-offs	(5,240)	(1,666)	(704)	(24)	(2,172)	(1,777)		(11,583)
Provision for (reversal of) loan losses	7,638	990	319	(558)	2,364	1,984	(1,157)	11,580
Ending Balance	\$ 2,689	\$ 1,866	\$ 1,668	\$ 235	\$ 3,224	\$ 2,624	\$ 1,806	\$ 14,112
Ending balance - individually evaluated for impairment	\$ 4	\$ 89	\$	\$ 1	\$ 352	\$ 4	\$	\$ 450
Ending balance - collectively evaluated for impairment	2,685	1,777	1,668	234	2,872	2,620	1,806	13,662
	\$ 2,689	\$ 1,866	\$ 1,668	\$ 235	\$ 3,224	\$ 2,624	\$ 1,806	\$ 14,112
Ending loan balance - individually evaluated for	\$ 4,400	\$ 24,302	\$ 11,701	\$ 757	\$ 19,742	\$ 1,595		\$ 62,497

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

impairment							
Ending loan							
balance -							
collectively							
evaluated for							
impairment	58,375	310,804	42,375	20,836	104,836	136,949	674,175
	<u>58,375</u>	<u>310,804</u>	<u>42,375</u>	<u>20,836</u>	<u>104,836</u>	<u>136,949</u>	<u>674,175</u>
	\$ 62,775	\$ 335,106	\$ 54,076	\$ 21,593	\$ 124,578	\$ 138,544	\$ 736,672
	<u>\$ 62,775</u>	<u>\$ 335,106</u>	<u>\$ 54,076</u>	<u>\$ 21,593</u>	<u>\$ 124,578</u>	<u>\$ 138,544</u>	<u>\$ 736,672</u>

We use creditworthiness categories to grade commercial loans. Our internal grading system is based on experiences with similarly graded loans. Category ratings are reviewed each quarter. Our internal risk ratings are as follows:

Superior Credit Quality (RR1) This category includes credits that are secured by up to 95% advance against cash balances, municipal or corporate bonds carrying an A rating or better (subject to maturity), U.S. Government securities (subject to maturity), and fully marketable securities of companies with an A or better debt rating. In addition, the borrower must have a reasonable financial condition evidenced by complete financial statements.

High Credit Quality (RR2) This category includes credits that are secured by up to 70% advance against municipal or corporate bonds carrying an A rating or better, U.S. Government securities, and marketable securities of companies with an A or better debt rating. For individual credits, the credit must be secured by any of the aforementioned items or first deed of trust on residential owner-occupied property with a loan-to-value (LTV) ratio of 80% or less and adequate cash flow to service the debt. Permanent real estate loans on fully leased properties with A-rated tenants and a 70% or less LTV ratio with income coverage of 1.25 times or higher may qualify for this rating, with confirmation of tenants financial condition. No commercial construction loans may carry this rating at inception. At September 30, 2012 and December 31, 2011, none of our loans carried this risk rating.

Above Average Credit Quality (RR3) This category includes business loans to publicly traded companies with a B rating or better, commercial construction loans with a contingent-free take-out or substantial pre-leasing (75% or more of leasable space) with a LTV ratio of 70% or less, residential construction loans with pre-sold units and a LTV ratio of 70% or less as long as sales are on a noncontingent basis and the overall project is progressing on schedule as originally determined, loans to individuals with liquid assets and strong net worth and the additional ability to service the debt from sources unrelated to the purpose of the credit extension, and monitored credits to borrowers of sound financial condition with approved advance rates providing adequate margin so that collateral can be easily liquidated within 90 days or less.

Average/Satisfactory Credit Quality (RR4) In general, this category includes small-to-medium sized companies with satisfactory financial condition, cash flow, profitability, and balance sheet and income statement ratios, term loans and revolving credits with annual clean-up requirements, the majority of retail commercial credits, loans to partnerships or small businesses, most wholesale sales finance lines, wholesale distributors whose capital position and profitability are at Risk Management Association averages, and loans to individuals with acceptable financial condition and sufficient net cash flow to service the debt as long as the source of repayment is identifiable and sufficient to liquidate the debt within an acceptable period of time and a secondary source of repayment is evident.

Acceptable With Care (RR5) This category includes secured loans to small or medium sized companies which have suffered a financial setback where a convincing plan for correction demonstrates the deficiency is temporary in nature, loans with debt service coverage ratios below or LTV ratios above policy guidelines, most construction and development loans, permanent loans underwritten based on pro forma rents as opposed to historical or actual rents, real estate loans where the project is moderately off the original projections as to cost estimates or absorption, and loans where the interest reserve is no longer adequate, but the customer or guarantor has a proven ability to carry the interest expense out of pocket for an extended time period without undue financial strain. These credits require additional attention by the account officer and/or loan administration.

Watch Credits (RR6) This category includes loans to borrowers who have experienced a temporary setback or deterioration in financial condition that should correct itself during the next twelve months, companies whose financial condition has been marginally acceptable for a period of time and prospects for significant improvement are limited, loans to individuals with marginal financial condition, and most credits for start-up operations. Also included in this category are real estate loans where the project is moderately off original projections, interest reserve may be depleted, with the borrower or guarantor having a questionable or unproved ability to pay interest out of pocket. Such loans may have modest cost overruns that will cause a shortage in the budget, raising question as to how the project will be completed. These loans may have a good collateral position, additional collateral, or strong guarantors to mitigate the risk. These credits are considered marginally acceptable, and greater than usual attention is warranted by the account officer and/or loan operations.

Special Mention (RR7) special mention credits are characterized as adequately covered by collateral (if any) and/or the paying capacity of the borrower, but are subject to one or more deteriorating trends. These credits constitute an undue and unwarranted credit risk, but not to the point of justifying a classification of substandard. These credits have potential weaknesses which, if not examined and corrected, may weaken the asset or inadequately protect the Bank's credit position at some future date. This category should not be used to list assets that bear risks usually associated with the particular type of financing. Assets with this rating may have the potential for significant weakness. Loans where weaknesses are evident and significant must be considered for more serious criticism. Examples of credits carried in special mention may include the following:

Loans which are fully covered by collateral and cash flow, but where margins are inadequate;

Loans to borrowers with a strong capital base, who are experiencing modest losses;

Loans to borrowers with very strong cash flows, but experiencing modest losses;

Credits that are subject to manageable, but excessive, leverage;

Credits with material collateral documentation exceptions, but which appear to be strong credits. If the documentation exception results in an unperfected/under secured collateral position, the credit may be risk rated as if it were under secured until such time as the exception is corrected;

Credits to customers who have not provided the Bank with current or satisfactory financial data (unless the credit is secured by liquid marketable collateral or guaranteed by financially sound parties);

Credits that the account officer may be unable to supervise properly because of a lack of expertise or lack of control over the collateral and/or its condition;

Loans with deficient documentation or other deviations from prudent lending practices; and

Loans with strong guarantors and/or secondary sources of cash flow are the support for repayment.

Substandard (RR8) Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses, which jeopardize the orderly liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. The borrower's financial condition indicates an inability to repay, even if restructured. Prospects for improvement in the borrower's financial condition are poor. Primary repayment source appears to be shifting from cash flow to liquidation of collateral. Examples of substandard credits may include the following:

Credits adequately covered by collateral value, where repayment is dependent upon the sale of nonliquid collateral, nontrading assets, or from guarantors;

Loans secured by collateral greater than the amount of the credit, but where cash flow is inadequate to amortize the debt over a reasonable period of time;

Credits with negative financial trends coupled with material collateral documentation deficiencies or where there is a high potential for loss of principal;

Unsecured loans to borrowers whose financial condition does not warrant unsecured advances;

Credits where the borrower is in bankruptcy or the work out effort is proceeding toward legal remedies including foreclosure; and

All nonaccrual loans.

Doubtful (RR9) Doubtful classifications have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently known facts, conditions, and values highly questionable and improbable. A doubtful classification may be appropriate in cases where significant risk exposures are perceived, but loss cannot be determined because of specific, reasonable, and pending factors which may strengthen and work to the advantage of the credit in the near term. Account officers attempt to identify any principal loss in the credit, where possible, thereby limiting the excessive use of the doubtful classification. The classification is a deferral of the estimated loss until its more exact status may be determined. Pending factors include proposed mergers, acquisition or liquidation procedures, new capital injection, perfecting liens on additional collateral, and refinancing plans. At September 30, 2012 and December 31, 2011, none of our loans carried this risk rating.

Loss (RR10) Losses must be taken as soon as they are realized. In some instances and on a temporary basis, a portion of a loan may receive this rating (split rating) when the actual loss cannot be currently identified. In these instances, additional facts or information is necessary to determine the final amount to be charged against the loan loss reserve. When applied for these purposes, this risk rating may be used for a period not to exceed three months. Subsequent to the identification of this split rating, the remaining balance will be risk rated substandard. This category includes advances in excess of calculated current fair value which are considered uncollectible and do not warrant continuance as bankable assets. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may occur in the future. Credits to distressed borrowers lacking an identifiable and realistic source of repayment are generally charged-off. Loans where repayment is dependent upon events that are not predictable in terms of result or timing (such as protracted litigation) are generally charged-off. At September 30, 2012 and December 31, 2011, none of our loans carried this risk rating.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The following table shows the credit quality breakdown of our commercial loan portfolio by class as of September 30, 2012 and December 31, 2011:

	Commercial		Commercial Mortgage		Commercial Construction		Consumer Construction		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
<i>(dollars in thousands)</i>										
RR8	\$ 2,810	\$ 5,672	\$ 27,835	\$ 26,677	\$ 10,857	\$ 17,105	\$	\$	\$ 41,502	\$ 49,454
RR7	7,370	9,051	20,371	17,065	9,862	9,152			37,603	35,268
RR6	10,039	10,208	49,603	39,722	15,853	13,132			75,495	63,062
RR5	17,249	19,825	107,472	122,880	10,836	12,013		136	135,557	154,854
RR4	8,225	7,074	87,788	117,088	911	2,947	18,886	16,144	115,810	143,253
RR3		1,000	3,205	3,098					3,205	4,098
RR1	24	12							24	12
	<u>\$ 45,717</u>	<u>\$ 52,842</u>	<u>\$ 296,274</u>	<u>\$ 326,530</u>	<u>\$ 48,319</u>	<u>\$ 54,349</u>	<u>\$ 18,886</u>	<u>\$ 16,280</u>	<u>\$ 409,196</u>	<u>\$ 450,001</u>

We do not individually grade residential mortgage or consumer loans. Such loans are classified as performing or nonperforming. Loan performance is reviewed each quarter. The following table shows performing and nonperforming (nonaccrual) residential mortgage and consumer loans by class as of September 30, 2012 and December 31, 2011:

	Residential Mortgage		Home Equity & 2nd Mortgage		Other Consumer		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
<i>(dollars in thousands)</i>								
Nonaccrual loans	\$ 7,732	\$ 7,585	\$ 920	\$ 905	\$ 16	\$	\$ 8,668	\$ 8,490
Performing loans	105,083	113,534	102,309	108,539	18,212	21,187	225,604	243,260
	<u>\$ 112,815</u>	<u>\$ 121,119</u>	<u>\$ 103,229</u>	<u>\$ 109,444</u>	<u>\$ 18,228</u>	<u>\$ 21,187</u>	<u>\$ 234,272</u>	<u>\$ 251,750</u>

The following tables show the aging of our loans receivable by class. Also included are loans that are 90 days or more past due as to interest and principal and still accruing because they are well-secured and in the process of collection.

September 30, 2012:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More and Accruing
<i>(dollars in thousands)</i>							
Commercial	\$	\$	\$ 2,156	\$ 2,156	\$ 43,561	\$ 45,717	\$
Commercial mortgage		4,268	20,601	24,869	271,405	296,274	
Commercial construction		95	4,580	4,675	43,644	48,319	
Consumer construction		192	655	847	18,039	18,886	
Residential mortgage		3,455	1,001	7,732	100,627	112,815	
Home equity and 2nd mortgage		2,578	11	920	99,720	103,229	
Other consumer		70	2	16	18,140	18,228	
	<u>\$ 10,658</u>	<u>\$ 1,014</u>	<u>\$ 36,660</u>	<u>\$ 48,332</u>	<u>\$ 595,136</u>	<u>\$ 643,468</u>	<u>\$</u>

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

December 31, 2011:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More and Accruing
<i>(dollars in thousands)</i>							
Commercial	\$ 477	\$	\$ 4,596	\$ 5,073	\$ 47,769	\$ 52,842	\$ 30
Commercial mortgage	12,630	4,116	18,227	34,973	291,557	326,530	1,272
Commercial construction		5,170	7,981	13,151	41,198	54,349	2,032
Consumer construction	306		956	1,262	15,018	16,280	238
Residential mortgage	6,266		10,085	16,351	104,768	121,119	2,500
Home equity and 2nd mortgage	3,203	251	1,142	4,596	104,848	109,444	237
Other consumer	283	137	7	427	20,760	21,187	7
	<u>\$ 23,165</u>	<u>\$ 9,674</u>	<u>\$ 42,994</u>	<u>\$ 75,833</u>	<u>\$ 625,918</u>	<u>\$ 701,751</u>	<u>\$ 6,316</u>

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Impaired loans include nonaccrual loans and troubled debt restructures (TDR or TDRs). The following tables show the breakout of impaired loans by class:

