

FIRST MARINER BANCORP
Form 10-Q
May 15, 2013
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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 March 31, 2013.

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

For the transition period from to

Commission file number: 0-21815

FIRST MARINER BANCORP

(Exact name of registrant as specified in its charter)

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Maryland
(State of Incorporation)

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

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

21224
(Zip Code)

410-342-2600
(Telephone Number)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares of common stock outstanding as of May 10, 2013 is 19,699,603 shares.

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FIRST MARINER BANCORP AND SUBSIDIARY

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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:

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

- a reduction in the value of certain assets held by us;

- 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;

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

- 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;

- 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;

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

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- 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 strength of the United States economy in general, the strength of the local economies in which we conduct operations, and the unfavorable effects of future economic conditions, including inflation, recession, or decreases in 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;

- our ability to continue to realize income through our mortgage-banking operations; and

- the risks described in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K as of and for the year ended December 31, 2012.

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 I of our Annual Report on Form 10-K as of and for the year ended December 31, 2012. Any forward-looking statement speaks only as of the date which such statement was made, and, except as required by law, we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

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

	March 31, 2013 (unaudited)	December 31, 2012
ASSETS		
Cash and due from banks	\$ 273,745	\$ 169,225
Federal funds sold and interest-bearing deposits	28,964	16,556
Securities available for sale (AFS), at fair value	56,372	57,676
Loans held for sale (LHFS), at fair value	237,379	404,289
Loans receivable	597,529	610,396
Allowance for loan losses	(11,225)	(11,434)
Loans, net	586,304	598,962
Real estate acquired through foreclosure	10,654	18,058
Restricted stock investments	3,517	7,099
Premises and equipment, net	37,174	37,651
Accrued interest receivable	3,392	4,387
Bank-owned life insurance (BOLI)	38,859	38,601
Prepaid expenses and other assets	25,280	25,025
Total assets	\$ 1,301,640	\$ 1,377,529
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 108,347	\$ 109,966
Interest-bearing	1,083,936	1,076,864
Total deposits	1,192,283	1,186,830
Short-term borrowings	1,585	53,466
Long-term borrowings	48,462	73,515
Junior subordinated deferrable interest debentures	52,068	52,068
Accrued expenses and other liabilities (of which, \$223 and \$248 are at fair value, respectively)	18,364	20,022
Total liabilities	1,312,762	1,385,901
Stockholders' deficit:		
Common stock, \$.05 par value; 75,000,000 shares authorized; 18,860,482 shares issued and outstanding at both March 31, 2013 and December 31, 2012	939	939
Additional paid-in capital	79,892	79,872
Retained deficit	(89,607)	(87,337)
Accumulated other comprehensive loss	(2,346)	(1,846)

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Total stockholders' deficit	(11,122)	(8,372)
Total liabilities and stockholders' deficit	\$ 1,301,640	\$ 1,377,529

See accompanying notes to consolidated financial statements

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

	Three Months Ended	
	March 31,	
	2013	2012
	(unaudited)	
Interest income:		
Loans	\$ 10,793	\$ 11,283
Securities and other earning assets	340	336
Total interest income	11,133	11,619
Interest expense:		
Deposits	2,953	3,088
Short-term borrowings	15	33
Long-term borrowings	1,020	932
Total interest expense	3,988	4,053
Net interest income	7,145	7,566
Provision for loan losses	1,300	1,000
Net interest income after provision for loan losses	5,845	6,566
Noninterest income:		
Total other-than-temporary impairment (OTTI) charges		38
Less: Portion included in other comprehensive income (pre-tax)		(498)
Net OTTI charges on AFS securities		(460)
Mortgage-banking revenue	9,789	8,950
ATM fees	516	718
Service fees on deposits	626	680
Gain on sale of AFS securities	31	
Loss on sales and disposals of premises and equipment and other assets		(93)
Commissions on sales of nondeposit investment products	45	62
Income from BOLI	259	293
Other	341	229
Total noninterest income	11,607	10,379
Noninterest expense:		
Salaries and employee benefits	6,880	5,779
Occupancy	2,290	2,222
Furniture, fixtures, and equipment	389	362
Professional services	807	373
Advertising	442	188
Data processing	203	432
ATM servicing expenses	105	226
Write-downs, losses, and costs of real estate acquired through foreclosure	2,685	1,274
Federal Deposit Insurance Corporation (FDIC) insurance premiums	1,210	1,048
Service and maintenance	716	591
Corporate Insurance	794	473
Consulting fees	412	608
Postage	1,051	259
Other	1,738	1,495
Total noninterest expense	19,722	15,330
Net income before income taxes	(2,270)	1,615
Income tax benefit		(205)
Net (loss) income	\$ (2,270)	\$ 1,820

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Net (loss) income per common share - basic and diluted	\$	(0.12)	\$	0.10
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See accompanying notes to consolidated financial statements.

