FIRST MARINER BANCORP
Form 10-Q
May 12, 2008

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, 2008.

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 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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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 2, 2008 is 6,371,486 shares.

FIRST MARINER BANCORP AND SUBSIDIARIES
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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, 2008 (unaudited)	December 31, 2007
ASSETS		
Cash and due from banks	$ 31,514	$ 39,089
Federal funds sold and interest-bearing deposits	81,665	52,232
Trading securities, at fair value	36,327	36,950
Securities available for sale, at fair value	43,587	44,998
Loans held for sale	97,278	80,920
Loans receivable	853,214	854,920
Allowance for loan losses	(13,808)	(12,789)
Loans, net	839,406	842,131
Real estate acquired through foreclosure	19,882	18,981
Restricted stock investments	5,941	5,983
Premises and equipment, net	51,269	52,215
Accrued interest receivable	7,184	7,181
Deferred income taxes	12,793	12,428
Bank-owned life insurance	35,302	34,931
Prepaid expenses and other assets	21,564	18,783
Total assets	$ 1,283,712	$ 1,246,822
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 138,476	$ 149,710
Interest-bearing	803,708	755,243
Total deposits	942,184	904,953
Short-term borrowings	36,871	37,509
Long-term borrowings, at fair value	64,567	63,123
Long-term borrowings	95,967	92,007
Junior subordinated deferrable interest debentures	73,724	73,724
Accrued expenses and other liabilities	9,570	10,936
Total liabilities	1,222,883	1,182,252
Stockholders equity:		
Common stock, $.05 par value; 20,000,000 shares authorized; 6,371,486 and 6,351,611 shares issued and outstanding, respectively	319	318
Additional paid-in capital	56,569	56,458
Retained earnings	6,325	9,603
Accumulated other comprehensive loss	(2,384)	(1,809)

Total stockholders equity		60,829		64,570
Total liabilities and stockholders equity	$	1,283,712	$	1,246,822

See accompanying notes to the consolidated financial statements

First Mariner Bancorp and Subsidiaries

Consolidated Statements of Operations

(dollars in thousands except per share data)

	Three Months Ended March 31, 2008 (unaudited)	2007
Interest income:		
Loans	$ 20,001	$ 19,735
Investments and other earning assets	1,723	2,244
Total interest income	21,724	21,979
Interest expense:		
Deposits	6,156	6,929
Short-term borrowings	203	315
Long-term borrowings	3,395	3,528
Total interest expense	9,754	10,772
Net interest income	11,970	11,207
Provision for loan losses	3,823	537
Net interest income after provision for loan losses	8,147	10,670
Noninterest income:		
Gain on sale of mortgage loans	654	1,593
Other mortgage-banking revenue	977	730
ATM fees	777	716
Service fees on deposits	1,535	1,471
Trading loss on securities and long-term borrowings	(1,020)	(111)
Gain on sale of investment securities, net		887
Commissions on sales of nondeposit investment products	240	307
Income from bank-owned life insurance	371	335
Commissions on sales of other insurance products	620	587
Other	474	434
Total noninterest income	4,628	6,949
Noninterest expense:		
Salaries and employee benefits	9,204	9,357
Occupancy	2,631	2,240
Furniture, fixtures, and equipment	983	863
Professional services	421	350
Advertising	430	511
Data processing	548	429
ATM servicing expenses	244	230
Write-downs and costs of real estate acquired through foreclosure	636	546
Secondary marketing valuation	180	33
Service and maintenance	673	744
Other	2,531	2,344
Total noninterest expense	18,481	17,647
Net loss before income taxes	(5,706)	(28)
Income tax benefit	(2,428)	(128)
Net (loss) income	$ (3,278)	$ 100
Net (loss) income per common share:		
Basic	$ (0.52)	$ 0.02
Diluted	$ (0.52)	$ 0.02

See accompanying notes to the consolidated financial statements.