	Nine Months Ended September 30,								
	September 30, 2012			2012			2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Charge-Offs	Average Recorded Investment	Interest Income Recognized	Charge-Offs
<i>(dollars in thousands)</i>									
With no related allowance:									
Commercial	\$ 2,589	\$ 2,589	\$	\$ 3,895	\$ 38	\$ 187	\$ 2,197	\$ 7	\$ 5,240
Commercial mortgage	\$ 30,354	\$ 30,354	\$	\$ 24,772	\$ 409	\$ 573	\$ 20,948	\$ 58	\$ 1,706
Commercial construction									
Commercial construction	\$ 11,652	\$ 11,652	\$	\$ 13,091	\$ 85	\$ 353	\$ 12,376	\$ 69	\$ 728
Consumer construction	\$ 655	\$ 655	\$	\$ 654	\$ 22	\$ 7	\$ 874	\$ 1	\$ 24
Residential mortgage	\$ 9,466	\$ 9,466	\$	\$ 9,484	\$ 191	\$ 711	\$ 10,402	\$ 85	\$ 1,506
Home equity & 2nd mortgage									
Home equity & 2nd mortgage	\$ 920	\$ 920	\$	\$ 990	\$ 20	\$ 1,576	\$ 915	\$ 5	\$ 2,021
Other consumer	\$ 16	\$ 16	\$	\$ 7	\$	\$	\$ 168	\$	\$
With a related allowance:									
Commercial	7,134	7,283	149	1,901	103		39	2	
Commercial mortgage	2,432	2,456	24	4,137	35		3,876	74	128
Commercial construction									
Commercial construction							333		
Consumer construction							140	16	
Residential mortgage	8,072	8,274	202	8,363	322	168	12,139	388	703
Home equity & 2nd mortgage									
Home equity & 2nd mortgage							18	3	
Other consumer									
Total:									
Commercial	\$ 9,723	\$ 9,872	\$ 149	\$ 5,796	\$ 141	\$ 187	\$ 2,236	\$ 9	\$ 5,240
Commercial mortgage	\$ 32,786	\$ 32,810	\$ 24	\$ 28,909	\$ 444	\$ 573	\$ 24,824	\$ 132	\$ 1,834
Commercial construction									
Commercial construction	\$ 11,652	\$ 11,652	\$	\$ 13,091	\$ 85	\$ 353	\$ 12,709	\$ 69	\$ 728
Consumer construction	\$ 655	\$ 655	\$	\$ 654	\$ 22	\$ 7	\$ 1,014	\$ 17	\$ 24
Residential mortgage	\$ 17,538	\$ 17,740	\$ 202	\$ 17,847	\$ 513	\$ 879	\$ 22,541	\$ 473	\$ 2,209
Home equity & 2nd mortgage									
Home equity & 2nd mortgage	\$ 920	\$ 920	\$	\$ 990	\$ 20	\$ 1,576	\$ 933	\$ 8	\$ 2,021
Other consumer	\$ 16	\$ 16	\$	\$ 7	\$	\$	\$ 168	\$	\$

December 31, 2011

	Recorded Investment	Unpaid Principal Balance	Related Allowance
--	---------------------	--------------------------	-------------------

(dollars in thousands)

With no related allowance:

Commercial	\$ 4,804	\$ 4,804	\$
	\$ 21,039	\$ 21,039	\$

Commercial mortgage			
Commercial construction	\$ 11,066	\$ 11,066	\$
Consumer construction	\$ 718	\$ 718	\$
Residential mortgage	\$ 8,723	\$ 8,723	\$
Home equity & 2nd mortgage	\$ 905	\$ 905	\$
Other consumer	\$	\$	\$
With a related allowance:			
Commercial	157	161	4
Commercial mortgage	5,249	5,306	57
Commercial construction			
Consumer construction			
Residential mortgage	9,075	9,297	222
Home equity & 2nd mortgage			
Other consumer			
Total:			
Commercial	\$ 4,961	\$ 4,965	\$ 4
Commercial mortgage	\$ 26,288	\$ 26,345	\$ 57
Commercial construction	\$ 11,066	\$ 11,066	\$
Consumer construction	\$ 718	\$ 718	\$
Residential mortgage	\$ 17,798	\$ 18,020	\$ 222
Home equity & 2nd mortgage	\$ 905	\$ 905	\$
Other consumer	\$	\$	\$

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The following table shows loans in nonaccrual status by class:

	September 30, 2012	December 31, 2011	September 30, 2011
<i>(dollars in thousands)</i>			
Commercial	\$ 2,156	\$ 4,566	\$ 4,238
Commercial mortgage	20,601	16,955	20,125
Commercial construction	4,580	5,949	6,549
Consumer construction	655	718	488
Residential mortgage	7,732	7,585	9,678
Home equity and 2nd mortgage	920	905	1,384
Other consumer	16		
	<u>\$ 36,660</u>	<u>\$ 36,678</u>	<u>\$ 42,462</u>

The interest which would have been recorded on nonaccrual loans if those loans had been performing in accordance with their contractual terms for the nine months ended September 30, 2012 and 2011 was approximately \$2.0 million and \$1.4 million, respectively, and the actual interest income recorded on such loans for the nine months ended September 30, 2012 and 2011 was approximately \$458,000 and \$235,000, respectively.

The following table shows the breakdown of TDRs by portfolio segment:

	September 30, 2012	December 31, 2011	September 30, 2011
<i>(dollars in thousands)</i>			
Commercial	\$ 7,718	\$ 422	\$ 183
Commercial mortgage	17,839	10,296	5,205
Commercial construction	7,173	5,221	5,255
Consumer construction			406
Residential mortgage	11,717	11,908	13,211
Home equity and 2nd mortgage			413
Other consumer			
	<u>\$ 44,447</u>	<u>\$ 27,847</u>	<u>\$ 24,673</u>
Nonaccrual TDRs (included in above totals)	<u>\$ 7,441</u>	<u>\$ 2,506</u>	<u>\$ 4,638</u>

The following table shows the breakdown of loans we modified during the three and nine months ended September 30:

Three Months Ended September 30,					
2012			2011		
Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
<i>(dollars in thousands)</i>					

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Commercial	1	\$	7,125	\$	7,125	1	\$	297	\$	22
Commercial mortgage	2		18		18					
	<u>3</u>	<u>\$</u>	<u>7,143</u>	<u>\$</u>	<u>7,143</u>	<u>1</u>	<u>\$</u>	<u>297</u>	<u>\$</u>	<u>22</u>

21

Nine Months Ended September 30,

	2012			2011		
	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
<i>(dollars in thousands)</i>						
Commercial	3	\$ 7,336	\$ 7,336	2	\$ 460	\$ 185
Commercial mortgage	8	2,767	2,775	2	2,195	2,195
Commercial construction	2	7,093	7,093			
Residential mortgage	1	863	863	1	566	579
	14	\$ 18,059	\$ 18,067	5	\$ 3,221	\$ 2,959

The majority of our TDRs are the result of renewals where the only concession is that the interest rate is not considered to be a market rate. As such, the best illustration of the financial impact of the TDRs is the effect on the allowance for loan losses.

During the nine months ended September 30, 2012, the allowance for loan losses for TDRs was increased by \$92,000 (\$145,000 for commercial, offset by a reduction of \$33,000 for commercial mortgage and \$20,000 for residential mortgage). During the nine months ended September 30, 2012, we charged-off \$245,000 for three TDR residential mortgage loans and one TDR commercial mortgage loan and transferred two TDR residential mortgage loans and one commercial mortgage loan for a total of \$620,000 to real estate acquired through foreclosure.

The following table shows defaults during the stated period of modifications made during the previous year:

Nine Months Ended September 30,

	2012		2011	
	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment
<i>(dollars in thousands)</i>				
Commercial	1	\$ 22		\$

(5) Regulatory Matters, Capital Adequacy, and Liquidity

Regulatory matters and capital adequacy

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 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 I capital to risk-weighted assets and of Tier I capital to average quarterly assets. As of September 30, 2012 and December 31, 2011, the Bank was undercapitalized under the regulatory framework for prompt corrective action.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Our regulatory capital amounts and ratios as of September 30, 2012 and December 31, 2011 were as follows:

	Actual		Minimum Requirements for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(dollars in thousands)</i>						
September 30, 2012:						
Total capital (to risk-weighted assets):						
Consolidated	\$ (7,090)	(0.8)%	\$ 70,843	8.0%	\$ 88,554	10.0%
Bank	62,457	7.1%	70,770	8.0%	88,463	10.0%
Tier I capital (to risk-weighted assets):						
Consolidated	(7,090)	(0.8)%	35,422	4.0%	53,132	6.0%
Bank	51,307	5.8%	35,385	4.0%	53,078	6.0%
Tier I capital (to average quarterly assets):						
Consolidated	(7,090)	(0.6)%	50,400	4.0%	63,000	5.0%
Bank	51,307	4.1%	50,363	4.0%	62,954	5.0%
December 31, 2011:						
Total capital (to risk-weighted assets):						
Consolidated	\$ (22,393)	(2.6)%	\$ 68,242	8.0%	\$ 85,302	10.0%
Bank	46,659	5.5%	68,243	8.0%	85,304	10.0%
Tier I capital (to risk-weighted assets):						
Consolidated	(22,393)	(2.6)%	34,121	4.0%	51,181	6.0%
Bank	35,935	4.2%	34,122	4.0%	51,183	6.0%
Tier I capital (to average quarterly assets):						
Consolidated	(22,393)	(1.9)%	47,533	4.0%	59,416	5.0%
Bank	35,935	3.0%	47,468	4.0%	59,335	5.0%

The FDIC, through the Deposit Insurance Fund, insures deposits of accountholders up to \$250,000, with the exception of noninterest-bearing transaction accounts, which are insured without limit through December 31, 2012. The Bank pays an annual premium to provide for this insurance.

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 I leverage capital ratio of at least 7.5% and a total risk-based capital ratio of at least 11% by June 30, 2010. As of September 30, 2012, we did not yet meet the requirements. The failure to achieve these capital requirements could result in further action by our regulators.

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 was required to 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, may not accept, renew, or roll over any brokered deposits, and is restricted in the yields that it may pay on deposits.

First Mariner Bancorp is also a party to agreements with the Federal Reserve Bank (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

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

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 or redeeming any shares of its stock. To satisfy the FRB's minimum capital requirements, First Mariner's consolidated Tier I capital to average quarterly assets, Tier I 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, 2012, those capital ratios were (0.6)%, (0.8)%, and (0.8)%, 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.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

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.

Liquidity

The Bank's principal sources of liquidity are cash and cash equivalents (which are cash on hand and amounts due from financial institutions, federal funds sold, money market mutual funds, and interest bearing deposits), AFS securities, deposit accounts, and borrowings. The levels of such sources are dependent on the Bank's operating, financing, and investing activities at any given time. We attempt to primarily rely on core deposits from customers to provide stable and cost-effective sources of funding to support our loan growth. We also seek to augment such deposits with longer term and higher yielding certificates of deposit. Cash and cash equivalents, which totaled \$111.2 million at September 30, 2012, have immediate availability to meet our short-term funding needs. Our entire securities portfolio is classified as AFS, is highly marketable (excluding our holdings of pooled trust preferred securities), and is available to meet our liquidity needs. Additional sources of liquidity include LHFS, which totaled \$371.6 million at September 30, 2012, are committed to be sold into the secondary market, and generally are funded within 60 days and our residential real estate portfolio, which includes loans that are underwritten to secondary market criteria. Additionally, our residential construction loan portfolio provides a source of liquidity as construction periods generally range from 9-12 months, and these loans are subsequently refinanced with permanent first-lien mortgages and sold into the secondary market.

(6) 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. As of September 30, 2012, all options and warrants are fully vested and all compensation expense related to currently outstanding options and warrants has been recognized.

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, 2012 and 2011:

	2012			2011				
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of period	836,228	\$ 7.98			930,228	\$ 7.92		
Forfeited/cancelled	(245,400)	12.46			(89,650)	2.65		
Outstanding and exercisable at end of period	590,828	6.13	2.5	\$	840,578	8.02	3.0	\$

There were no options or warrants granted or exercised during 2012 or 2011.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Options and warrants outstanding are summarized as follows at September 30, 2012:

Exercise Price	Options and Warrants Outstanding and Exercisable (shares)	Weighted Average Remaining Contractual Life (in years)
\$ 1.09	18,348	2.7
1.15	347,826	2.5
4.15	11,200	5.6
5.41	2,754	5.2
5.70	19,500	5.5
9.86	1,350	0.0
11.68	52,250	0.3
11.95	600	0.3
13.00	700	0.5
13.33	7,300	4.6
13.52	3,000	0.6
16.67	4,800	2.6
16.70	1,800	3.0
16.95	2,300	1.0
17.45	16,250	3.2
17.77	70,850	2.3
18.20	4,950	1.6
18.38	16,650	1.3
18.94	2,350	4.1
19.30	6,050	3.6
	590,828	

(7) Income (Loss) Per Share

Basic income (loss) per share is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding. Diluted income (loss) per share is computed after adjusting the denominator of the basic income (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, 2012 and 2011, all options and warrants were antidilutive and excluded from the computations.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Weighted-average share outstanding - basic and diluted	18,860,482	18,860,482	18,860,482	18,637,600
Net income (loss) (dollars in thousands)	\$ 7,926	\$ (7,960)	\$ 15,418	\$ (26,269)
Basic and diluted income (loss) per share	\$ 0.42	\$ (0.42)	\$ 0.82	\$ (1.41)

(8) 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 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.

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:

September 30, 2012

	<u>Carrying Value</u>	<u>Quoted Prices (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total Changes In Fair Values Included In Period Income</u>
<i>(dollars in thousands)</i>					
Securities:					
Mortgage-backed securities	\$ 5,556	\$	\$ 5,556	\$	\$
Trust preferred securities	9,081		8,224	857	(460)(1)
U.S. government agency notes	25,458		25,458		
U.S. Treasury securities	3,038		3,038		
Equity securities - banks	1,404		1,404		
Equity securities - mutual funds	797		797		
	<u>\$ 45,334</u>	<u>\$</u>	<u>\$ 44,477</u>	<u>\$ 857</u>	<u>\$ (460)</u>
Warrants	\$ 115	\$	\$	\$ 115	\$
LHFS	371,554		371,554		6,710
Interest rate lock commitments (IRLC or IRLCs) (notional amount of \$174,119)	177,127		177,127		5,913
Forward contracts to sell mortgage-backed securities (notional amount of \$187,519)	191,537		191,537		(14,509)

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

December 31, 2011

	<u>Carrying Value</u>	<u>Quoted Prices (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total Changes In Fair Values Included In Period Losses</u>
<i>(dollars in thousands)</i>					
Securities:					
Mortgage-backed securities	\$ 1,959	\$	\$ 1,959	\$	\$
Trust preferred securities	10,268		9,586	682	(838)(1)
U.S. government agency notes	8,518		8,518		
U.S. Treasury securities	1,004		1,004		
Equity securities - banks	151		151		
Equity securities - mutual funds	782		782		

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

	\$ 22,682	\$	\$ 22,000	\$ 682	\$ (838)
Warrants	\$ 18	\$	\$	\$ 18	\$
LHFS	182,992		182,992		4,164
IRLCs (notional amount of \$138,075)	139,899		139,899		1,299
Forward contracts to sell mortgage-backed securities (notional amount of \$102,250)	101,772		101,772		(7,527)

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

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.

AFS Securities

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.

As of September 30, 2012, \$857,000 (\$10.9 million par value) of our AFS securities (four securities) were classified as Level 3, all of which were pooled trust preferred securities. The market environment has continued to be inactive for these security types and made fair value pricing more subjective.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The fair value of these four securities is primarily a function of the credit quality of the issuer, although there is some sensitivity to interest rate changes. A change in the rating of a security will affect its value.

