FIRST MARINER BANCORP
Form 10-Q
May 15, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009.

o **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	**52-1834860**
(State of Incorporation)	(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 x No o

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 o No o (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.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

The number of shares of common stock outstanding as of May 8, 2009 is 6,452,631 shares.

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PART I FINANCIAL INFORMATION

Item 1 Financial Statements

First Mariner Bancorp and Subsidiaries

Consolidated Statements of Financial Condition

(dollars in thousands, except per share data)

	March 31, 2009 (unaudited)	December 31, 2008
ASSETS		
Cash and due from banks	$ 100,905	$ 21,045
Federal funds sold and interest-bearing deposits	7,068	46,294
Trading securities, at fair value	12,378	12,566
Securities available for sale, at fair value	40,272	39,666
Loans held for sale	85,298	60,203
Loans receivable	980,470	978,696
Allowance for loan losses	(15,515)	(16,777)
Loans, net	964,955	961,919
Real estate acquired through foreclosure	22,403	18,994
Restricted stock investments	7,619	7,066
Premises and equipment, net	48,750	49,964
Accrued interest receivable	6,400	6,335
Income taxes recoverable	4,304	1,812
Deferred income taxes	24,554	26,057
Bank-owned life insurance	35,252	36,436
Prepaid expenses and other assets	19,533	19,140
Total assets	$ 1,379,691	$ 1,307,497
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 120,847	$ 114,751
Interest-bearing	900,960	835,482
Total deposits	1,021,807	950,233
Short-term borrowings	50,009	43,128
Long-term borrowings, at fair value	63,496	64,073
Long-term borrowings	111,502	113,795
Junior subordinated deferrable interest debentures	73,724	73,724
Accrued expenses and other liabilities ($1,374 and $1,199 at fair value, respectively)	15,232	16,529
Total liabilities	1,335,770	1,261,482
Stockholders equity:		
Common stock, $.05 par value; 20,000,000 shares authorized; 6,452,631shares issued and outstanding at both March 31, 2009 and December 31, 2008	323	323

Additional paid-in capital		56,753		56,741
Retained deficit		(7,438)		(5,485)
Accumulated other comprehensive loss		(5,717)		(5,564)
Total stockholders equity		43,921		46,015
Total liabilities and stockholders equity	$	1,379,691	$	1,307,497

See accompanying notes to the consolidated financial statements

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First Mariner Bancorp and Subsidiaries

Consolidated Statements of Operations

(dollars in thousands except per share data)

	Three Months Ended March 31, 2009	2008
	(unaudited)	
Interest income:		
Loans	$ 19,639	$ 20,001
Investments and other earning assets	800	1,723
Total interest income	20,439	21,724
Interest expense:		
Deposits	6,418	6,156
Short-term borrowings	209	203
Long-term borrowings	2,734	3,395
Total interest expense	9,361	9,754
Net interest income	11,078	11,970
Provision for loan losses	4,396	3,823
Net interest income after provision for loan losses	6,682	8,147
Noninterest income:		
Total other-than-temporary impairment charges	(2,058)	
Less: Portion included in other comprehensive income (pre-tax)	342	
Net other-than-temporary impairment charges on securities available for sale	(1,716)	
Origination fees and gain on sale of mortgage loans	3,614	654
Other mortgage-banking revenue	1,296	977
ATM fees	714	777
Service fees on deposits	1,332	1,535
Gain (loss) on financial instruments carried at fair value	768	(1,020)
Loss on sale of premises and equipment		(33)
Commissions on sales of nondeposit investment products	136	240
Income from bank-owned life insurance	336	371
Commissions on sales of other insurance products	734	620
Other	1,058	507
Total noninterest income	8,272	4,628
Noninterest expense:		
Salaries and employee benefits	9,207	9,204
Occupancy	2,947	2,631
Furniture, fixtures, and equipment	979	983
Professional services	858	421
Advertising	258	430
Data processing	513	548
ATM servicing expenses	228	244
Write-downs, losses, and costs of real estate acquired through foreclosure	2,114	636
Secondary marketing valuation		180
Service and maintenance	726	673
Other	2,665	2,531
Total noninterest expense	20,495	18,481
Net loss before income taxes	(5,541)	(5,706)
Income tax benefit	(2,440)	(2,428)
Net loss	$ (3,101)	$ (3,278)
Net loss per common share:		

Basic	$	(0.48)	$	(0.52)
Diluted	$	(0.48)	$	(0.52)

See accompanying notes to the consolidated financial statements.