First Mariner Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

(dollars in thousands)

	Three Months Ended March 31, 2008	2007
	(unaudited)	
Cash flows from operating activities:		
Net (loss) income	$ (3,278)	$ 100
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Stock-based compensation	6	16
Depreciation and amortization	1,374	1,206
Amortization of unearned loan fees and costs, net	(107)	(200)
Amortization of premiums and discounts on loans, net	(285)	(271)
Amortization of premiums and discounts on mortgage-backed securities, net	3	5
Loss on trading securities and borrowings	1,020	111
Gain on sale of securities available for sale		(887)
Gain on sale of mortgage loans	(654)	(1,593)
(Increase) decrease in accrued interest receivable	(3)	2,002
Provision for loan losses	3,823	537
Write-downs and losses on sale of real estate acquired through foreclosure	407	460
Secondary marketing valuation	180	33
Loss on disposal of premises and equipment	33	
Increase in cash surrender value of bank-owned life insurance	(371)	(335)
Originations of mortgage loans held for sale	(373,729)	(211,112)
Proceeds from mortgage loans held for sale	360,721	248,802
Net decrease in accrued expenses and other liabilities	(1,549)	(2,280)
Net (increase) decrease in prepaids and other assets	(2,769)	2,054
Net cash (used in) provided by operating activities	(15,178)	38,648
Cash flows from investing activities:		
Loan principal (disbursements) repayments, net	(8,036)	4,842
Purchases of premises and equipment	(461)	(2,980)
Redemptions of restricted stock investments	43	466
Maturities/calls/repayments of trading securities	1,047	
Activity in securities available for sale:		
Sales of securities available for sale		1,301
Maturities/calls/repayments of securities available for sale	459	51,665
Purchase of securities available for sale		(999)
Proceeds from sales of real estate acquired through foreclosure	3,325	977
Net cash (used in) provided by investing activities	(3,623)	55,272
Cash flows from financing activities:		
Net increase (decrease) in deposits	37,231	(10,667)
Net increase in other borrowed funds	3,322	10,555
Proceeds from stock issuance	106	109
Repurchase of common stock, net of costs		(139)
Net cash provided by (used in) financing activities	40,659	(142)
Increase in cash and cash equivalents	21,858	93,778
Cash and cash equivalents at beginning of period	91,321	42,969
Cash and cash equivalents at end of period	$ 113,179	$ 136,747
Supplemental information:		
Interest paid on deposits and borrowed funds	$ 9,343	$ 5,354
Income taxes paid	$	$ 610
Real estate acquired in satisfaction of loans	$ 4,632	$ 4,988
Transfer of loans held for sale to loan portfolio	$ 2,697	$ 1,001

See accompanying notes to the consolidated financial statements.

First Mariner Bancorp and Subsidiaries

Notes to Consolidated Financial Statements

(Information as of and for the three months

ended March 31, 2008 and 2007 is unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis Of Presentation

The accompanying consolidated financial statements for First Mariner Bancorp (the Company) 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 our 2007 Annual Report on Form 10-K.

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, 2008 and for the three months ended March 31, 2008 and 2007 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, 2008 are not necessarily indicative of the results that will be achieved for the entire year.

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 credit losses (the allowance), the valuation allowance on repurchased loans, other than temporary impairment of investment securities, accounting for gain on sale of mortgage loans, fair value of real estate acquired through foreclosure, and deferred tax assets.

Certain reclassifications have been made to amounts previously reported to conform to the classifications made in 2008.

NOTE 2 COMPREHENSIVE (LOSS) INCOME

The following table shows the Company s comprehensive (loss) income for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31,	
(dollars in thousands)	**2008**	**2007**
Net (loss) income	$ (3,278)	$ 100
Other comprehensive income items:		
Cumulative effect of accounting change for certain investments, net of tax expense of $0 and $625, respectively		993
Unrealized holding (losses) gains arising during the period (net of tax (benefit) expense of $(375) and $300, respectively)	(575)	477
Less: reclassification adjustment for gains (net of taxes of $0 and $343, respectively) included in net (loss) income		(544)
Total other comprehensive (loss) income	(575)	926
Total comprehensive (loss) income	$ (3,853)	$ 1,026

NOTE 3 PER SHARE DATA

Basic (loss) earnings per share is computed by dividing (loss) income available to common stockholders by the weighted-average number of common shares outstanding. Diluted (loss) earnings per share is computed after adjusting the denominator of the basic (loss) earnings 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 month period ended March 31, 2007, there were 310,638 shares which were antidilutive and excluded from the computation. For the three month period ended March 31, 2008 all options were antidilutive due to our realized net loss.