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:

<i>(dollars in thousands)</i>	Class	Remaining Par Value	Current Rating/Outlook (1)		Maturity	(2)	(3)
			Moody's	Fitch		Auction Call Date	Index
ALESCO Preferred Funding VII	C-1	\$ 1,000	Ca	C	7/23/2035	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	8/1/2031	N/A	6ML + 3.1%
MM Community Funding IX	B-1	2,500	Ca	CC	5/1/2033	N/A	3ML + 1.8%

(1) Ratings as of September 30, 2012

(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 as of September 30, 2012:

	Cumulative Default (1)	Deferrals Cured (2)	Credit MTM (3)(6)	Liquidity Premium (4)	Liquidity MTM Adj (5)(6)
ALESCO Preferred Funding VII	50.00%	4.30%	\$ 29.43	12.00%	\$ 26.69
ALESCO Preferred Funding XI	36.00%	5.90%	49.41	12.00%	38.89
MM Community Funding	65.00%	1.90%	16.03	12.00%	10.29
MM Community Funding IX	55.00%	8.40%	50.35	12.00%	43.67

(1) The anticipated level of total defaults from the issuers within the pool of performing collateral as of September 30, 2012. 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 assumptions 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.

Fair values were as follows:

September 30, 2012

December 31, 2011

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

	Model Result (1)	Fair Value (in thousands)	Model Result (1)(2)	Fair Value (in thousands)
ALESCO Preferred Funding VII	\$ 2.74	\$ 27	\$ 7.22	\$ 72
ALESCO Preferred Funding XI	10.52	519	8.80	435
MM Community Funding	5.74	144	2.96	74
MM Community Funding IX	6.68	167	4.05	101
		\$ 857		\$ 682
		\$ 857		\$ 682

(1) Price per \$100

(2) Based on December 31, 2011 assumptions

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

During 2012 and 2011, we determined that OTTI had occurred in our pooled trust preferred security portfolio. 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 the aforementioned method that was charged to operating earnings totaled \$460,000 for the nine months ended September 30, 2012. No OTTI was recognized during the three months ended September 30, 2012. The credit loss that was charged to operating earnings totaled \$681,000 and \$818,000 for the three and nine months ended September 30, 2011, respectively.

Warrants

As of September 30, 2012, outstanding warrants were classified as Level 3. The fair value of the warrants is primarily a function of the Company's stock price. Changes in the price will create corresponding changes to the fair value of the warrants.

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, 2012 and 2011:

	2012		2011	
	Securities	Warrants	Securities	Warrants
	<i>(dollars in thousands)</i>			
Balance at beginning of period	\$ 763	\$ 118	\$ 959	\$ 162
Change in fair value included in additional paid-in capital		(3)		(114)
Total realized losses included in other comprehensive income (loss)			(681)	
Total unrealized gains included in accumulated other comprehensive loss	94		423	
Balance at end of period	\$ 857	\$ 115	\$ 701	\$ 48

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, 2012 and 2011:

	2012		2011		
	Securities	Warrants	Securities	MSRs	Warrants
	<i>(dollars in thousands)</i>				
Balance at beginning of period	\$ 682	\$ 18	\$ 987	\$ 1,309	\$ 137
MSR amortization				(135)	
Change in fair value included in additional paid-in capital		97			(89)
Reduction due to transfer of servicing rights				(1,174)	
Total realized losses included in other comprehensive income (loss)	(460)		(818)		
Total unrealized gains included in accumulated other comprehensive loss	635		532		
Balance at end of period	\$ 857	\$ 115	\$ 701	\$	\$ 48

There were no transfers between any of Levels 1, 2, and 3 during either the three or nine months ended September 30, 2012 or September 30, 2011.

Other Financial Instruments Measured on a Recurring Basis

LHFS

LHFS 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.

IRLCs

We engage an experienced independent third party to estimate the fair market value of our IRLCs. 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 Contracts to Sell Mortgage-Backed Securities

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

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 (LCM) accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis, the following tables provide the level of valuation assumptions used to determine each adjustment and the carrying value of the assets:

September 30, 2012

	Carrying Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<i>(dollars in thousands)</i>			
Impaired loans	\$ 73,665	\$	\$	\$ 73,665
Real estate acquired through foreclosure	19,978			19,978

December 31, 2011

	Carrying Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<i>(dollars in thousands)</i>			
Impaired loans	\$ 62,019	\$	\$	\$ 62,019
Real estate acquired through foreclosure	25,235			25,235
<i>Impaired Loans</i>				

Allowable methods for estimating fair value for impaired loans 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.

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.

For all loans other than TDRs, a partial charge-off is recorded to reduce the carrying amount of the loan to its fair value. For TDRs that have an estimated fair value that is below the carrying value, an allocation of the allowance for loan losses is established and remains part of the allowance until such time that it is determined the loan will proceed to foreclosure. Total impaired loans had a carrying value of \$73.7 million and \$62.0 million as of September 30, 2012 and December 31, 2011, respectively, with allocated reserves of \$375,000 and \$283,000 as of September 30, 2012 and December 31, 2011, respectively.

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 \$20.0 million as of September 30, 2012 and \$25.2 million as of December 31, 2011. During 2012, we added \$6.3 million to real estate acquired through foreclosure and recorded write-downs and losses on sales, included in noninterest expense, of \$1.8 million. We disposed of \$9.7 million of foreclosed properties during 2012.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

All Financial Instruments

The carrying value and estimated fair value of financial instruments are summarized in the following table. The descriptions of the fair value calculations for AFS securities and warrants are included in the discussions above.

September 30, 2012					
Carrying Value	Fair Value				Total
	Level 1	Level 2	Level 3		
<i>(dollars in thousands)</i>					
Assets:					
Cash and cash equivalents	\$ 111,207	\$ 111,207			\$ 111,207
AFS securities	45,334		44,477	857	45,334
LHFS	371,554		371,554		371,554
Loans receivable	643,468		566,971	73,665	640,636
Restricted stock investments	6,829	6,829			6,829
Liabilities:					
Deposits	1,108,151		1,118,296		1,118,296
Long- and short-term borrowings	120,828		123,565		123,565
Junior subordinated deferrable interest debentures	52,068		37,789		37,789
Warrants	115			115	115
Off Balance Sheet Items:					
IRLCs	177,127		177,127		177,127
Forward contracts to sell mortgage-backed securities	191,537		191,537		191,537

December 31, 2011					
Carrying Value	Fair Value				Total
	Level 1	Level 2	Level 3		
<i>(dollars in thousands)</i>					
Assets:					
Cash and cash equivalents	\$ 148,789	\$ 148,789			\$ 148,789
AFS securities	22,682		22,000	682	22,682
LHFS	182,992		182,992		182,992
Loans receivable	701,751		641,354	62,019	703,373
Restricted stock investments	7,085	7,085			7,085
Liabilities:					
Deposits	1,014,760		1,027,354		1,027,354
Long- and short-term borrowings	121,679		122,717		122,717
Junior subordinated deferrable interest debentures	52,068		36,902		36,902
Warrants	18			18	18
Off Balance Sheet Items:					
IRLCs	139,899		139,899		139,899
Forward contracts to sell mortgage-backed securities	101,772		101,772		101,772

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 loan class. Each loan class was further segmented by fixed and adjustable rate interest terms and performing and nonperforming categories. The fair value of each loan class 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 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.

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.

(9) 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, a division of the Bank, and involves originating first- and second-lien residential mortgages for sale in the secondary market and to the Bank.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The following tables present certain information regarding our business segments:

Nine months ended September 30, 2012:

	Commercial and Consumer Banking	Mortgage- Banking	Total
	<i>(dollars in thousands)</i>		
Interest income	\$ 28,269	\$ 6,438	\$ 34,707
Interest expense	9,456	2,280	11,736
Net interest income	18,813	4,158	22,971
Provision for loan losses	572		572
Net interest income after provision for loan losses	18,241	4,158	22,399
Noninterest income	4,044	35,450	39,494
Noninterest expense	37,611	9,069	46,680
Net intersegment income	1,112	(1,112)	
Net (loss) income before income taxes	\$ (14,214)	\$ 29,427	\$ 15,213
Total assets	\$ 922,480	\$ 371,554	\$ 1,294,034

Nine months ended September 30, 2011:

	Commercial and Consumer Banking	Mortgage- Banking	Total
	<i>(dollars in thousands)</i>		
Interest income	\$ 33,309	\$ 2,209	\$ 35,518
Interest expense	14,042	883	14,925
Net interest income	19,267	1,326	20,593
Provision for loan losses	11,580		11,580
Net interest income after provision for loan losses	7,687	1,326	9,013
Noninterest income	7,585	7,942	15,527
Noninterest expense	44,321	6,488	50,809
Net intersegment income	1,674	(1,674)	
Net (loss) income before income taxes	\$ (27,375)	\$ 1,106	\$ (26,269)
Total assets	\$ 1,071,470	\$ 126,191	\$ 1,197,661

(10) Recent Accounting Pronouncements
Pronouncement Adopted

In September 2011, the FASB issued guidance on the reporting and presentation of comprehensive income. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity and requires an entity to present items of net income, other comprehensive income, and total comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance also requires companies to display reclassification adjustments for each component of other comprehensive income in both net income and other comprehensive income. The Company adopted this pronouncement during the first quarter of 2012.

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 subsidiary. 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, 2011.

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 570 employees (approximately 559 full-time equivalent employees) as of September 30, 2012.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The Bank, with assets of \$1.3 billion as of September 30, 2012, is engaged in the general commercial banking business, with particular attention and emphasis on the needs of individuals and small to mid-sized 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 and 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 had assets of \$371.6 million and \$183.0 million as of September 30, 2012 and December 31, 2011, respectively, and generated revenue of \$41.9 million and \$10.2 million, respectively, for the nine months ended September 30, 2012 and 2011. They recognized income before income taxes of \$29.4 million and \$1.1 million during the nine months ended September 30, 2012 and 2011, respectively. Origination volume during the nine months ended September 30, 2012 and 2011 was \$1.8 billion and \$691.8 million, respectively. During 2012, 50% of the originations were made in the state of Maryland, 15% in the immediately surrounding states and Washington, DC., and the remaining 35% in other states throughout the country. First Mariner Mortgage has offices in Maryland, Delaware, Virginia, and North Carolina. See Note 9 to the Consolidated Financial Statements for more detailed information on the results of our mortgage-banking operations.

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S.) (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.

Securities

We designate securities into one of three categories at the time of purchase. Debt securities that we have the intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Debt and equity securities are classified as trading if bought and held principally for the purpose of sale in the near term. Trading securities are reported at estimated fair value, with unrealized gains and losses included in earnings. Debt securities not classified as held to maturity and debt and equity securities not classified as trading securities are considered available for sale (AFS) and are reported at estimated fair value, with unrealized gains and losses reported as a separate component of stockholders' deficit, net of tax effects, in accumulated other comprehensive loss.

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 a security 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 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 loss. 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 is recognized in earnings.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Gains or losses on the sales of securities are calculated using a specific-identification basis and are determined on a trade-date basis. Premiums and discounts on securities are amortized (accrued) over the term of the security using methods that approximate the interest method. Gains and losses on trading securities are recognized regularly in income as the fair value of those securities changes.

Loans

Allowance for loan losses

Our allowance for loan losses represents an estimated amount that, in management's judgment, will be adequate to absorb probable incurred losses on existing loans. The allowance for loan losses consists of an allocated component and an unallocated component. Management uses a disciplined process and methodology to establish the allowance for losses each quarter. To determine the total allowance for loan losses, we estimate the reserves needed for each class of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (1) the commercial loan portfolio; (2) the commercial mortgage loan portfolio; (3) the construction loan portfolios (both commercial and consumer); (4) the residential mortgage loan portfolio; (5) the home equity and second mortgage loan portfolio; and (6) the other consumer loan portfolio.

To determine the balance of the allowance account, loans are pooled by portfolio class and losses are modeled using historical experience, quantitative analysis, and other mathematical techniques over the loss emergence period. For each class of loan, significant judgment is exercised to determine the estimation method that fits the credit risk characteristics of that portfolio class. We use internally developed models in this process. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and judgment and responds timely to changes in economic conditions and other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses.

Management monitors differences between estimated and actual incurred loan losses utilizing charge-off history. Loans deemed uncollectible are charged against, while recoveries are credited to, the allowance. Management adjusts the level of the allowance through the provision for loan losses, which is recorded as a current period operating expense.

Commercial (including commercial mortgages) and construction loans (including both commercial and consumer) are generally evaluated for impairment when the loan becomes 90 days past due and/or is rated as substandard. The difference between the fair value of the collateral, less estimated selling costs and the carrying value of the loan is charged off at that time. Residential mortgage loans are generally charged down to their fair value when the loan becomes 120 days past due or is placed in nonaccrual status, whichever is earlier. Consumer loans are generally charged off when the loan becomes 120 days past due or when it is determined that the amounts due are uncollectible (whichever is earlier). The above charge-off guidelines may not apply if the loan is both well secured and in the process of collection. These charge-off policies have not changed in the last three years.

As an additional portion of the allowance for loan losses, we also estimate probable losses related to unfunded loan commitments. These commitments are subject to individual review and are analyzed for impairment the same as a correspondent loan would be.

Impairment

We determine a loan 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 consist of nonaccrual loans and troubled debt restructures (TDR or TDRs). We do not consider a loan impaired during a period of delay in payment if we expect to collect all amounts due, including interest past due. Generally we consider a period of delay in payment to include delinquency up to 90 days, but may extend this period if the loan is collateralized by residential or commercial real estate with a low loan-to-value (LTV) ratio, and where collection and repayment efforts are progressing. We evaluate our commercial, commercial mortgage, commercial construction, and consumer construction classes of loans individually for impairment. We evaluate larger groups of smaller-balance homogeneous loans, which include our residential mortgage, home equity and second mortgage, and other consumer classes of loans, collectively for impairment.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

We identify impaired loans and measure impairment (1) at the present value of expected cash flows discounted at the loan's effective interest rate, (2) at the observable market price, or (3) at the fair value of the collateral if the loan is collateral dependent. If our measure of the impaired loan is less than the recorded investment in the loan, we record a charge-off for the deficiency unless it's a TDR, for which we recognize an impairment loss through an allocated portion of the allowance for loan losses.

When the ultimate collectability of an impaired loan's principal is in doubt, wholly or partially, all cash receipts are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are applied to interest income, to the extent any interest has been foregone, and then they are recorded as recoveries of any amounts previously charged off. When this doubt no longer exists, cash receipts are applied under the contractual terms of the loan agreement.