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First Mariner Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

(dollars in thousands)

	Three Months Ended March 31, 2009	2008
	(unaudited)	
Cash flows from operating activities:		
Net loss	$ (3,101)	$ (3,278)
Adjustments to reconcile net loss to net cash from operating activities:		
Stock-based compensation	12	6
Depreciation and amortization	1,381	1,374
Amortization of unearned loan fees and costs, net	143	(107)
Amortization of premiums and discounts on loans, net	(385)	(285)
Amortization of premiums and discounts on mortgage-backed securities, net	2	3
(Gain) loss on financial instruments carried at fair value	(768)	1,020
Origination fees and gain on sale of mortgage loans	(3,614)	(654)
Other-than-temporary impairment charges on securities available for sale	1,716	
Increase in accrued interest receivable	(65)	(3)
Provision for loan losses	4,396	3,823
Write-downs and losses on sale of real estate acquired through foreclosure	1,938	407
Secondary marketing valuation		180
Loss on sale of premises and equipment		33
Increase in cash surrender value of bank-owned life insurance	(336)	(371)
Originations of mortgage loans held for sale	(502,593)	(373,729)
Proceeds from mortgage loans held for sale	481,112	360,721
Net decrease in accrued expenses and other liabilities	(1,297)	(1,549)
Net increase in prepaids and other assets	(2,724)	(2,769)
Net cash used in operating activities	(24,183)	(15,178)
Cash flows from investing activities:		
Loan principal disbursements, net of repayments	(14,419)	(8,036)
Purchases of premises and equipment	(179)	(468)
Proceeds from disposals of premises and equipment	12	7
(Purchases) redemptions of restricted stock investments	(553)	43
Maturities/calls/repayments of trading securities	379	1,047
Activity in securities available for sale:		
Maturities/calls/repayments of securities available for sale	1,004	459
Purchase of securities available for sale	(999)	
Redemptions of bank-owned life insurance	1,528	
Proceeds from sales of real estate acquired through foreclosure	1,882	3,325
Net cash used in investing activities	(11,345)	(3,623)
Cash flows from financing activities:		
Net increase in deposits	71,574	37,231
Net increase in other borrowed funds	4,588	3,322
Proceeds from stock issuance		106
Net cash provided by financing activities	76,162	40,659
Increase in cash and cash equivalents	40,634	21,858
Cash and cash equivalents at beginning of period	67,339	91,321
Cash and cash equivalents at end of period	$ 107,973	$ 113,179
Supplemental information:		
Interest paid on deposits and borrowed funds	$ 9,134	$ 9,343
Income taxes paid	$	$

Real estate acquired in satisfaction of loans	$	7,229	$	4,632
Transfer of loans held for sale to loan portfolio	$		$	613

See accompanying notes to the consolidated financial statements

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First Mariner Bancorp and Subsidiaries

Notes to Consolidated Financial Statements

(Information as of and for three months

ended March 31, 2009 and 2008 is unaudited)

(1) Summary Of Significant Accounting Policies

Basis Of Presentation

The accompanying consolidated financial statements for First Mariner Bancorp have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes necessary for a full presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America (U.S.). The consolidated financial statements should be read in conjunction with the audited financial statements included in First Mariner Bancorp s Annual Report on Form 10-K for the year ended December 31, 2008. When used in these notes, the terms the Company , we , us , and our refer to First Mariner Bancorp and unless the context requires otherwise, its consolidated subsidiaries.

The consolidated financial statements include the accounts of the Company s subsidiaries, First Mariner Bank (the Bank), Mariner Finance, LLC (Mariner Finance), and FM Appraisals, LLC (FM Appraisals). All significant intercompany balances and transactions have been eliminated.

The consolidated financial statements as of March 31, 2009 and for the three months ended March 31, 2009 and 2008 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 months ended March 31, 2009 are not necessarily indicative of the results that will be achieved for the entire year or any future interim period.

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

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 selling them 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 and are reported at estimated fair value, with unrealized gains and losses reported as a separate component of stockholders equity, net of tax effects, in accumulated other comprehensive income.

Securities held to maturity and available for sale 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 indication of other-than-temporary impairment for both debt and equity securities is a decline in the market value below the amount recorded for an investment. In determining whether an impairment is other-than-temporary, we consider whether it is more likely than not that we will be required to sell the security before full recovery of the value. 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 other-than-temporary 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

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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 will be recorded through other comprehensive income.

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 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.

Derivatives and Hedging Activities

We account for derivates in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended.* We designate a derivative as held for trading, an economic hedge not designated as a SFAS 133 hedge, or a qualifying SFAS 133 hedge when we enter into the derivative contract. The designation may change based upon management s reassessment or changing circumstances. Derivatives utilized by the Company include swaps, interest rate lock commitments, and forward settlement contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Interest rate lock commitments occur when we originate mortgage loans with interest rates determined prior to funding. Forward settlement contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date, and rate or price.