Information relating to the calculation of earnings per common share is summarized as follows:

	Three Months Ended March 31,	
(dollars in thousands, except for per share data)	**2008**	**2007**
Net (loss) income - basic and diluted	$ (3,278)	$ 100
Weighted-average share outstanding - basic	6,351,831	6,420,811
Effect of dilutive securities - options and warrants		210,319
Adjusted weighted-average shares outstanding - dilutive	6,351,831	6,631,130
(Loss) earnings per share - basic	$ (0.52)	$ 0.02
(Loss) earnings per share - diluted	$ (0.52)	$ 0.02

NOTE 4 - STOCK BASED COMPENSATION

We have stock option award arrangements, which provide for the granting of options to acquire common stock to our directors and key employees. Option prices are equal to or greater than the estimated fair market value of the common stock at the date of the grant. As of March 31, 2008, 808,827 of the outstanding options are fully vested, 35,000 of the outstanding options vest over a three year period, and 3,461 of the outstanding options vest over the next year. All options expire ten years after the date of grant. There have been no modifications to the existing plan. We recognized stock compensation expense, net of taxes, of $6,000 and $16,000, for the three months ended March 31, 2008 and 2007 respectively. We anticipate incurring an additional $105,000 in compensation expense, net of taxes, over the next two years related to the unvested options.

Information with respect to stock options is as follows for the three months ended March 31, 2008:

	Number of Shares	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (in years)**	**Aggregate Intrinsic Value (in thousands)**
Outstanding at beginning of period	813,788	$ 12.47		
Granted	36,000	5.70		
Exercised				
Forfeited/Cancelled	(2,500)	16.58		
Outstanding at end of period	847,288	$ 12.17	5.4	$ 93,816

Exercisable at end of period	808,827	$	12.45	5.1	$ 83,316

The weighted average fair values of our option grants for the three months ended March 31, 2008 and 2007 were $2.27 and $6.35, respectively, on the dates of grants. The fair values of our options granted were calculated using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions for the three months ended March 31, 2008 and 2007:

	2008	2007
Dividend yield	0.00%	0.00%
Expected volatility	28.00%	14.18%
Risk-free interest rate	3.15%	4.58%
Expected lives	8 years	8 years

The total intrinsic value of options exercised and the related tax benefit during the three months ended March 31, 2008 and 2007 amounted to $0 and $5,685, respectively. There was no related tax benefit during the three months ended March 31, 2008 or

2007. Proceeds from exercises of stock options amounted to $0 and $11,065 respectively, for the three months ended March 31, 2008 and 2007.

While our employee stock purchase plan provides for a 10% discount from market value at issuance, we do not recognize compensation expense on the discount because substantially all employees that meet limited employment qualifications may participate in the plan on an equitable basis; the plan incorporates no option features, the purchase price is based solely on the market price of the shares at the date of purchase, and employees are permitted to cancel participation before the purchase date and obtain a refund of amounts previously paid and; the discount from the market price does not exceed the per-share amount of share issuance costs that would have been incurred to raise a significant amount of capital by a public offering.

NOTE 5 COMMITMENTS AND CONTINGENT LIABILITIES

We are party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of customers. These financial instruments include commitments to extend credit, available lines of credit, and standby letters of credit. Our exposure to credit risk is represented by the contractual amounts of those financial instruments. We apply the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments. A summary of the financial instruments at March 31, 2008 whose contract amounts represent potential credit risk is as follows:

(dollars in thousands)	**March 31, 2008**	**December 31, 2007**
Commitments to extend credit (includes unused lines of credit)	$ 214,126	$ 200,760
Standby letters of credit	4,693	4,973

We established a reserve for potential loan repurchases in the amount of $75,000 as of March 31, 2008, which was settled in April, 2008.