Nonaccrual status

For smaller noncommercial loans, we place loans in nonaccrual status when they are contractually past due 90 days as to either principal or interest, unless the loan is well secured and in the process of collection, or earlier, when, in the opinion of management, the collection of principal and interest is in doubt. For all commercial loans, larger loans, and certain mortgage loans, management applies Financial Accounting Standards Board (FASB) guidance on impaired loan accounting to determine accrual status. Under that guidance, when it is probable that we will be unable to collect all payments due, including interest, we place the loan in nonaccrual status. A loan 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. Specifically, in order for a nonaccrual loan to be returned to accrual status, a borrower must make six consecutive monthly payments and the borrower must demonstrate the ability to keep the loan current going forward. When a loan is partially charged off, the remaining balance remains in nonaccrual status.

As a result of our ongoing review of the loan portfolio, we may classify loans as nonaccrual even though the presence of collateral or the borrower's financial strength may be sufficient to provide for ultimate repayment. In general, loans are charged off when a loan or a portion thereof is considered uncollectible. We determine that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date. Interest and fees continue to accrue on past due loans until the date the loan goes in nonaccrual status. We recognize interest on nonaccrual loans only when it is received.

Income recognition

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. Payments on nonaccrual loans are applied to principal. See additional information on loan impairment and nonaccrual status above.

Real estate acquired through foreclosure

We record real estate acquired through foreclosure at the lower of cost or market value (LCM) 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 the 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.

Income taxes

Deferred income taxes are recognized for the tax consequences of temporary differences between financial statement carrying amounts and the tax bases of assets and liabilities. Deferred income taxes are provided on income and expense items when they are reported for financial statement purposes in periods different from the periods in which these items are recognized in the income tax returns. Deferred tax assets are recognized only to the extent that it is more likely than not that such amounts will be realized based upon consideration of available evidence, including tax planning strategies and other factors.

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.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

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. For tax positions not meeting the more likely than not test, no tax benefit is recorded. As of September 30, 2012 and December 31, 2011, we maintained a valuation allowance against the full amount of our deferred tax assets. 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.

We recognize interest and penalties related to income tax matters in income tax expense.

Financial Condition

Total assets increased to \$1.3 billion at September 30, 2012 from \$1.2 billion at December 31, 2011. Earning assets increased \$140.4 million, or 14.6%, to \$1.1 billion at September 30, 2012 from \$959.1 million at December 31, 2011 primarily due mortgage-banking operations and the resultant \$188.6 million increase in loans held for sale (LHFS). Deposits increased \$93.4 million and our stockholders' deficit decreased by \$16.6 million.

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. We held \$45.3 million and \$22.7 million, respectively, in securities classified as AFS as of September 30, 2012 and December 31, 2011.

Changes in current market conditions, such as interest rates and the economic uncertainties in the mortgage, housing, and banking industries have severely impacted the securities market. The secondary market for various types of securities has been limited and has negatively impacted security values. Quarterly, we review each security in our AFS portfolio to determine the nature of any decline in value and evaluate if any impairment should be classified as OTTI. For the nine months ended September 30, 2012, we determined that OTTI had occurred with respect to our pooled trust preferred securities portfolio in the amount of \$460,000.

The trust preferred securities we hold in our securities portfolio were issued by other banks, bank holding companies, and insurance companies. As mentioned above, certain of these securities have experienced declines in credit ratings from credit rating firms, which have devalued these specific securities. 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 impaired are so 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 more likely than not that we will not be required to sell the securities before recovery of value. As such, management considers the impairments to be temporary.

Our AFS securities portfolio composition is as follows:

	September 30, 2012	December 31, 2011
<i>(dollars in thousands)</i>		
Mortgage-backed securities	\$ 5,556	\$ 1,959
Trust preferred securities	9,081	10,268
U.S. government agency notes	25,458	8,518
U.S. Treasury securities	3,038	1,004
	1,404	151

Equity securities - banks		
Equity securities - mutual funds	797	782
	<u> </u>	<u> </u>
	\$ 45,334	\$ 22,682
	<u> </u>	<u> </u>

LHFS

We originate residential mortgage loans for sale on the secondary market. At September 30, 2012 and December 31, 2011, such LHFS, which are carried at fair value, amounted to \$371.6 million and \$183.0 million, respectively.

When we sell mortgage loans we make certain representations to the purchaser related to loan ownership, loan compliance and legality, and accurate documentation, among other things. If a loan is found to be out of compliance with any of the representations subsequent to the date of purchase, we may be required to repurchase the loan or indemnify the purchaser for losses related to the loan, depending on the agreement with the purchaser. In addition other factors may cause us to be required to repurchase or make-whole a loan previously sold.

Prior to January 1, 2008, we used investor contracts that contained early payment default clauses that required us to repurchase and make-whole requests on loans sold prior to that date. We experienced losses on loans closed prior to 2008 due to borrower loan payment default. After January 1, 2008, we revised our contract and terms process to include the elimination of early payment default as a risk factor in the majority of our investor contracts and resulting loan sales. The most common reason for a loan repurchase for loans sold since January 1, 2008 is due to a documentation error or disagreement with an investor or on rare occasions for fraud. Repurchase requests are negotiated with each investor at the time we are notified of the demand and an appropriate reserve is taken at that time. Repurchase and or make-whole requests are initially negotiated by the secondary marketing department and monitored by the secondary marketing committee where most disagreements are resolved with no reserve requirement or loss to the Company. In the event there is an unresolved repurchase or make-whole request, the loan is managed by the secondary marketing committee and is elevated to be monitored by the mortgage overview committee to determine the final settlement terms with the investor. Repurchases amounted to \$827,000 and \$435,000 during the nine months ended September 30, 2012 and 2011, respectively. Our reserve for potential repurchases was \$345,000 and \$660,000 as of September 30, 2012 and December 31, 2011, respectively. These reserves were calculated based upon an analysis of the specific loans in question. We do not foresee increases in repurchases to be a growing trend nor do we see it having a significant impact on our financial results.

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.

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

	September 30, 2012	Percent of Total	December 31, 2011	Percent of Total
	<i>(dollars in thousands)</i>			
Commercial	\$ 45,717	7.1%	\$ 52,842	7.5%
Commercial mortgage	296,274	46.0%	326,530	46.5%
Commercial construction	48,319	7.5%	54,349	7.8%
Consumer construction	18,886	2.9%	16,280	2.3%
Residential mortgage	112,815	17.6%	121,119	17.3%
Consumer	121,457	18.9%	130,631	18.6%
Total loans	\$ 643,468	100.0%	\$ 701,751	100.0%

Total loans decreased \$58.3 million during 2012. We experienced lower balances in all loan types, with the exception of consumer construction loans, which increased \$2.6 million. We remained focused on improving asset quality 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 September 30, 2012 total included above, \$21.4 million represents loans made to borrowers for the development of residential real estate. This segment of the portfolio has exhibited greater weakness (relative to our other loan segments) during 2011 and 2012 due to overall weakness in the residential housing sector.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The breakdown of the portion of the commercial construction portfolio made to borrowers for residential real estate developments is as follows as of September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
<i>(dollars in thousands)</i>		
Raw residential land	\$ 5,227	\$ 5,931
Residential subdivisions	4,213	4,171
Single residential lots	2,059	3,005
Single family construction	2,114	3,351
Townhome construction		209
Multi-family unit construction	7,776	5,561
	\$ 21,389	\$ 22,228

Transferred Loans

In accordance with FASB 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 \$8.4 million in mortgage loans that were transferred from LHFS to our mortgage and consumer loan portfolios at September 30, 2012.

Credit Risk Management

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.

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. 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.

For purposes of determining the allowance for loan losses, we have segmented our loan portfolio by product type. Our loan segments are commercial, commercial mortgage, commercial construction, consumer construction, residential mortgage, and consumer. We have looked at all segments to determine if subcategorization into classes is warranted based upon our credit review methodology. As of September 30, 2012, we divided consumer loans into two classes, (1) home equity and second mortgage loans and (2) other consumer loans. For each class of loan, significant judgment is exercised to determine the estimation method that fits the credit risk characteristics of its portfolio segment. We use internally developed models in this process. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical

foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

To establish the allowance for loan losses, which we do on a quarterly basis, loans are pooled by portfolio class and an historical loss percentage is applied to each class. The historical loss percentage is based upon a rolling 24 month history, which gives us the most current and relevant charge-off data. The result of that calculation for each loan class is then applied to the current loan portfolio balances to determine the required allowance for loan loss level per loan class. We then apply additional loss multipliers to the different classes of loans to reflect various environmental factors. This amount is considered our unallocated reserve. These factors capture any changes in economic trends, portfolio composition, real estate trends, as well as other factors and are meant to supplement the required reserves. For individually evaluated loans (impaired loans), we do additional analyses to determine the impairment amount (see below for more detail on these calculations). In general, this impairment amount is included as an allocated portion of the allowance for loan losses for TDRs and is charged off for all other impaired loans. These loss estimates are performed under multiple economic scenarios to establish a range of potential outcomes for each criterion. Management applies judgment to develop its own view of loss probability within that range, using external and internal parameters with the objective of establishing an allowance for loss inherent within these portfolios as of the reporting date.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

See our charge-off policies under [Critical Accounting Policies](#) [Loans](#) [Allowance for loan losses](#) above.

See information on partial charge-offs later in this section.

Commercial

Credit risk in commercial lending, which includes commercial, commercial mortgage, commercial construction, and consumer construction loans, 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.

The risks associated with each portfolio class are as follows:

Commercial and Commercial Mortgage - The primary loan-specific risks in commercial and commercial mortgage loans are: deterioration of the business and/or collateral values, deterioration of the financial condition of the borrowers and/or guarantors, which creates a risk of default, and the risk that real estate collateral value determined through appraisals are not reflective of the true property values.

Portfolio risk includes condition of the economy, changing demand for these types of loans, large concentration of these types of loans, and geographic concentrations of these types of loans.

Commercial Construction loan-specific and portfolio risks related to commercial construction loans also carry the loan-specific and portfolio risks of commercial and commercial mortgage loans as described above. Additional loan-specific risks include project budget overruns and performance variables related to the contractor and subcontractors. An additional loan-specific risk for commercial construction of residential developments is the risk that the builder has a geographical concentration of developments.

Consumer Construction loan-specific and portfolio risks related to consumer construction loans to builders and ultimate homeowners carry the same loan-specific and portfolio risks as commercial construction loans as described above.

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 loans are generally reviewed individually, in accordance with FASB guidance on accounting for loan impairment, to determine impairment, accrual status, and the need for allocated reserves. We use creditworthiness categories to grade commercial loans. Our internal grading system is based on experiences with similarly graded loans and incorporates a variety of risk considerations, both qualitative and quantitative (see definitions of our various grades and the composition of our loan portfolio within those grades in Note 4 to the Consolidated Financial Statements). Quantitative factors include 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.

Consumer

Our consumer portfolio includes first- and second-lien mortgage loans and other loans to individuals. The risks associated with each portfolio class are as follows:

Residential Mortgage, Home Equity, and 2nd Mortgage The primary loan-specific risks related to residential mortgage, home equity, and 2nd mortgage lending include: unemployment, deterioration in real estate values, our ability to assess the creditworthiness of the customer, deterioration in the borrowers financial condition, whether the result of personal issues or a general economic downturn, and the risk that property values determined through appraisals are not reflective of the true property values. The portfolio risks for these types of loans are the same as for commercial and commercial mortgages as described above.

Other Consumer - The primary loan-specific risks of consumer loans are: unemployment, deterioration of the borrower's financial condition, whether the result of personal issues or a general economic downturn, and for certain consumer loans such as auto loans and boat loans, there is also a risk of deterioration in the value of the collateral. The portfolio risks for these types of loans are the same as for commercial and commercial mortgages as described above.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Generally, consumer loans are segregated into homogeneous pools with similar risk characteristics. We do not individually grade consumer loans. Such loans are classified as performing or nonperforming. 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.

Unallocated

The unallocated portion of the allowance is intended to provide for losses that are not identified when establishing the required portion 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 other allocated 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, loan concentrations by class and geography and any changes in such concentrations, specific industry conditions within portfolio categories, duration of the current business cycle, bank regulatory examination results, and management's judgment with respect to various other conditions including changes in management, including credit, loan administration, and origination staff, changes in underwriting standards, lending policies, and procedures, the impact of any new or modified lines of business, level and trends in nonaccrual and delinquent loans and charge-offs, changes in underlying collateral for collateral dependent loans, and management and the quality of risk identification systems. Executive management reviews these conditions quarterly. Economic factors are an important consideration in determining the adequacy of the loan loss reserve. A strong regional and national economy will reduce the probability of losses. Weaker regional and national economies will usually result in higher unemployment, higher vacancies in commercial real estate, and declining values on both commercial and residential properties, which will gradually increase the probability of losses. Key measures of economic strength or weakness are unemployment levels, interest rates, and economic growth and confidence.

In calculating the range of unallocated reserves to be included in our allowance calculation, we apply a range of basis points to the respective portfolios for environmental factors. Each of these factors is evaluated quarterly. The bottom range would be zero. The top range consists of the basis points shown below for the respective portfolios as of September 30, 2012 and December 31, 2011. The actual unallocated portion of the allowance has been within this estimated range.

September 30, 2012

	Commercial	Commercial Mortgage	Commercial Construction	Consumer Construction	Residential Mortgage	Consumer
Concentration of credit and changes in level of concentration		5	5	8	10	
Nature and volume of portfolio		25	25	4	4	
Trends of past due and classified loans	15	17	17	8	8	
Economic factors	24	24	24	12	14	48
Value of underlying collateral for collateral dependent loans		25	25	23	23	5
	39	96	96	55	59	53

December 31, 2011

	Commercial	Commercial Mortgage	Commercial Construction	Consumer Construction	Residential Mortgage	Consumer
Concentration of credit and changes in level of concentration		5	5	8	10	
Nature and volume of portfolio		25	25	4	4	
Trends of past due and classified loans	1	9	9	8	8	
Economic factors	24	24	24	9	9	43
Value of underlying collateral for collateral dependent loans		21	21	21	21	5

25

84

84

50

52

48

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.