We designate at inception whether a derivative contract is considered hedging or non-hedging for SFAS 133 accounting purposes. All of our derivatives are non-exchange traded contracts, and as such, their fair value is based on dealer quotes, pricing models, discounted cash flow methodologies, or similar techniques for which the determination of fair value may require significant management judgment or estimation.

For SFAS 133 hedges, we formally document at inception all relationships between hedging instruments and hedged items, as well as risk management objectives and strategies for undertaking various accounting hedges. We utilize derivatives to manage interest rate sensitivity in certain cases.

Cash flow hedges are used to minimize the variability in cash flows of assets or liabilities, or forecasted transactions caused by interest rate or foreign exchange fluctuation. We use dollar offset or regression analysis at the hedge s inception and for each reporting period thereafter to assess whether the derivative used in a hedging transaction is expected to be, and has been, effective in offsetting changes in the fair value of the hedged item.

Fair Value hedges are used to minimize the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk. At inception of a fair value hedge, we formally document the hedging relationship and our risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the hedging instrument s effectiveness will be assessed. Each reporting period, we evaluate the effectiveness of the hedge in offsetting changes in the fair value of the hedged item.

For both cash flow and fair value hedges, we would discontinue hedge accounting if it were determined that a derivative is not expected to be, or has ceased to be, effective as a hedge.

We recognize gains and losses on swap contracts in the Consolidated Statement of Financial Condition in accumulated other comprehensive income, net of tax effects; such gains and losses are reclassified into the line item in the Consolidated Statement of Operations in which the hedged item is recorded in the same period the hedged item affects earnings. Hedge ineffectiveness and gains and losses on the excluded component of a derivative in assessing hedge effectiveness are recorded in earnings in the same income statement line item that is used to record hedge effectiveness. We recognize any gains and losses on interest rate lock commitments or forward sales commitments on residential mortgage originations through mortgage-banking revenue in the Consolidated Statements of Operations.

Reclassifications

Certain reclassifications have been made to amounts previously reported to conform to the classifications made in 2009

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(2) Securities

The composition of our securities portfolio is as follows:

	March 31, 2009			
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available for Sale:				
Mortgage-backed securities	$ 22,110	$ 923	$ 535	$ 22,498
Trust preferred securities	20,652		7,433	13,219
Equity securities - Banks	549		369	180
U.S. Treasury securities	999	3		1,002
Corporate obligations	2,710	36	123	2,623
Foreign government bonds	750			750
	$ 47,770	$ 962	$ 8,460	40,272
Trading:				
Mortgage-backed securities				12,378
				$ 52,650

	December 31, 2008			
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available for Sale:				
Mortgage-backed securities	$ 22,423	$ 609	$ 784	$ 22,248
Trust preferred securities	20,460		7,594	12,866
Equity securities - Banks	549		298	251
U.S. Treasury securities	1,000	3		1,003
Corporate obligations	2,675		127	2,548
Foreign government bonds	750			750
	$ 47,857	$ 612	$ 8,803	39,666
Trading:				
Mortgage-backed securities				12,566
				$ 52,232

Contractual maturities of debt securities at March 31, 2009 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.

(dollars in thousands)	Amortized Cost	Estimated Fair Value
Available for Sale:		
Due in one year or less	$ 3,366	$ 2,693
Due after one year through five years	5,532	4,070
Due after five years through ten years	288	166
Due after ten years	15,925	10,665
Mortgage-backed securities	22,110	22,498
	$ 47,221	40,092

Trading:		
Mortgage-backed securities		12,378
	$	52,470

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The following table shows the level of our gross unrealized losses and the fair value of the associated securities by type and maturity for securities available for sale at March 31, 2009:

	Less than 12 months		12 months or more		Total	
(dollars in thousands)	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**
Mortgage-backed securities	$	$	$ 5,026	$ 535	$ 5,026	$ 535
Trust preferred securities	4,829	4,742	8,390	2,691	13,219	7,433
Corporate obligations	1,120	123			1,120	123
Equity securities - Banks			180	369	180	369
	$ 5,949	$ 4,865	$ 13,596	$ 3,595	$ 19,545	$ 8,460

The trust preferred securities that we hold in our securities portfolio are issued by other banks and bank holding companies. Certain of these securities have experienced declines in value since acquisition. These declines have occurred primarily over the past year due to changes in the market which has limited the demand for these securities and reduced their liquidity. We recorded other-than-temporary impairment (OTTI) charges of $1.716 million on positions in pooled trust preferred collateralized debt obligations during the first three months of 2009. In addition, as a result of the adoption of FASB Staff Position (FSP) No. FAS 157-4 *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, and FSP No. FAS 115-1 and FAS 124-2, *Recognition and Presentation of Other Than Temporary Impairments* during the first quarter of 2009, we added back to retained earnings as a cumulative effect of accounting change $1.148 million, net of taxes of $750,000, in OTTI previously taken that was determined to not be related to credit deterioration (see Notes 6 and 9 for additional information). We determined that the remaining trust preferred securities were temporarily impaired as of March 31, 2009.