NOTE 6 SEGMENT INFORMATION

We are in the business of providing financial services, and we operate in three business segments commercial and consumer banking, consumer finance, 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. Consumer finance is conducted through Mariner Finance, and involves originating small direct consumer loans and the purchase of retail installment sales contracts. Mortgage-banking is conducted through First Mariner Mortgage and Next Generation Financial Services, divisions of the Bank, and involves originating first- and second-lien residential mortgages for sale in the secondary market and to the Bank. The results of our subsidiary, FM Appraisals, are included in the mortgage-banking segment.

The following table presents certain information regarding our business segments:

For the three month period ended March 31, 2008:

(dollars in thousands)	Commercial and Consumer Banking	Consumer Finance	Mortgage-Banking	Total
Interest income	$ 15,796	$ 4,766	$ 1,162	$ 21,724
Interest expense	7,705	910	1,139	9,754
Net interest income	8,091	3,856	23	11,970
Provision for loan losses	1,455	823	1,545	3,823
Net interest income (loss) after provision for loan losses	6,636	3,033	(1,522)	8,147
Noninterest income	2,428	828	1,372	4,628
Noninterest expense	11,751	3,326	3,404	18,481
Net intersegment income	31		(31)	
Net (loss) income before income taxes	$ (2,656)	$ 535	$ (3,585)	$ (5,706)
Total assets	$ 1,102,584	$ 83,850	$ 97,278	$ 1,283,712

For the three month period ended March 31, 2007:

(dollars in thousands)	Commercial and Consumer Banking	Consumer Finance	Mortgage-Banking	Total
Interest income	$ 16,665	$ 3,930	$ 1,384	$ 21,979
Interest expense	8,879	962	931	10,772
Net interest income	7,786	2,968	453	11,207
Provision for loan losses	250	287		537
Net interest income after provision for loan losses	7,536	2,681	453	10,670
Noninterest income	4,110	729	2,110	6,949
Noninterest expense	12,390	2,628	2,629	17,647
Net intersegment income	21		(21)	
Net (loss) income before income taxes	$ (723)	$ 782	$ (87)	$ (28)
Total assets	$ 1,137,015	$ 67,535	$ 57,273	$ 1,261,823

NOTE 7 FAIR VALUE

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 active 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.

The following table shows details of the financial instruments as of March 31, 2008 for which we elected to apply the fair value option:

(dollars in thousands)	Carrying Value (Fair Value)	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Trading Gains and (Losses)	Total Changes In Fair Values Included In Period Earnings
Trading securities	$ 36,327	$ 36,327	$	$ 424	$ 424
Securities available for sale	43,587		43,587		
Long-term debt at fair value	64,567		64,567	(1,444)	(1,444)

We may be required, from time to time, to measure certain other financial assets and liabilities at fair value on a nonrecurring basis. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis as of March 31, 2008, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the assets:

(dollars in thousands)	Carrying Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Alt A loans, including impaired	$ 31,209	$	$	$ 31,209
Commercial impaired loans	11,614			11,614
Real estate acquired through foreclosure	19,882			19,882

High Loan-To-Value Ratio/Low Documentation (ALT A) loans

In accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, we record repurchased loans at their estimated fair value at the time of repurchase. At March 31, 2008, we maintained $13.374 million of ALT A loans repurchased in accordance with covenants in our sales agreements with investors. Such loans amounted to $17.736 million as of December 31, 2007. We did not repurchase any loans during the first three months of 2008.

In establishing the loan s estimated fair value, management makes significant assumptions concerning the ultimate collectibility of delinquent loans and their ultimate realizable value. While these projections are made with the most current data available to management, actual realized losses could differ due to the changes in the borrowers willingness or ability to resolve the delinquency status, changes in the actual volume of future repurchases, changes in the real estate market, or changes in market values of those loans which are liquidated. Management updates these assumptions continually as greater experience becomes available.

In accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (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. At March 31, 2008, we held $17.835 million in ALT A loans in our portfolio that were transferred from loans held for sale at fair value. Such loans amounted to $15.793 million at December 31, 2007. During the first three months of 2008, we transferred an additional $2.697 million of ALT A loans to our loan portfolio from loans held for sale.

Impaired Loans

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment in accordance with the provisions of Financial Accounting Standard No. 114 (FAS 114) Accounting by Creditors for Impairment of a Loan. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method.

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 of 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 discount existing at origination or acquisition of the loan.

Management establishes a specific reserve for loans that have an estimated fair value that is below the carrying value. Impaired loans, including impaired Alt A loans of $6.587 million which are included in the total carrying value described in Alt A loans above, had a carrying amount of $18.201 million as of March 31, 2008 and $23.650 million as of December 31, 2007, with specific reserves of $831,000 as of March 31, 2008 and $2.544 million as of December 31, 2007.

When there is little prospect of collecting either principal or interest, loans, or portions of loans, may be charged-off to the allowance for loan losses. Losses are recognized in the period an obligation becomes uncollectible. The recognition of a loss does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan even though partial recovery may be occur in the future. During the first three months of 2008, the Company charged-off $2.379 million of impaired loans to the allowance for loan losses.

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, discounted based on various economic factors consistent with our loan review policies. We held real estate acquired through foreclosure of $19.882 million as of March 31, 2008 and $18.981 million as of December 31, 2007. During the first three months of 2008, we added $4.097 million, net of reserves, to real estate acquired through foreclosure and took write-downs, included in noninterest expense, of $407,000.

NOTE 8 RECENT ACCOUNTING PRONOUNCEMENTS

Pronouncement Issued But Not Yet Effective

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. This statement requires enhanced disclosures in order to enable investors to better understand the effects of derivative instruments and hedging activities on an entity s financial position, financial performance, and cash flows. This statement is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Management does not anticipate the adoption of this standard to have a material impact on our financial statements.

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

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 our Annual Report on Form 10-K for the year ended December 31, 2007.

Forward-Looking Statements

This quarterly report on Form 10-Q may contain forward-looking language within the meaning of The Private Securities Litigation Reform Act of 1995. Statements may include expressions about our confidence, policies, and strategies, provisions and allowance for loan losses, adequacy of capital levels, and liquidity. All statements included or incorporated by reference in this Quarterly Report on Form 10-Q, other than statements that are purely historical, are forward-looking statements. Statements that include the use of terminology such as anticipates, expects, intends, plans, believes, estimates, and similar expressions also identify forward-looking statements. The forward-looking statements are based on our current intent, belief, and expectations. Forward-looking statements in this Quarterly Report on Form 10-Q include, but are not limited to, statements of our plans, strategies, objectives, intentions, including, among other statements, statements involving our projected loan and deposit growth, loan collateral values, collectibility of loans, anticipated changes in other operating income, payroll and branching expenses, branch, office and product expansion of the Company and its subsidiaries, and liquidity and capital levels. Such forward-looking statements involve certain risks and uncertainties, including general economic conditions, competition in the geographic and business areas in which we operate, inflation, fluctuations in interest rates, legislation, and government regulation. These statements are not guarantees of future performance and are subject to certain risks and uncertainties that are difficult to predict. For a more complete discussion of risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements, see Risk Factors filed as Item 1A of Part I in our Form 10-K for the year ended December 31, 2007 and Item 1a Part II of this Form 10-Q. Except as required by applicable laws, we do not intend to publish updates or revisions of any forward-looking statements we make to reflect new information, future events, or otherwise.

The Company

The Company is a bank holding company incorporated under the laws of Maryland and registered under the federal Bank Holding Company Act of 1956, as amended. The Company s business is conducted primarily through its wholly owned subsidiaries, First Mariner Bank (the Bank), Mariner Finance, LLC (Mariner Finance), and FM Appraisals, LLC (FM Appraisals).