See additional detail on our allowance methodology and risk rating system in Note 4 to the Consolidated Financial Statements.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The following table summarizes the activity in our allowance for loan losses by portfolio segment for the three and nine months ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	<i>(dollars in thousands)</i>			
Allowance for loan losses, beginning of period	\$ 13,522	\$ 14,115	\$ 13,801	\$ 14,115
Charge-offs:				
Commercial		(2,367)	(187)	(5,240)
Commercial mortgage	(253)	(1,325)	(573)	(1,834)
Commercial construction	(206)	(131)	(353)	(728)
Consumer construction			(7)	(24)
Residential mortgage	(365)	(670)	(879)	(2,209)
Consumer	(638)	(590)	(1,576)	(2,021)
Total charge-offs	(1,462)	(5,083)	(3,575)	(12,056)
Recoveries:				
Commercial				
Commercial mortgage			612	168
Commercial construction		24	52	24
Consumer construction				
Residential mortgage	5	23	425	37
Consumer	31	33	209	244
Total recoveries	36	80	1,298	473
Net charge-offs	(1,426)	(5,003)	(2,277)	(11,583)
Provision for loan losses		5,000	572	11,580
Allowance for loan losses, end of period	\$ 12,096	\$ 14,112	\$ 12,096	\$ 14,112
Loans (net of premiums and discounts):				
Period-end balance	\$ 643,468	\$ 736,672	\$ 643,468	\$ 736,672
Average balance during period	656,467	742,173	671,689	762,895
Allowance as a percentage of period-end loan balance	1.88%	1.92%	1.88%	1.92%
Percent of average loans:				
Provision for loan losses		2.67%	0.11%	2.03%
Net charge-offs	0.86%	2.67%	0.45%	2.03%

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

	September 30, 2012		December 31, 2011	
	Amount	Percent of Total	Amount	Percent of Total
	<i>(dollars in thousands)</i>			
Commercial	\$ 1,996	16.5%	\$ 2,768	20.1%
Commercial mortgage	1,608	13.3%	2,011	14.6%
Commercial construction	480	4.0%	1,809	13.1%
Consumer construction	221	1.8%	156	1.1%
Residential mortgage	1,578	13.0%	2,711	19.6%

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Consumer	2,034	16.8%	2,632	19.1%
Unallocated	4,179	34.6%	1,714	12.4%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 12,096	100.0%	\$ 13,801	100.0%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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 \$12.1 million at September 30, 2012 and \$13.8 million as of December 31, 2011. Any changes in the allowance from period to period reflect management's ongoing application of its methodologies to establish the allowance, which, in 2012, included decreases in the allowance for all loans segments, with the exception of consumer construction. Both the one increase and the remaining decreases are a reflection of the increase and decreases in the corresponding loan balances. We increased the unallocated portion of the allowance to reflect changes in relevant environmental factors (see detail above). We reduced the level of delinquencies and benefitted from a stabilizing economy and real estate market in 2012.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The provision for loan losses recognized to maintain the allowance was \$0 and \$572,000 for the three and nine months ended September 30, 2012 and 2011, respectively, and \$5.0 million and \$11.6 million for the three and nine months ended September 30, 2011, respectively. We recorded net charge-offs of \$2.3 million during the first nine months of 2012 compared to net charge-offs of \$11.6 million during the same period in 2011. During 2012, net charge-offs as compared to average loans outstanding decreased to 0.45%, compared to 2.0% during 2011. We generally record a significant amount of charge-offs as a result of our policy to charge off all fair value deficiencies instead of carrying an allocated portion of the allowance for loan losses (except with respect to nonaccrual TDRs). Partial charge-offs of nonaccrual loans decrease the amount of nonperforming and impaired loans, as well as any allocated allowance attributable to that loan. They decrease our allowance for loan losses, as well as our allowance for loan losses to nonperforming loans ratio and our allowance for loan losses to total loans ratio. Partial charge-offs increase our net charge-offs to average loans ratio. Total partial charge-offs of nonaccrual loans for the three and nine months ended September 30, 2012 amounted to \$588,000 and \$1.4 million, respectively. Total partial charge-offs of nonaccrual loans for the three and nine months ended September 30, 2011 amounted to \$3.8 million and \$5.2 million, respectively. The total amount of nonaccrual loans (prior to charge offs) for which we recorded partial charge-offs for the three and nine months ended September 30, 2012 was \$7.2 million and \$10.6 million, respectively, and the total amount of nonaccrual loans for which we recorded partial charge-offs for the three and nine months ended September 30, 2011 was \$22.2 million and \$37.4 million, respectively.

Our allowance as a percentage of outstanding loans has decreased from 1.97% as of December 31, 2011 to 1.88% as of September 30, 2012, reflecting the improvement in our asset quality.

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 and related methodology. 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, 2012 and is sufficient to address the credit losses inherent in the current loan portfolio. We based this determination on several factors:

We maintain appropriate oversight committees to track deteriorating credits thereby timely identifying potential problems and noting when current appraisals are due;

We individually analyze all nonperforming assets (NPA) and all credits risk rated 8 or above for impairment. We immediately charge off any deficiencies in collateral value that is identified in the impairment analysis (thus, placing all NPAs and risk-ratings (RR) of RR8 at fair value) (see additional detail related to risk ratings in Note 4 to the Consolidated Financial Statements);

We calculate our required reserves based upon a rolling 24 month average of actual charge-offs, thereby utilizing current trend data of actual losses. These calculated loss percentages are then applied to our current loan balance by loan type to determine the required reserves;

We apply environmental factors to calculate an unallocated reserve range. This unallocated reserve is meant to cover any negative economic and business trends that may develop; and

The combination of the calculated required reserve plus the range of the unallocated reserve results in a total range to our allowance for loan losses. Our allowance for loan losses has been within the estimated ranges.

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.

NPAs and Loans 90 Days Past Due and Still Accruing

Given the volatility of the real estate market, it is very important for us to have current appraisals on our NPAs. Generally, we annually obtain appraisals on NPAs. Previously, for residential and consumer nonperforming loans below \$500,000, an alternative valuation method (AVM) may have been used in lieu of an appraisal. AVMs were obtained from an unrelated independent third party company. The third party valuation utilized a comparative sales based methodology analysis. It also had the ability to handle geographic anomalies, and advanced algorithms which, when coupled with access to multiple data sources, returned accurate and reliable valuation results. The turnaround time for these AVMs was generally within a few minutes of our request. As such, the use of AVMs in no way adversely impacted our overall valuation process, nor did it negatively affect the amount or timing of any provisions or charge-offs. In fact, the quick turnaround time of these AVMs helped identify potential losses immediately. There could be circumstances where we might utilize AVMs, along with additional corroborating procedures, again in the future.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

As part of our asset monitoring activities, we maintain a Workout Committee that meets three times per month. During these Workout Committee meetings, all NPAs and loan delinquencies are reviewed. We also produce an NPA report which is distributed weekly to senior management and is also discussed and reviewed at the Workout Committee meetings. This report contains all relevant data on the NPAs, including the latest appraised value and valuation date. Accordingly, these reports identify which assets will require an updated appraisal. As a result, we have not experienced any internal delays in identifying which loans/credits require appraisals. With respect to the ordering process of the appraisals, we have not experienced any delays in turnaround time nor has this been an issue over the past three years. Furthermore, we have not had any delays in turnaround time or variances thereof in our specific loan operating markets.

NPAs, expressed as a percentage of total assets, totaled 4.4% at September 30, 2012, 5.3% at December 31, 2011 and 5.6% at September 30, 2011. The ratio of allowance for loan losses to nonperforming loans was 33.0% at September 30, 2012, 37.6% at December 31, 2011, and 33.2% at September 30, 2011. The decrease in this ratio from December 31, 2011 to September 30, 2012 was primarily due to the decrease in the required allowance for loan losses.

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

	<u>September 30, 2012</u>	<u>December 31, 2011</u>	<u>September 30, 2011</u>
<i>(dollars in thousands)</i>			
Nonaccruing loans:			
Commercial	\$ 2,156	\$ 4,566	\$ 4,238
Commercial mortgage	20,601	16,955	20,125
Commercial construction	4,580	5,949	6,549
Consumer construction	655	718	488
Residential mortgage	7,732	7,585	9,678
Consumer	936	905	1,384
	<u>36,660</u>	<u>36,678</u>	<u>42,462</u>
Real estate acquired through foreclosure:			
Commercial	1,516	83	1,463
Commercial mortgage	7,529	10,555	8,884
Commercial construction	5,466	6,174	6,255
Consumer construction	442	2,768	2,910
Residential mortgage	4,939	5,655	5,227
Consumer	86		
	<u>19,978</u>	<u>25,235</u>	<u>24,739</u>
Total NPAs	<u>\$ 56,638</u>	<u>\$ 61,913</u>	<u>\$ 67,201</u>
Loans past-due 90 days or more and accruing:			
Commercial	\$	\$ 30	\$ 118
Commercial mortgage		1,272	1,281
Commercial construction		2,032	
Consumer construction		238	
Residential mortgage		2,500	1,615
Consumer		244	309
	<u>\$</u>	<u>\$ 6,316</u>	<u>\$ 3,323</u>

Nonaccrual loans amounted to \$36.7 million at both September 30, 2012 and December 31, 2011. The commercial loan nonaccrual balance as of September 30, 2012 consisted of 11 loans, with the largest balance amounting to \$828,000. Five loans in the amount of \$457,000 were placed in nonaccrual status during 2012. All of the remaining nonaccrual commercial loans were in nonaccrual status as of December 31, 2011. Of the \$4.6 million in nonaccrual commercial loans as of December 31, 2011, five loans for a total of \$2.5 million were transferred to real estate acquired through foreclosure and three loans in the amount of \$121,000 were paid off during the first nine months of 2012.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The commercial mortgage loan nonaccrual balance as of September 30, 2012 consisted of 38 loans, with the largest balance amounting to \$5.1 million. We placed 16 commercial mortgage loans totaling \$10.6 million in nonaccrual status in 2012. Of the balance at December 31, 2011, \$2.2 million in commercial mortgage loans were transferred to real estate acquired through foreclosure during the first nine months of 2012, \$3.9 million were paid off, and \$415,000 were charged off.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The commercial construction nonaccrual balance as of September 30, 2012 consisted of seven loans, with the largest balance amounting to \$3.1 million. All but \$3,000 of the nonaccrual commercial construction loans as of September 30, 2012 were also in nonaccrual status as of December 31, 2011. Of the \$5.9 million in commercial construction loans in nonaccrual status as of December 31, 2011, one loan in the amount of \$119,000 was transferred to real estate acquired through foreclosure, \$929,000 were charged off, and one loan in the amount of \$317,000 was paid off during 2012.

The consumer construction nonaccrual balance as of September 30, 2012 consisted of four loans in the amount of \$655,000, two of which (\$410,000) were placed in nonaccrual status during 2012. Of the \$718,000 in consumer construction loans in nonaccrual status at December 31, 2011, \$332,000 were transferred to real estate acquired through foreclosure during 2012 and one loan in the amount of \$128,000 was paid off during 2012.

The residential mortgage nonaccrual balance as of September 30, 2012 consisted of 32 loans, with the largest balance amounting to \$828,000. We placed \$2.7 million of these loans in nonaccrual status during the nine months ended September 30, 2012. Of the \$7.6 million balance of nonaccrual residential mortgage loans at December 31, 2011, we transferred \$1.9 million to real estate acquired through foreclosure, received pay-offs of \$355,000, and charged off \$206,000 during the first nine months of 2012.

The consumer loan nonaccrual balance as of September 30, 2012 consisted of 12 loans, 9 of which were placed in nonaccrual status during 2012. These loans are well secured and we have determined that they do not require charge-off as of September 30, 2012.

The interest which would have been recorded on nonaccrual loans if those loans had been performing in accordance with their contractual terms for the nine months ended September 30, 2012 and 2011 was approximately \$2.0 million and \$1.4 million, respectively, and the actual interest income recorded on such loans for the nine months ended September 30, 2012 and 2011 was approximately \$458,000 and \$235,000, respectively.

Real estate acquired through foreclosure decreased \$5.3 million when compared to December 31, 2011, with increases in the commercial and consumer loan segments. We transferred \$1.4 million in commercial loans to real estate acquired through foreclosure during the nine months ended September 30, 2012. The consumer loan balance represents one loan transferred to real estate acquired through foreclosure during 2012. The decreases in the remaining loan segments were due to resolution of the properties through foreclosure sales or buyouts.

The activity in our real estate acquired through foreclosure was as follows for the three and nine months ended September 30:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	<i>(dollars in thousands)</i>			
Balance at beginning of period	\$ 22,433	\$ 28,066	\$ 25,235	\$ 21,185
Real estate acquired in satisfaction of loans	1,633	1,868	6,283	16,073
Write-downs and losses on real estate acquired through foreclosure	(877)	(3,218)	(1,818)	(5,704)
Proceeds from sales of real estate acquired through foreclosure	(3,211)	(2,960)	(9,722)	(8,570)
Additional funds disbursed on real estate acquired through foreclosure		983		1,755
Balance at end of period	<u>\$ 19,978</u>	<u>\$ 24,739</u>	<u>\$ 19,978</u>	<u>\$ 24,739</u>

As of September 30, 2012, we did not have any Loans 90 days delinquent and accruing (loans that are well secured and in the process of collection). We held \$6.3 million in such loans at December 31, 2011.

Not all of the loans newly classified as nonaccrual since December 31, 2011 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. Additionally, in general, we charge off all impairment amounts immediately for all loans that are not TDRs.