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

	Three Months Ended		
	2013	March 31,	2012
		(unaudited)	
Net (loss) income	\$	(2,270)	\$ 1,820
Other comprehensive (loss) income items:			
Unrealized holding (losses) gains on securities arising during the period (net of tax (benefit) expense of \$(326) and \$304, respectively)		(482)	449
Reclassification adjustment for net (gains) losses on securities (net of tax (expense) benefit of \$(13) and \$186, respectively) included in net (loss) income		(18)	274
Total other comprehensive (loss) income		(500)	723
Total comprehensive (loss) income	\$	(2,770)	\$ 2,543

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2013 (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, 2012	18,860,482	\$ 939	\$ 79,872	\$ (87,337)	\$ (1,846)	\$ (8,372)
Net loss				(2,270)		(2,270)
Costs of common stock issued, net			(5)			(5)
Change in fair value of warrants			25			25
Changes in unrealized losses on securities, net of taxes					(500)	(500)
Balance at March 31, 2013	18,860,482	\$ 939	\$ 79,892	\$ (89,607)	\$ (2,346)	\$ (11,122)

	Three Months Ended March 31, 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				1,820		1,820
Costs of common stock issued, net			(5)			(5)
Change in fair value of warrants			(101)			(101)
Changes in unrealized losses on securities, net of taxes					723	723
Balance at March 31, 2012	18,860,482	\$ 939	\$ 80,019	\$ (101,634)	\$ (2,299)	\$ (22,975)

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2013	2012
	(unaudited)	
Cash flows from operating activities:		
Net (loss) income	\$ (2,270)	\$ 1,820
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Depreciation and amortization	669	728
(Accretion) amortization of unearned loan fees and costs, net	(52)	133
Amortization of discounts on mortgage-backed securities, net	15	1
Origination fees and gains on sale of mortgage loans	(9,492)	(8,255)
Net OTTI charges on AFS securities		460
Gain on sale of AFS securities	(31)	
Loss on disposition and sale of premises and equipment and other assets		93
Decrease in accrued interest receivable	995	164
Provision for loan losses	1,300	1,000
Write-downs and losses on sale of real estate acquired through foreclosure	1,870	756
Increase in cash surrender value of BOLI	(259)	(293)
Originations of mortgage LHFS	(716,926)	(460,375)
Proceeds from sales of mortgage LHFS	892,495	463,044
Net decrease in accrued expenses and other liabilities	(1,630)	(548)
Net decrease (increase) in prepaids and other assets	84	(1,459)
Net cash provided by (used in) operating activities	166,768	(2,731)
Cash flows from investing activities:		
Loan principal repayments, net	6,409	17,401
Sales of loans	5,537	
Repurchase of loans previously sold	(722)	
Sale of restricted stock investments	3,582	
Purchases of premises and equipment	(194)	(180)
Activity in AFS securities:		
Maturities/calls/repayments	3,821	3,587
Sales	2,338	
Purchases	(5,678)	(2,994)
Proceeds from sales of real estate acquired through foreclosure	6,554	1,503
Net cash provided investing activities	21,647	19,317
Cash flows from financing activities:		
Net increase (decrease) in deposits	5,452	(1,519)
Net decrease in other borrowed funds	(76,934)	(298)
Net costs of stock issuance	(5)	(5)
Net cash used in financing activities	(71,487)	(1,822)
Increase in cash and cash equivalents	116,928	14,764
Cash and cash equivalents at beginning of period	185,781	148,789
Cash and cash equivalents at end of period	\$ 302,709	\$ 163,553
Supplemental information:		
Interest paid on deposits and borrowed funds	\$ 3,549	\$ 3,655
Real estate acquired in satisfaction of loans	\$ 1,020	\$ 2,555
Transfers of LHFS to loan portfolio	\$ 834	\$ 116

See accompanying notes to consolidated financial statements

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First Mariner Bancorp and Subsidiary

Notes to Consolidated Financial Statements

(Information as of and for the three months

ended March 31, 2013 and 2012 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, 2012. 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, 1st 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 2013.

The consolidated financial statements as of March 31, 2013 and for the three months ended March 31, 2013 and 2012 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, 2013 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. 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 AFS securities, valuations of financial instruments, and deferred income 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.

(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 Company's and 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:

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	Amortized Cost	March 31, 2013		Estimated Fair Value
		Unrealized Gains	Unrealized Losses	
(dollars in thousands)				
Mortgage-backed securities	\$ 6,728	\$ 129	\$ 88	\$ 6,769
Trust preferred securities	6,136		2,064	4,072
U.S. government agency notes	39,060	88	10	39,138
U.S. Treasury securities	4,773	2		4,775
Equity securities - banks	1,288	20	472	836
Equity securities - mutual funds	750	32		782
	\$ 58,735	\$ 271	\$ 2,634	\$ 56,372

	Amortized Cost	December 31, 2012		Estimated Fair Value
		Unrealized Gains	Unrealized Losses	
(dollars in thousands)				
Mortgage-backed securities	\$ 7,040	\$ 169	\$ 75	\$ 7,134
Trust preferred securities	11,246	79	2,144	9,181
U.S. government agency notes	33,435	107	5	33,537
U.S. Treasury securities	5,779	2		5,781
Equity securities - banks	1,288	16	48	1,256
Equity securities - mutual funds	750	37		787
	\$ 59,538	\$ 410	\$ 2,272	\$ 57,676

Contractual maturities of debt securities at March 31, 2013 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
(dollars in thousands)		
Due in one year or less	\$ 15,998	\$ 16,055
Due after one year through five years	27,835	27,859
Due after ten years	6,136	4,071
Mortgage-backed securities	6,728	6,769
	\$ 56,697	\$ 54,754

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:

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	Less than 12 months		March 31, 2013 12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Mortgage-backed securities	\$ 3,506	\$ 88	\$	\$	\$ 3,506	\$ 88
Trust preferred securities			4,071	2,064	4,071	2,064
U.S. government agency notes	12,729	10			12,729	10
Equity securities - banks	610	472			610	472
	\$ 16,845	\$ 570	\$ 4,071	\$ 2,064	\$ 20,916	\$ 2,634

Mortgage-backed securities	\$ 3,552	\$ 75	\$	\$	\$ 3,552	\$ 75
U.S. government agency notes	9,139	5				