The Bank, which is the largest operating subsidiary of the Company with assets exceeding $1.1 billion as of March 31, 2008, 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 as well as portions of Maryland s eastern shore. The Bank also has one branch in Pennsylvania. 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, non-deposit 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 (FDIC).

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

Next Generation Financial Services (NGFS), a division of the Bank, engages in the origination of reverse and conventional mortgages, providing these products directly through commission based loan officers throughout the United States. NGFS originates reverse mortgages for sale to Fannie Mae and other private investors. The Bank does not originate any reverse mortgages for its portfolio and currently sells all of its originations into the secondary market. The Bank retains the servicing rights on reverse mortgages sold to Fannie Mae. NGFS is one of the largest originators of reverse mortgages in the United States.

Mariner Finance engages in traditional consumer finance activities, making small direct cash loans to individuals, the purchase of installment loan sales contracts from local merchants and retail dealers of consumer goods, and loans to individuals via direct mail solicitations, as well as a low volume of mortgage loans. Mariner Finance currently operates branches in Maryland, Delaware, Virginia, New Jersey, and Tennessee. Mariner Finance had total assets of $83.9 million as of March 31, 2008.

FM Appraisals is a residential real estate appraisal preparation and management company that is headquartered in Baltimore City. FM Appraisals offers appraisal services for residential real estate lenders, including appraisal preparation, the compliance oversight of sub-contracted appraisers, appraisal ordering and administration, and appraisal review services. FM Appraisals provides these services to First Mariner Mortgage, NGFS, and Mariner Finance.

Critical Accounting Policies

The Company s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the 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.

Allowance for loan losses

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

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

Securities available for sale

Securities 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. Management reviews criteria such as the magnitude and duration of the decline, as well as the reasons for the decline, to predict whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Deferred income taxes

Under the liability method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities. Deferred tax assets are subject to management s judgment based upon available evidence that future realization is more likely than not.

Loan 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. Accrual of interest is discontinued when its receipt is in doubt, which typically occurs when a loan becomes impaired. Any interest accrued to income in the year when interest accruals are discontinued is generally reversed. Management may elect to continue the accrual of interest when a loan is in the process of collection and the estimated fair value of the collateral is sufficient to satisfy the principal balance and accrued interest. Loans are returned to accrual status once the doubt concerning collectibility has been removed and the borrower has demonstrated the ability to pay and remain current. Payments on nonaccrual loans are generally applied to principal.

Loan Repurchases

Our sales agreements with investors who buy our loans generally contain covenants which may require us to repurchase loans under certain provisions, including delinquencies, or return premiums paid by those investors should the loan be paid off early. These covenants are usual and customary within the mortgage-banking industry. We maintain a reserve (included in other liabilities) for potential losses relating to these sales covenants.

Loans repurchased are accounted for under American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer.* Under the SOP, loans repurchased must be recorded at market value at the time of repurchase with any deficiency for recording the loan compared to proceeds paid charged to earnings. Repurchased loans are carried on the balance sheet in the loan portfolio. Any further change in the underlying risk profile or further impairment is recorded as a specific reserve in the allowance for loan losses through the provision for loan losses.

Repurchased loans which are foreclosed upon are transferred to Real Estate Acquired Through Foreclosure at the time of ratification of foreclosure and recorded at estimated fair value. These assets remain in Real Estate Acquired Through Foreclosure until their disposition. Any declines in value subsequent to foreclosure reduce the carrying amounts through a charge to noninterest expense.

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 based upon many subjective factors, including location and condition of the property and current economic conditions, among other things. Because the calculation of fair value relies on estimates and judgments relating to inherently uncertain events, results may differ from our estimates.