TDRs

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a TDR. Such concessions could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. These loans are excluded from pooled loss forecasts and a separate allocated portion of the allowance is provided under the accounting guidance for loan impairment. At the time that a loan is modified, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole remaining source of repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. Any impairment amount is then charged to the allowance.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The composition of our TDRs is illustrated in the following table at September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
<i>(dollars in thousands)</i>		
Commercial:		
Nonaccrual	\$ 3	\$ 22
90 days or more and accruing	\$	\$
< 90 days past due/current	\$ 7,715	\$ 400
	<u>7,718</u>	<u>422</u>
Commercial mortgage:		
Nonaccrual	5,629	907
90 days or more and accruing		
< 90 days past due/current	12,210	9,389
	<u>17,839</u>	<u>10,296</u>
Commercial construction:		
Nonaccrual	101	103
90 days or more and accruing		
< 90 days past due/current	7,072	5,118
	<u>7,173</u>	<u>5,221</u>
Consumer construction:		
Nonaccrual		
90 days or more and accruing		
< 90 days past due/current		
	<u></u>	<u></u>
Residential mortgage:		
Nonaccrual	1,708	1,474
90 days or more and accruing		2,164
< 90 days past due/current	10,009	8,270
	<u>11,717</u>	<u>11,908</u>
Consumer:		

Nonaccrual 90 days or more and accruing < 90 days past due/current	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
Totals:		
Nonaccrual	\$ 7,441	\$ 2,506
90 days or more and accruing	\$	\$ 2,164
< 90 days past due/current	\$ 37,006	\$ 23,177
	<u> </u>	<u> </u>
	<u>\$ 44,447</u>	<u>\$ 27,847</u>

The interest income which would have been recorded on TDRs if those loans had performed in accordance with their contractual terms was approximately \$1.6 million and \$964,000 for the nine months ended September 30, 2012 and 2011, respectively. The actual interest income recorded on these loans for the nine months ended September 30, 2012 and 2011 was \$890,000 and \$562,000, respectively.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The following table shows the breakdown of loans modified during the three and nine months ended September 30:

Three Months Ended September 30,

	2012			2011		
	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
<i>(dollars in thousands)</i>						
Commercial	1	\$ 7,125	\$ 7,125	1	\$ 297	\$ 22
Commercial mortgage	2	18	18			
	3	\$ 7,143	\$ 7,143	1	\$ 297	\$ 22

Nine Months Ended September 30,

	2012			2011		
	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
<i>(dollars in thousands)</i>						
Commercial	3	\$ 7,336	\$ 7,336	2	\$ 460	\$ 185
Commercial mortgage	8	2,767	2,775	2	2,195	2,195
Commercial construction	2	7,093	7,093			
Residential mortgage	1	863	863	1	566	579
	14	\$ 18,059	\$ 18,067	5	\$ 3,221	\$ 2,959

Impaired Loans

The following tables show the breakout of impaired loans by class:

Nine Months Ended September 30,

	September 30, 2012			2012			2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Charge-Offs	Average Recorded Investment	Interest Income Recognized	Charge-Offs
<i>(dollars in thousands)</i>									
With no related allowance:									
Commercial	\$ 2,589	\$ 2,589	\$	\$ 3,895	\$ 38	\$ 187	\$ 2,197	\$ 7	\$ 5,240
Commercial mortgage	\$ 30,354	\$ 30,354	\$	\$ 24,772	\$ 409	\$ 573	\$ 20,948	\$ 58	\$ 1,706
Commercial construction	\$ 11,652	\$ 11,652	\$	\$ 13,091	\$ 85	\$ 353	\$ 12,376	\$ 69	\$ 728
Consumer construction	\$ 655	\$ 655	\$	\$ 654	\$ 22	\$ 7	\$ 874	\$ 1	\$ 24
Residential mortgage	\$ 9,466	\$ 9,466	\$	\$ 9,484	\$ 191	\$ 711	\$ 10,402	\$ 85	\$ 1,506
	\$ 920	\$ 920	\$	\$ 990	\$ 20	\$ 1,576	\$ 915	\$ 5	\$ 2,021

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Home equity & 2nd mortgage										
Other consumer	\$ 16	\$ 16	\$ 7	\$	\$	\$ 168	\$			
With a related allowance:										
Commercial	7,134	7,283	149	1,901	103	39	2			
Commercial mortgage	2,432	2,456	24	4,137	35	3,876	74	128		
Commercial construction						333				
Consumer construction						140	16			
Residential mortgage	8,072	8,274	202	8,363	322	168	12,139	388	703	
Home equity & 2nd mortgage						18	3			
Other consumer										
Total:										
Commercial	\$ 9,723	\$ 9,872	\$ 149	\$ 5,796	\$ 141	\$ 187	\$ 2,236	\$ 9	\$ 5,240	
Commercial mortgage	\$ 32,786	\$ 32,810	\$ 24	\$ 28,909	\$ 444	\$ 573	\$ 24,824	\$ 132	\$ 1,834	
Commercial construction	\$ 11,652	\$ 11,652	\$	\$ 13,091	\$ 85	\$ 353	\$ 12,709	\$ 69	\$ 728	
Consumer construction	\$ 655	\$ 655	\$	\$ 654	\$ 22	\$ 7	\$ 1,014	\$ 17	\$ 24	
Residential mortgage	\$ 17,538	\$ 17,740	\$ 202	\$ 17,847	\$ 513	\$ 879	\$ 22,541	\$ 473	\$ 2,209	
Home equity & 2nd mortgage	\$ 920	\$ 920	\$	\$ 990	\$ 20	\$ 1,576	\$ 933	\$ 8	\$ 2,021	
Other consumer	\$ 16	\$ 16	\$	\$ 7	\$	\$	\$ 168	\$	\$	

December 31, 2011

	Recorded Investment	Unpaid Principal Balance	Related Allowance
<i>(dollars in thousands)</i>			
With no related allowance:			
Commercial	\$ 4,804	\$ 4,804	\$
Commercial mortgage	\$ 21,039	\$ 21,039	\$
Commercial construction	\$ 11,066	\$ 11,066	\$
Consumer construction	\$ 718	\$ 718	\$
Residential mortgage	\$ 8,723	\$ 8,723	\$
Home equity & 2nd mortgage	\$ 905	\$ 905	\$
Other consumer	\$	\$	\$
With a related allowance:			
Commercial	157	161	4
Commercial mortgage	5,249	5,306	57
Commercial construction			
Consumer construction			
Residential mortgage	9,075	9,297	222
Home equity & 2nd mortgage			
Other consumer			
Total:			
Commercial	\$ 4,961	\$ 4,965	\$ 4
Commercial mortgage	\$ 26,288	\$ 26,345	\$ 57
Commercial construction	\$ 11,066	\$ 11,066	\$
Consumer construction	\$ 718	\$ 718	\$
Residential mortgage	\$ 17,798	\$ 18,020	\$ 222
Home equity & 2nd mortgage	\$ 905	\$ 905	\$
Other consumer	\$	\$	\$

Not all of the loans newly classified as impaired since December 31, 2011 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. Additionally, in general, we charge off all impairment amounts immediately for all loans that are not TDRs.

Deposits

Deposits were \$1.1 billion at September 30, 2012 and \$1.0 billion at December 31, 2011. During the nine months ended September 30, 2012, we experienced increases in all deposit types except for noninterest-bearing deposits. The deposit breakdown is as follows:

September 30, 2012

December 31, 2011

	Balance	Percent of Total	Balance	Percent of Total
<i>(dollars in thousands)</i>				
NOW & money market	\$ 151,414	13.7%	\$ 131,126	12.9%
Savings	58,806	5.3%	54,977	5.4%
Time	798,559	72.0%	728,354	71.8%
Total interest-bearing deposits	1,008,779	91.0%	914,457	90.1%
Noninterest-bearing demand deposits	99,372	9.0%	100,303	9.9%
Total deposits	\$ 1,108,151	100.0%	\$ 1,014,760	100.0%

Core deposits represent deposits that we believe to be less sensitive to changes in interest rates and, therefore, will be retained regardless of the movement of interest rates. We consider our core deposits to be all noninterest-bearing, NOW, money market accounts less than \$100,000, and saving deposits, as well as all time deposits less than \$100,000 that are not scheduled to mature within one year. As of September 30, 2012 and December 31, 2011, our core deposits were \$371.7 million and \$361.2 million, respectively. The remainder of our deposits could be susceptible to attrition due to interest rate movements.

Borrowings

Our borrowings consist of short-term promissory notes issued to certain qualified investors, short-term and long-term advances from the Federal Home Loan Bank (FHLB), and a mortgage loan at September 30, 2012 and December 31, 2011. Our short-term promissory notes are in the form of commercial paper, which reprice daily and have maturities of 270 days or less. Our advances from the FHLB may be in the form of short-term or long-term obligations. Short-term advances have maturities for one year or less and may contain prepayment penalties. Long-term borrowings through the FHLB have original maturities up to 15 years and generally contain prepayment penalties.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The FHLB advances are available under a specific collateral pledge and security agreement, which requires that we maintain collateral for all of our borrowings equal to 125% of advances. We may pledge as collateral specific first- and second-lien mortgage loans or commercial mortgages up to 10% of the Bank's total assets. Long-term FHLB advances are fixed-rate instruments with various call provisions. Generally, short-term advances are in the form of overnight borrowings with rates changing daily. At September 30, 2012, our total available credit line with the FHLB was \$122.1 million. Our outstanding FHLB advance balance at both September 30, 2012 and December 31, 2011 was \$111.0 million.

Long-term borrowings, which totaled \$73.6 million at September 30, 2012 and \$73.7 million at December 31, 2011, consist of long-term advances from the FHLB and a mortgage loan on our former headquarters building. We held \$65.0 million in long-term FHLB advances at both September 30, 2012 and December 31, 2011 and \$8.6 million and \$8.7 million at September 30, 2012 and December 31, 2011, respectively, in a mortgage loan.

Short-term borrowings consist of short-term promissory notes and short-term advances from the FHLB. These borrowings decreased from \$48.0 million at December 31, 2011 to \$47.3 million at September 30, 2012. We held \$46.0 million in short-term FHLB advances at both September 30, 2012 and December 31, 2011.

In the past, to further our funding and capital needs, we raised capital by issuing Trust Preferred Securities through statutory trusts (the Trusts), which are wholly-owned by First Mariner Bancorp. The Trusts used the proceeds from the sales of the Trust Preferred Securities, combined with First Mariner Bancorp's equity investment in these Trusts, to purchase subordinated deferrable interest debentures from First Mariner Bancorp. The debentures are the sole assets of the Trusts. Aggregate debentures outstanding as of both September 30, 2012 and December 31, 2011 totaled \$52.1 million.

The Trust Preferred Securities are mandatorily redeemable, in whole or in part, upon repayment of their underlying subordinated debentures at their respective maturities or their earlier redemption. The subordinated debentures are redeemable prior to maturity at First Mariner's option on or after its optional redemption dates. In 2009, we elected to defer interest payments on the debentures. This deferral 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.

First Mariner Bancorp has fully and unconditionally guaranteed all of the obligations of the Trusts.

Under applicable regulatory guidelines, a portion of the Trust Preferred Securities may qualify as Tier I capital, and the remaining portion may qualify as Tier II capital, with certain limitations. At September 30, 2012, none of our outstanding Trust Preferred Securities qualify as either Tier I or Tier II capital due to limitations.

Capital Resources

Our stockholders' deficit improved by \$16.6 million in 2012 to a deficit of \$8.8 million from a deficit of \$25.4 million as of December 31, 2011.

Common stock and additional paid-in-capital decreased by \$119,000 due primarily to the change in the fair value of the warrants. Accumulated other comprehensive loss, which is derived from the fair value calculations for AFS securities, decreased by \$1.3 million. Retained deficit decreased by our 2012 net income of \$15.4 million.

Banking regulatory authorities have implemented strict capital guidelines directly related to the credit risk associated with an institution's assets. Banks and bank holding companies are required to maintain capital levels based on their risk-adjusted assets so that categories of assets with higher defined credit risks will require more capital support than assets with lower risk. Additionally, capital must be maintained to support certain off-balance sheet instruments.

Capital is classified as Tier I capital (common stockholders' equity less certain intangible assets plus a portion of the Trust Preferred Securities) and Total Capital (Tier I plus the allowed portion of the allowance for loan losses plus any off-balance sheet reserves and the allowable portion of Trust Preferred Securities not included in Tier I capital). Minimum required levels must at least equal 4% for Tier I capital and 8% for Total Capital. In addition, institutions must maintain a minimum 4% leverage capital ratio (Tier I capital to average quarterly assets).

We regularly monitor the Company's capital adequacy ratios to assure that the Bank meets its regulatory capital requirements. As of September 30, 2012 and December 31, 2011, the Bank was undercapitalized and significantly undercapitalized, respectively, under the regulatory framework for prompt corrective action, although, as of September 30, 2012, the Bank's leverage and Tier I capital ratios met minimal adequacy requirements.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The regulatory capital ratios are shown below:

	September 30, 2012	December 31, 2011	Minimum Regulatory Requirements
Regulatory capital ratios:			
Leverage:			
Consolidated	(0.6)%	(1.9)%	4.0%
Bank	4.1%	3.0%	4.0%
Tier 1 capital to risk-weighted assets:			
Consolidated	(0.8)%	(2.6)%	4.0%
Bank	5.8%	4.2%	4.0%
Total capital to risk-weighted assets:			
Consolidated	(0.8)%	(2.6)%	8.0%
Bank	7.1%	5.5%	8.0%

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 I leverage capital ratio of at least 7.5% and a total risk-based capital ratio of at least 11% by June 30, 2010. As of September 30, 2012, we did not yet meet the requirements. The failure to achieve these capital requirements could result in further action by our regulators.

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 has adopted and submitted a liquidity plan 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, may not accept, renew, or roll over any brokered deposits, or pay effective yields on deposits that are greater than those generally paid in its markets.

First Mariner Bancorp is also a party to Federal Reserve Bank (FRB) Agreements (the FRB Agreements), which, 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 or redeeming any shares of its stock. To satisfy the FRB's minimum capital requirements, First Mariner's consolidated Tier I capital to average quarterly assets, Tier I 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, 2012, those capital ratios were (0.6)%, (0.8)%, and (0.8)%, 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.

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.

Results of Operations

Net Income (Loss)

Three Months Ended September 30:

For the three months ended September 30, 2012, we realized net income of \$7.9 million compared to a net loss of \$8.0 million for the three month period ended September 30, 2011. Basic and diluted earnings per share for 2012 totaled \$0.42 and basic and diluted losses per share totaled \$(0.42) for 2011.

Nine months Ended September 30:

For the nine months ended September 30, 2012, we realized net income of \$15.4 million compared to a net loss of \$26.3 million for the nine month period ended September 30, 2011. Basic and diluted earnings per share for 2012 totaled \$0.82 and basic and diluted losses per share totaled \$(1.41) for 2011.

Net Interest Income

Net interest income is the difference between the interest income we earn on interest-earning assets, such as loans and investment securities, and the interest expense we pay on interest-bearing sources of funds, such as deposits and borrowings. Net interest income is a function of several factors, including changes in the volume and mix of interest-earning assets and funding sources and market interest rates. While management policies influence these factors, external forces, including customer needs and demands, competition, the economic policies of the federal government, and the monetary policies of the FRB, are also determining factors.

Three Months Ended September 30:

Net interest income for the third quarter of 2012 totaled \$8.1 million, an increase of \$920,000 from \$7.1 million for the three months ended September 30, 2011. The increase in net interest income during 2012 was primarily a result of the decrease in the rates paid on interest-bearing liabilities. Our net interest margin decreased to 3.01% from 3.13%.

Interest Income

Total interest income increased by \$242,000 for the three months ended September 30, 2012 due primarily to an increase in the volume of interest-earning assets from \$897.3 million to \$1.1 billion. We experienced decreased yields on all of our loan segments (which are the primary interest revenue generators) during 2012 due to a lower rate environment. We also experienced decreased average balances in all loan segments during 2012.

Yields on earning assets also continue to be affected by higher market values of LHFS (therefore, lower yields), contributing to the decreased yield of 4.47% for the three months ended September 30, 2012 compared to 5.14% for the three months ended September 30, 2011.

Average LHFS increased \$247.6 million due to higher origination volumes. Average securities increased by \$3.5 million.