The following shows the activity in OTTI related to credit losses for the three months ended March 31, 2009:

(dollars in thousands)	
Balance at beginning of year	$ 5,605
Reduction - cumulative effect of accounting change,	(1,898)
Additional OTTI taken for credit losses	1,716
Balance at end of period	$ 5,423

All of the remaining securities that are temporarily impaired are impaired due to declines in fair values resulting from changes in interest rates or increased credit/liquidity spreads since the time they were purchased. We have the ability and intent to hold these securities to maturity, or, for equity securities, for the foreseeable future, and we expect these securities will be repaid in full, with no losses realized. As such, management does not consider the impairments to be other-than-temporary.

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(3) Loans Receivable and Allowance for Loan Losses

Loans receivable are summarized as follows:

(dollars in thousands)		March 31, 2009		December 31, 2008
Loans secured by first mortgages on real estate:				
Residential	$	147,569	$	138,551
Commercial		321,912		319,591
Consumer residential construction		65,723		69,496
Commercial construction		103,397		109,773
		638,601		637,411
Commercial		86,943		90,896
Loans secured by second mortgages on real estate		142,067		135,873
Consumer		109,127		112,941
Loans secured by deposits and other		7,117		3,526
Total loans		983,855		980,647
Unamortized loan discounts, net		(342)		(386)
Unearned loan fees, net		(3,043)		(1,565)
	$	980,470	$	978,696

Included in consumer loan totals in the above table are overdrawn commercial and retail checking accounts totaling $296,000 and $378,000 as of March 31, 2009 and December 31, 2008, respectively. Included in net unearned loan fees and costs in the above table is unearned income on installment loans of $3.904 million and $2.674 million as of March 31, 2009 and December 31, 2008, respectively.

In accordance with SFAS No. 65, *Accounting for Certain Mortgage Banking Activities*, any loans which are originally originated for sale into the secondary market and which we subsequently elect to transfer into the Company s loan portfolio are valued at fair value at the time of the transfer with any decline in value recorded as a charge to operating expense.

Information on the activity in transferred loans and related accretable yield is as follows for the three months ended March 31:

	Loan Balance				Accretable Yield				Total			
(dollars in thousands)		2009		2008		2009		2008		2009		2008
Beginning balance	$	15,441	$	16,907	$	831	$	1,114	$	14,610	$	15,793
Additional transfers				660				47				613
Loans moved to real estate acquired through foreclosure		(200)		(280)				(14)		(200)		(266)
Charge-offs		(1,056)		(562)		(74)				(982)		(562)
Payments/amortization		(30)				(41)		(174)		11		174
Ending balance	$	14,155	$	16,725	$	716	$	973	$	13,439	$	15,752

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

(dollars in thousands)		March 31, 2009		December 31, 2008
Nonaccruing loans	$	42,734	$	38,763
Real estate acquired through foreclosure		22,403		18,994
Total nonperforming assets	$	65,137	$	57,757

Loans past-due 90 days or more and accruing	$	10,742	$	9,679

Commercial loans we consider impaired at March 31, 2009 and December 31, 2008 totaled $27.979 million and $26.695 million, respectively. The specific reserve for loan losses for commercial impaired loans was approximately $980,000 at March 31, 2009 and $1.264 million at December 31, 2008.

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The following table shows the breakout of commercial impaired loans:

(dollars in thousands)	March 31, 2009	December 31, 2008
Impaired loans with allowance for loan losses allocated in accordance with SFAS 114	$ 10,199	$ 8,155
Impaired loans with no allowance for loan losses allocated in accordance with SFAS 114	17,780	18,540
	$ 27,979	$ 26,695

Consumer loans we consider impaired at March 31, 2009 and December 31, 2008 totaled $18.754 million and $20.945 million, respectively. The specific reserve for loan losses for consumer impaired loans was approximately $231,000 at March 31, 2009 and $1.444 million at December 31, 2008.

The following table shows the breakout of consumer impaired loans at:

(dollars in thousands)	March 31, 2009	December 31, 2008
Impaired loans with allowance for loan losses allocated in accordance with SFAS 114	$ 798	$ 7,410
Impaired loans with no allowance for loan losses allocated in accordance with SFAS 114	17,956	