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

Mortgage-Banking Update

As of March 31, 2008, we held in our loan portfolio $13.374 million in repurchased high loan-to-value ratio/low documentation (ALT A) loans and $17.835 million in ALT A loans transferred from our loans held for sale portfolio. During the quarter, $1.450 million of ALT A loans were placed on nonaccrual, $4.632 million of previously classified nonaccrual loans were transferred to real estate acquired through foreclosure, and $2.083 million were sold to third parties out of real estate acquired through foreclosure. We recognized $2.011 million in total charges related to ALT A loans, consisting of $636,000 for write-downs, expenses, and sales of real estate acquired through foreclosure, and $1.375 million in additional provisions (after charge-offs and recoveries) to the allowance for loan losses related to these loans.

We discontinued origination of ALT A loans during the first quarter of 2007 and closed our wholesale lending division in July of 2007. The majority of our problem ALT A loans were originated through the wholesale division.

Financial Condition

The Company experienced significant balance sheet growth (+36.890 million) for the first time since the second quarter of 2006, ending the quarter with total assets of $1.284 billion at March 31, 2008, compared to $1.247 billion at December 31, 2007. Earning assets increased $42.009 million or 3.9% to $1.118 billion at March 31, 2008 from $1.076 billion at December 31, 2007. The growth in assets was due to increases in loans held for sale (+$16.358 million) and short-term investments (+$29.433 million), partially offset by decreases in cash and due from banks (-$7.575 million), securities, both trading and available for sale (-$2.034 million), and net loans outstanding (-$2.725 million). We also experienced increases in deposits (+$37.231 million) and long-term borrowings (+$5.404 million), partially offset by decreases in short-term borrowings (-$638,000). The increase in loans held for sale resulted from an increase in mortgage loan production during the first quarter of 2008 compared to 2007 and the increase in short-term investments occurred due to the increase in deposits and declines in other asset categories.

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. As of March 31, 2008, we held $43.587 million in securities classified as available for sale (AFS) and $36.327 million in securities classified as trading. As of December 31, 2007, we held $44.998 million in securities available for sale and $36.950 million in trading securities. Total securities declined $2.034 million due to normal principal payments on mortgage-backed securities, scheduled maturities of other securities, and a decline in market values. At March 31, 2008, our net unrealized loss on securities classified as available for sale totaled $3.934 million compared to a net unrealized loss of $2.997 million at December 31, 2007. The decline in value resulted primarily from declines in the values of trust preferred securities.

Trust preferred securities, most of which are considered to be temporarily impaired, are issues of other banks and bank holding companies we currently hold in our portfolio. Certain of these securities have experienced declines in credit ratings from credit rating firms, which have devalued these specific securities. These declines have occurred primarily over the past six months due to changes in the market which have limited the demand for these securities and reduced their liquidity. While some of these issuers have reported weaker financial performance since acquisition of these securities, the majority of these issuers continue to possess more than acceptable credit risk in management s opinion. Management closely monitors these securities for changes in credit risk and we have the ability to hold these securities to their maturity without any loss of principal or interest. Management does not consider the impairment of these securities to be other than temporary.

All of the remaining securities that are temporarily impaired are impaired due to declines in fair values resulting from increases in interest rates or wider credit spreads compared to the time they were purchased. We have the ability to hold these securities to maturity, when we expect these securities will be repaid in full, and do not expect to realize losses on any of these holdings. As such, management does not consider the impairments to be other than temporary.

All trading securities are mortgage-backed securities. The securities available for sale portfolio composition is as follows:

(dollars in thousands)	March 31, 2008 Balance	Percent of Total	December 31, 2007 Balance	Percent of Total
Securities available for sale:				
Mortgage-backed securities	$ 17,687	40.6%	$ 18,079	40.2%
Trust preferred securities	18,038	41.4%	19,034	42.3%
US Treasury securities	1,027	2.4%	1,017	2.3%
Obligations of state and municipal subdivisions	2,985	6.8%	2,975	6.6%
Corporate obligations	1,896	4.4%	1,915	4.2%
Equity securities	454	1.0%	478	1.1%
Foreign government bonds	1,500	3.4%	1,500	3.3%
Total securities available for sale	$ 43,587	100.0%	$ 44,998	100.0%