Interest Expense

Interest expense decreased by \$678,000 as a result of the decrease in the average rate paid on interest-bearing liabilities, from 1.72% for the three months ended September 30, 2011 to 1.33% for the three months ended September 30, 2012, slightly offset by an increase in the level of interest-bearing liabilities of \$107.5 million. The decrease in the rate paid on interest-bearing deposits from 1.64% in 2011 to 1.17% in 2012 was due to the decreased rate environment and our reduction in rates due to our high level of liquidity.

Average interest-bearing deposits increased by \$104.0 million due primarily to increases in savings, money market, and time deposit accounts.. We experienced an increase in the costs of borrowed funds from 2.13% for the three months ended September 30, 2011 to 2.21% for the three months ended September 30, 2012.

Nine months Ended September 30:

Net interest income for the nine months ended September 30, 2012 totaled \$23.0 million, an increase of \$2.4 million from \$20.6 million for the nine months ended September 30, 2011. The increase in net interest income during the nine months ended September 30, 2012 was primarily a result of the decrease in the rates paid on interest-bearing liabilities. Our net interest margin increased to 3.08% from 2.94%.

Interest Income

Total interest income decreased by \$811,000 for the nine months ended September 30, 2012 due primarily to the decreased yield earned on interest-earning assets. We also experienced decreased average balances in all loan segments during 2012.

The yield on interest-earning assets decreased from 5.11% for the nine months ended September 30, 2011 to 4.68% for the nine months ended September 30, 2012 due to the lower rate environment and a higher mix of LHFS, which carried lower rates than portfolio loans.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Average LHFS increased \$168.9 million, due to higher origination volumes. Average securities decreased by \$17.0 million.

Interest Expense

Interest expense decreased by \$3.2 million as a result of the decrease in the average rate paid on interest-bearing liabilities, from 1.80% for the nine months ended September 30, 2011 to 1.42% for the nine months ended September 30, 2012. We also experienced a \$3.2 million decrease in the level of interest-bearing liabilities. The decrease in the rate paid on interest-bearing deposits from 1.74% in 2011 to 1.27% in 2012 was due to the decreased rate environment and our reduction in rates due to our high level of liquidity.

Average interest-bearing deposits decreased by \$6.7 million due primarily to maturities of time deposits as customers moved funds around between account types and out of the Bank entirely in search of favorable rates. We experienced an increase in the costs of borrowed funds from 2.13% for the nine months ended September 30, 2011 to 2.22% for the nine months ended September 30, 2012.

The following tables set forth, for the periods indicated, information regarding the average balances of interest-earning assets and interest-bearing liabilities and the resulting yields on average interest-earning assets and rates paid on average interest-bearing liabilities. Average balances are also provided for noninterest-earning assets and noninterest-bearing liabilities.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

For the Three Months Ended September 30,

	2012			2011		
	Average Balance (1)	Interest (2)	Yield/Rate	Average Balance (1)	Interest (2)	Yield/Rate
<i>(dollars in thousands)</i>						
ASSETS						
Loans:						
Commercial	\$ 50,483	\$ 674	5.22%	\$ 60,831	\$ 814	5.23%
Commercial mortgage	298,291	4,359	5.72%	335,168	5,129	5.99%
Commercial construction	51,819	718	5.43%	55,560	822	5.79%
Consumer construction	18,134	215	4.73%	22,310	274	4.89%
Residential mortgage	114,369	1,440	5.04%	127,694	1,697	5.31%
Consumer	123,371	1,320	4.27%	140,610	1,592	4.51%
Total loans	656,467	8,726	5.24%	742,173	10,328	5.48%
LHFS	320,860	2,841	3.54%	73,263	894	4.88%
Securities, trading and AFS	42,913	295	2.75%	39,458	373	3.78%
Interest-bearing deposits	28,996	57	0.79%	35,378	82	0.93%
Restricted stock investments, at cost	6,857			6,997		
Total earning assets	1,056,093	11,919	4.47%	897,269	11,677	5.14%
Allowance for loan losses	(13,292)			(15,246)		
Cash and other nonearning assets	217,199			266,697		
Total assets	\$ 1,260,000	11,919		\$ 1,148,720	11,677	
LIABILITIES AND STOCKHOLDERS DEFICIT						
Interest-bearing deposits:						
NOW	\$ 6,182	14	0.89%	\$ 6,506	1	0.03%
Savings	58,949	28	0.19%	56,690	28	0.20%
Money market	143,358	200	0.55%	126,202	181	0.57%
Time	774,722	2,656	1.36%	689,804	3,415	1.96%
Total interest-bearing deposits	983,211	2,898	1.17%	879,202	3,625	1.64%
Borrowings	173,145	962	2.21%	169,641	913	2.13%
Total interest-bearing liabilities	1,156,356	3,860	1.33%	1,048,843	4,538	1.72%
Noninterest-bearing demand deposits	100,217			102,868		
Other noninterest-bearing liabilities	15,625			12,902		
Stockholders deficit	(12,198)			(15,893)		
Total liabilities and stockholders deficit	\$ 1,260,000	3,860		\$ 1,148,720	4,538	
Net interest income/net interest spread		\$ 8,059	3.14%		\$ 7,139	3.42%
Net interest margin			3.01%			3.13%

- (1) Nonaccrual loans are included in average loans.
- (2) There are no tax equivalency adjustments.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

For the Nine Months Ended September 30,

	2012			2011		
	Average Balance (1)	Interest (2)	Yield/Rate	Average Balance (1)	Interest (2)	Yield/Rate
<i>(dollars in thousands)</i>						
ASSETS						
Loans:						
Commercial	\$ 52,000	\$ 2,031	5.13%	\$ 65,160	\$ 2,629	5.32%
Commercial mortgage	306,833	13,551	5.80%	339,574	15,657	6.08%
Commercial construction	53,181	2,245	5.55%	56,160	2,369	5.56%
Consumer construction	16,909	555	4.35%	24,198	883	4.86%
Residential mortgage	116,784	4,739	5.41%	133,615	5,228	5.22%
Consumer	125,982	4,085	4.33%	144,188	4,882	4.52%
Total loans	671,689	27,206	5.35%	762,895	31,648	5.49%
LHFS	234,187	6,438	3.67%	65,250	2,219	4.54%
Securities, trading and AFS	32,221	879	3.64%	49,262	1,293	3.50%
Interest-bearing deposits	36,756	184	0.67%	37,134	358	1.29%
Restricted stock investments, at cost	6,969			7,046		
Total earning assets	981,822	34,707	4.68%	921,587	35,518	5.11%
Allowance for loan losses	(13,643)			(14,532)		
Cash and other nonearning assets	231,969			309,645		
Total assets	\$ 1,200,148	34,707		\$ 1,216,700	35,518	
LIABILITIES AND STOCKHOLDERS DEFICIT						
Interest-bearing deposits:						
NOW	\$ 5,921	42	0.95%	\$ 6,353	3	0.07%
Savings	58,273	83	0.19%	57,972	85	0.20%
Money market	134,924	542	0.54%	128,747	552	0.57%
Time	730,773	8,190	1.50%	743,496	11,577	2.08%
Total interest-bearing deposits	929,891	8,857	1.27%	936,568	12,217	1.74%
Borrowings	173,150	2,879	2.22%	169,698	2,708	2.13%
Total interest-bearing liabilities	1,103,041	11,736	1.42%	1,106,266	14,925	1.80%
Noninterest-bearing demand deposits	101,175			104,272		
Other noninterest-bearing liabilities	14,684			12,854		
Stockholders deficit	(18,752)			(6,692)		
Total liabilities and stockholders deficit	\$ 1,200,148	11,736		\$ 1,216,700	14,925	
Net interest income/net interest spread		\$ 22,971	3.26%		\$ 20,593	3.31%
Net interest margin			3.08%			2.94%

- (1) Nonaccrual loans are included in average loans.
- (2) There are no tax equivalency adjustments.

A rate/volume analysis, which demonstrates changes in interest income and expense for significant assets and liabilities, appears below. Changes attributable to mix (rate and volume) are allocated to volume and rate based on the relative size of the variance that can be separately identified with each.

	Three Months Ended September 30, 2012 vs. 2011			Nine Months Ended September 30, 2012 vs. 2011		
	Due to Variances in			Due to Variances in		
	Rate	Volume	Total	Rate	Volume	Total
<i>(dollars in thousands)</i>						
Interest earned on:						
Loans:						
Commercial	\$ (2)	\$ (138)	\$ (140)	\$ (89)	\$ (509)	\$ (598)
Commercial mortgage	(225)	(545)	(770)	(678)	(1,428)	(2,106)
Commercial construction	(50)	(54)	(104)	(6)	(118)	(124)
Consumer construction	(9)	(50)	(59)	(84)	(244)	(328)
Residential mortgage	(85)	(172)	(257)	288	(777)	(489)
Consumer	(82)	(190)	(272)	(197)	(600)	(797)
Total loans	(453)	(1,149)	(1,602)	(766)	(3,676)	(4,442)
LHFS	(1,665)	3,612	1,947	(765)	4,984	4,219
AFS securities	(256)	178	(78)	80	(494)	(414)
Interest-bearing deposits	(12)	(13)	(25)	(171)	(3)	(174)
Total interest income	(2,386)	2,628	242	(1,622)	811	(811)
Interest paid on:						
Interest-bearing deposits:						
NOW	13		13	39		39
Savings	(5)	5		(3)	1	(2)
Money market	(31)	50	19	(45)	35	(10)
Time	(2,918)	2,159	(759)	(3,193)	(194)	(3,387)
Total interest-bearing deposits	(2,941)	2,214	(727)	(3,202)	(158)	(3,360)
Borrowings	31	18	49	115	56	171
Total interest expense	(2,910)	2,232	(678)	(3,087)	(102)	(3,189)
Net interest income	\$ 524	\$ 396	\$ 920	\$ 1,465	\$ 913	\$ 2,378

*Noninterest Income*Three Months Ended September 30:

Noninterest income for the three months ended September 30, 2012 was \$16.3 million, an increase of \$8.6 million from the comparable period of 2011 due to an increase in mortgage-banking revenue.

Mortgage-banking revenue increased from \$4.6 million for the three months ended September 30, 2011 to \$15.4 million for the three months ended September 30, 2012 due to increased originations for both refinances and sales. The volume of loans sold increased from \$234.2 million in 2011 to \$633.3 million in 2012. In addition, the spreads we realized on the sales of mortgage loans significantly improved for the three months ended September 30, 2012 over the three months ended September 30, 2011.

We recorded \$681,000 in net OTTI during 2011, with no such corresponding charge in 2012. In addition, during the third quarter of 2012, we moved a significant portion of our operations to a building we own on Boston Street and wrote off a significant amount of furniture, fixtures,

and leasehold improvements related to our previous location.

Nine months Ended September 30:

Noninterest income for the nine months ended September 30, 2012 was \$39.5 million, an increase of \$24.0 million from the comparable period of 2011 due to the increase in mortgage-banking revenue. The increase in mortgage-banking revenue from \$7.9 million for the nine months ended September 30, 2011 to \$35.5 million for the nine months ended September 30, 2012 was due to higher originations for both refinances and sales. The volume of loans sold increased from \$710.7 million in 2011 to \$1.6 billion in 2012. In addition, the spreads we realized on the sales of mortgage loans significantly improved for the nine months ended September 30, 2012 over the nine months ended September 30, 2011.

We recorded \$460,000 in net OTTI during 2012 compared to \$818,000 during 2011 and wrote off a significant amount of fixed assets due to relocation of a portion of our operations.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Noninterest expenses

Three Months Ended September 30:

For the three months ended September 30, 2012, noninterest expenses decreased \$1.4 million to \$16.4 million compared to \$17.8 million for the same period of 2011.

The decreases in occupancy, furniture and equipment, and professional services costs were a reflection of our continuing efforts in reducing controllable costs. Additional compensation expense was incurred during the quarter in connection with mortgage-banking activities. Write-downs, losses, and costs of real estate acquired through foreclosure decreased \$1.9 million as the inventory of foreclosed properties decreased.

Corporate insurance costs increased due to additional policies obtained during 2012. Loan collection costs decreased as our asset quality improved during the quarter.

Postage increased due to customer mailings related to our system conversion in October 2012.

Nine months Ended September 30:

For the nine months ended September 30, 2012, noninterest expenses decreased \$4.1 million to \$46.7 million compared to \$50.8 million for the same period of 2011.

The decreases in salaries and benefits, occupancy, and furniture and equipment costs were a reflection of our continuing efforts in reducing controllable costs. Professional service costs included a recovery of \$691,000 in legal fees from the settlement of a lawsuit. We continue to incur professional fees for regulatory compliance, loan workouts, and capital raise efforts, although to a lesser degree in 2012. Write-downs, losses, and costs of real estate acquired through foreclosure decreased to \$3.5 million from \$6.6 million in 2011. Postage increased due to customer mailings related to our system conversion.

The following table shows the breakout of other noninterest expenses:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	<i>(dollars in thousands)</i>			
Office supplies	\$ 146	\$ 105	\$ 394	\$ 319
Printing	58	94	276	260
Marketing/promotion	224	236	782	606
Postage	740	140	1,421	455
Overnight delivery/courier	152	89	422	285
Security	62	54	181	163
Dues and subscriptions	136	91	348	290
Director fees	100	73	264	246
Employee education and training	18	18	71	42
Automobile expense	21	23	75	80
Travel and entertainment	62	72	188	175
Other	461	448	1,201	1,401
	\$ 2,180	\$ 1,443	\$ 5,623	\$ 4,322

Income Taxes

We have set up a valuation allowance against the full amount of our deferred taxes as of both September 30, 2012 and December 31, 2011. The \$205,000 tax benefit recorded in 2012 represents an anticipated recovery of state taxes paid in 2010 as a result of a net operating loss carryback.

Liquidity

Liquidity describes our ability to meet financial obligations, including lending commitments and contingencies, which arise during the normal course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers, as well as to meet current and planned expenditures. These cash requirements are met on a daily basis through the inflow of deposit funds, the maintenance of short-term overnight investments, maturities and calls in our securities portfolio, and available lines of credit with the FHLB, which requires pledged collateral. Fluctuations in deposit and short-term borrowing balances may be influenced by the interest rates paid, general consumer confidence, and the overall economic environment. There can be no assurances that deposit withdrawals and loan fundings will not exceed all available sources of liquidity on a short-term basis. Such a situation would have an adverse effect on our ability to originate new loans and maintain reasonable loan and deposit interest rates, which would negatively impact earnings.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

The borrowing requirements of customers include commitments to extend credit and the unused portion of lines of credit (collectively commitments), which totaled \$260.2 million at September 30, 2012. Historically, many of the commitments expire without being fully drawn; therefore, the total commitment amounts do not necessarily represent future cash requirements. Commitments for real estate development and construction, which totaled \$12.0 million, are generally short-term in nature, satisfying cash requirements with principal repayments as construction properties financed are generally repaid with permanent financing. Available credit lines represent the unused portion of credit previously extended and available to the customer as long as there is no violation of material contractual conditions. Commitments to extend credit for residential mortgage loans of \$174.1 million at September 30, 2012 generally expire within 60 days. Commercial commitments to extend credit and unused lines of credit of \$5.3 million at September 30, 2012 generally do not extend for more than 12 months. Consumer commitments to extend credit and unused lines of credit of \$10.6 million at September 30, 2012 are generally open ended. At September 30, 2012, available home equity lines totaled \$58.2 million. Home equity credit lines generally extend for a period of 10 years.

Capital expenditures for various branch locations and equipment can be a significant use of liquidity. As of September 30, 2012, we anticipate expending approximately \$1.0 million in the next 12 months on our premises and equipment.

Customer withdrawals are also a principal use of liquidity, but are generally mitigated by growth in customer funding sources, such as deposits and short-term borrowings.

The Bank's principal sources of liquidity are cash and cash equivalents (which are cash on hand and amounts due from financial institutions, federal funds sold, money market mutual funds, and interest bearing deposits), AFS securities, deposit accounts, and borrowings. The levels of such sources are dependent on the Bank's operating, financing and investing activities at any given time. We attempt to primarily rely on core deposits from customers to provide stable and cost-effective sources of funding to support our loan growth. We also seek to augment such deposits with longer term and higher yielding certificates of deposit. Cash and cash equivalents, which totaled \$111.2 million at September 30, 2012, have immediate availability to meet our short-term funding needs. Our entire securities portfolio is classified as AFS, is highly marketable (excluding our holdings of pooled trust preferred securities), and available to meet our liquidity needs. LHFS, which totaled \$371.6 million at September 30, 2012, are committed to be sold into the secondary market and generally are funded within 60 days. Our residential real estate portfolio includes loans that are underwritten to secondary market criteria and provide us an additional source of liquidity. Additionally, our residential construction loan portfolio provides a source of liquidity as construction periods generally range from 9-12 months, and these loans are subsequently financed with permanent first-lien mortgages and sold into the secondary market. Our loan to deposit ratio stood at 58.1% at September 30, 2012 and 69.2% at December 31, 2011.

We also have the ability to utilize established credit lines with the FHLB and the FRB as additional sources of liquidity. To utilize the vast majority of our credit lines, we must pledge certain loans and/or securities before advances can be obtained. At September 30, 2012, our total available credit line with the FHLB was \$122.1 million. Our outstanding balance was \$111.0 million at both September 30, 2012 and December 31, 2011.

We are not permitted to purchase brokered deposits without first obtaining a regulatory waiver. We are also required to comply with restrictions on deposit rates that we may offer. These factors could significantly affect our ability to fund normal operations. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole. At September 30, 2012, management considered the Bank's liquidity level to be sufficient for the purposes of meeting the Bank's cash flow requirements.

First Mariner Bancorp is a separate entity and apart from First Mariner Bank and must provide for its own liquidity. In addition to its operating expenses, First Mariner Bancorp is responsible for the payment of any dividends that may be declared for its shareholders and interest and principal on outstanding debt. A significant amount of First Mariner Bancorp's revenues are obtained from subsidiary service fees and dividends. Payment of such dividends to First Mariner Bancorp by First Mariner Bank is limited under Maryland law. For a Maryland chartered bank or trust company, dividends may be paid out of undivided profits or, with the prior approval of the Commissioner, from surplus in excess of 100% of required capital stock. If, however, the surplus of a Maryland bank is less than 100% of its required capital stock, cash dividends may not be paid in excess of 90% of net earnings. In addition to these specific restrictions, bank regulatory agencies also have the ability to prohibit proposed dividends by a financial institution which would otherwise be permitted under applicable regulations if the regulatory body determines that such distribution would constitute an unsafe or unsound practice. As noted earlier, First Mariner and its bank subsidiary have entered into agreements with the FRB, FDIC, and the Commissioner that, among other things, require First Mariner and its bank subsidiary to obtain the prior approval of its regulators before paying a dividend or otherwise making a distribution on its stock. In addition, First Mariner elected to defer regularly scheduled quarterly interest payments on its junior subordinated debentures issued in connection with its trust preferred securities offerings. First Mariner is prohibited from paying any dividends or making any other distribution on its common stock for so long as interest payments are being deferred.

Inflation

The consolidated financial statements and related consolidated financial data presented herein have been prepared in accordance with GAAP and practices within the banking industry, which generally require the measurement of financial condition and operating results in terms of historical dollars, without considering the changes in the relative purchasing power of money over time due to inflation. As a financial institution, virtually all of our assets and liabilities are monetary in nature and interest rates have a more significant impact on our performance than the effects of general levels of inflation. A prolonged period of inflation could cause interest rates, wages, and other costs to increase and could adversely affect our results of operations unless mitigated by increases in our revenues correspondingly. However, we believe that the impact of inflation on our operations was not material for 2012 or 2011.

Off-Balance Sheet Arrangements

We enter into off-balance sheet arrangements in the normal course of business. These arrangements consist primarily of commitments to extend credit, lines of credit, and letters of credit. In addition, the Company has certain operating lease obligations.

Credit Commitments

Credit commitments are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have interest rates fixed at current market amounts, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

Our exposure to credit loss in the event of nonperformance by the borrower is the contract amount of the commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. We are not aware of any accounting loss we would incur by funding our commitments.

See detailed information on credit commitments above under *Liquidity*.

Derivatives

We maintain and account for derivatives, in the form of interest rate lock commitments (IRLC or IRLCs) and forward sales commitments, in accordance with FASB guidance on accounting for derivative instruments and hedging activities. We recognize gains and losses on IRLCs and forward sales commitments on the loan pipeline through mortgage-banking revenue in the Consolidated Statements of Operations.

The Bank, through First Mariner Mortgage, enters into IRLCs, under which we originate residential mortgage loans with interest rates determined prior to funding. IRLCs on mortgage loans that we intend to sell in the secondary market are considered derivatives. The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 14 days to 60 days. For these IRLCs, we protect the Company from changes in interest rates through the use of forward sales of to be issued (TBA) mortgage-backed securities.

We are exposed to price risk from the time a mortgage loan closes until the time the loan is sold. To manage this risk, we also utilize forward sales of TBA mortgage-backed securities. During the period of the rate lock commitment and from the time a loan is closed with the borrowers and sold to investors, we remain exposed to basis (execution, timing, and/or volatility) risk in that the changes in value of our hedges may not equal or completely offset the changes in value of the rate commitments being hedged. This can result due to changes in the market demand for our mortgage loans brought about by supply and demand considerations and perceptions about credit risk relative to the agency securities. We also mitigate counterparty risk by entering into commitments with proven counterparties and pre-approved financial intermediaries.

The market value of IRLCs is not readily ascertainable with precision because they are not actively traded in stand-alone markets. The Bank determines the fair value of IRLCs by measuring the change in the value of the underlying asset, while taking into consideration the probability that the IRLCs will close.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Information pertaining to the carrying amounts of our derivative financial instruments follows:

	September 30, 2012		December 31, 2011	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
	<i>(dollars in thousands)</i>			
IRLCs	\$ 174,119	\$ 177,127	\$ 138,075	\$ 139,899
Forward contracts to sell mortgage-backed securities	187,519	191,537	102,250	101,772

Changes in interest rates could materially affect the fair value of the IRLCs or the forward commitments. In the case of the loan related derivatives, fair value is also impacted by the probability that the rate lock commitment will close (fallout factor). In addition, changes in interest rates could result in changes in the fallout factor, which might magnify or counteract the sensitivities. This is because the impact of an interest rate shift on the fallout ratio is nonsymmetrical and nonlinear.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

Results of operations for financial institutions, including us, may be materially and adversely affected by changes in prevailing economic conditions, including declines in real estate values, rapid changes in interest rates, and the monetary and fiscal policies of the federal government. Our loan portfolio is concentrated primarily in central Maryland and portions of Maryland's Eastern Shore and is, therefore, subject to risks associated with these local economies.

Interest Rate Risk

Our profitability is in part a function of the spread between the interest rates earned on assets and the interest rates paid on deposits and other interest-bearing liabilities (net interest income), including advances from the FHLB and other borrowings. Interest rate risk arises from mismatches (i.e., the interest sensitivity gap) between the dollar amount of repricing or maturing assets and liabilities and is measured in terms of the ratio of the interest rate sensitivity gap to total assets. More assets repricing or maturing than liabilities over a given time period is considered asset-sensitive and is reflected as a positive gap, and more liabilities repricing or maturing than assets over a given time period is considered liability-sensitive and is reflected as negative gap. An asset-sensitive position (i.e., a positive gap) will generally enhance earnings in a rising interest rate environment and will negatively impact earnings in a falling interest rate environment, while a liability-sensitive position (i.e., a negative gap) will generally enhance earnings in a falling interest rate environment and negatively impact earnings in a rising interest rate environment. Fluctuations in interest rates are not predictable or controllable. We have attempted to structure our asset and liability management strategies to mitigate the impact on net interest income of changes in market interest rates. However, there can be no assurance that we will be able to manage interest rate risk so as to avoid significant adverse effects on net interest income. At September 30, 2012, we had a one-year cumulative positive gap of approximately \$426.0 million compared to a one-year cumulative negative gap of approximately \$23.0 million at December 31, 2011.

While we monitor interest rate sensitivity gap reports, we primarily test our interest rate sensitivity through the deployment of simulation analysis. We use earnings simulation models to estimate what effect specific interest rate changes would have on our net interest income and net income. Simulation analysis provides us with a more rigorous and dynamic measure of interest sensitivity. Changes in prepayments have been included where changes in behavior patterns are assumed to be significant to the simulation, particularly mortgage related assets. Call features on certain securities and borrowings are based on their call probability in view of the projected rate change, and pricing features such as interest rate floors are incorporated. Our fee income produced by mortgage-banking operations may also be impacted by changes in rates. As long-term rates increase, the volume of fixed rate mortgage loans originated for sale in the secondary market may decline and reduce our revenues generated by this line of business. We attempt to structure our asset and liability management strategies to mitigate the impact on net interest income by changes in market interest rates. However, there can be no assurance that we will be able to manage interest rate risk so as to avoid significant adverse effects on net interest income. At September 30, 2012, the simulation model provided the following profile of our interest rate risk measured over a one-year time horizon, assuming a parallel shift in a yield curve based off the U.S. dollar forward swap curve adjusted for certain pricing assumptions:

	Immediate Rate Change	
	+200BP	-200BP
Net interest income	3.68%	(9.96)%

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Both of the above tools used to assess interest rate risk have strengths and weaknesses. Because the gap analysis reflects a static position at a single point in time, it is limited in quantifying the total impact of market rate changes which do not affect all earning assets and interest-bearing liabilities equally or simultaneously. In addition, gap reports depict the existing structure, excluding exposure arising from new business. While the simulation process is a powerful tool in analyzing interest rate sensitivity, many of the assumptions used in the process are highly qualitative and subjective and are subject to the risk that past historical activity may not generate accurate predictions of the future. The model also assumes parallel movements in interest rates, which means both short-term and long-term rates will change equally. Nonparallel changes in interest rates (short-term rates changing differently from long-term rates) could result in significant differences in projected income amounts when compared to parallel tests. Both measurement tools taken together, however, provide an effective evaluation of our exposure to changes in interest rates, enabling management to better control the volatility of earnings.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

We are party to mortgage rate lock commitments to fund mortgage loans at interest rates previously agreed (locked) by both us and the borrower for specified periods of time. When the borrower locks an interest rate, we effectively extend a put option to the borrower, whereby the borrower is not obligated to enter into the loan agreement, but we must honor the interest rate for the specified time period. We are exposed to interest rate risk during the accumulation of IRLCs and loans prior to sale. We utilize forward sales commitments to economically hedge the changes in fair value of the loan due to changes in market interest rates.

Item 4 - Controls and Procedures

(a) Evaluation of disclosure controls and procedures. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to the Company's management, including the Principal Executive Officer and Chief Financial Officer (CFO), as appropriate, to allow for timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of these disclosure controls, as of the end of the period covered by this Quarterly Report on Form 10-Q, was carried out under the supervision and with the participation of the Company's management, including the Principal Executive Officer and CFO. Based on that evaluation, the Company's management, including the Principal Executive Officer and CFO, has concluded that the Company's disclosure controls and procedures are in fact effective at the reasonable assurance level.

(b) Changes in Internal Control Over Financial Reporting. There were no significant changes in our internal control over financial reporting during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1 - Legal Proceedings

None

Item 1A Risk Factors

The risks and uncertainties to which our financial condition and operations are subject are discussed in detail in Item 1A of Part I of the Annual Report of First Mariner Bancorp on Form 10-K for the year ended December 31, 2011 and in Item 1A of Part II of the Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

There were no repurchases of the Company's common stock during the nine months ended September 30, 2012.

Item 3 - Defaults Upon Senior Securities

None

Item 4 - Mine Safety Disclosures

Not Applicable.

Item 5 - Other Information

None

Item 6 - Exhibits

- 10.1 Retention Bonus Agreement between First Mariner Bank and Mark Keidel, filed herewith
- 10.2 Retention Bonus Agreement between First Mariner Bank and Paul Susie, filed herewith
- 31.1 Certifications of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended, filed herewith
- 31.2 Certifications of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended, filed herewith
- 32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith
- 101.0* The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Financial Condition; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Changes in Stockholders' (Deficit) Equity; (v) Consolidated Statements of Cash Flows; and (vi) related notes.

* Furnished, not filed.

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

SIGNATURES

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

FIRST MARINER BANCORP

Date: November 14, 2012

By: /s/ Mark A. Keidel

Mark A. Keidel
Principal Executive Officer

Date: November 14, 2012

By: /s/ Paul B. Susie

Paul B. Susie
Chief Financial Officer and Principal Accounting Officer

Edgar Filing: FIRST MARINER BANCORP - Form 10-Q

Exhibit Index

- 10.1 Retention Bonus Agreement between First Mariner Bank and Mark Keidel, filed herewith
- 10.2 Retention Bonus Agreement between First Mariner Bank and Paul Susie, filed herewith
- 31.1 Certifications of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended, filed herewith
- 31.2 Certifications of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended, filed herewith
- 32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith
- 101.0* The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Financial Condition; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Changes in Stockholders (Deficit) Equity; (v) Consolidated Statements of Cash Flows; and (vi) related notes.

* Furnished, not filed.