Loans

Total loans decreased $1.706 million during the first three months of 2008. Higher balances occurred in our residential mortgage loan portfolio (+$6.711 million), consumer residential construction portfolio (+$6.519 million), and loans secured by second mortgages (+$5.560 million). The growth in these loan types was more than offset by decreases in our commercial real estate portfolio (-$8.461 million), commercial construction portfolio (-$7.159 million), and our commercial portfolio (-$4.729 million). Loan originations for all categories have been impacted by disruptions in the residential real estate markets, which have specifically curbed demand for construction and development lending products. The total loan portfolio was comprised of the following:

(dollars in thousands)	March 31, 2008 Balance	Percent of Total	December 31, 2007 Balance	Percent of Total
Loans secured by first mortgages on real estate:				
Residential	$ 91,684	10.7%	$ 84,973	9.9%
Commercial	271,641	31.8%	280,102	32.7%
Consumer residential construction	92,949	10.9%	86,430	10.1%
Commercial/residential construction	122,488	14.3%	129,647	15.2%
	578,762	67.7%	581,152	67.9%
Commercial	67,627	7.9%	72,356	8.4%
Loans secured by second mortgages on real estate	104,393	12.2%	98,833	11.6%
Consumer loans	100,952	11.8%	100,671	11.8%
Loans secured by deposits and other	2,767	0.4%	2,430	0.3%
Total loans	854,501	100.0%	855,442	100.0%
Unamortized loan discounts	(672)		(445)	
Unearned loan fees, net	(615)		(77)	
	$ 853,214		$ 854,920	

Credit Risk Management

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

We provide for loan losses through the establishment of an allowance for loan losses (the allowance) by provisions charged against earnings. Our allowance for loan losses represents an estimated reserve for existing losses in the loan portfolio. We deploy a systematic methodology for determining our allowance for loan losses that includes a quarterly review process, risk rating, and adjustment to our allowance. We classify our portfolios as either consumer or commercial and monitor credit risk separately as discussed below. We evaluate the adequacy of our allowance for loan losses continually based on a review of all significant loans, with a particular emphasis on nonaccruing, past due, and other loans that we believe require special attention.

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

Commercial

Our commercial portfolio includes all secured and unsecured loans to borrowers for commercial purposes, including commercial lines of credit and commercial real estate. Our process for evaluating commercial loans includes performing updates on all loans that we have rated for risk. Our commercial loans are generally reviewed individually, in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan,* to determine impairment, accrual status, and the need for specific reserves. Our methodology incorporates a variety of risk considerations, both qualitative and quantitative. Quantitative factors include our historical loss experience by loan type, 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 our 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.

The process of establishing the allowance with respect to our commercial loan portfolio begins when a loan officer initially assigns each loan a risk grade, using established credit criteria. Approximately 50% of our risk grades are subject to review and validation annually by an independent consulting firm, as well as periodically by our internal credit review function. Our methodology employs management s judgment 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. We also evaluate credit risk concentrations, including trends in large dollar exposures to related borrowers, industry and geographic concentrations, and economic and environmental factors.

A commercial loan is determined to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Such a loan is not considered impaired during a period of delay in payment if we expect to collect all amounts due, including past-due interest. We generally consider a period of delay in payment to include delinquency up to 90 days. As of March 31, 2008, management considered eight commercial construction loans, six residential construction loans, and four commercial mortgage loans to be impaired under this criteria, amounting to $11.614 million, all of which have been classified as nonaccrual. The valuation allowance for these impaired loans was $491,000 as of March 31, 2008.

In general, we place impaired loans on nonaccrual status. Once a loan is placed on nonaccrual, it remains in nonaccrual status until the loan is current as to payment of both principal and interest and the borrower demonstrates the ability to pay and remain current. All payments made on nonaccrual loans are applied to the principal balance of the loan.

Consumer

Our consumer portfolio includes residential mortgage loans and other loans to individuals. Consumer and residential mortgage loans, excluding repurchased and transferred ALT A loans, are segregated into homogeneous pools with similar risk characteristics. Trends and current conditions in consumer and residential mortgage pools are analyzed and historical loss experience is adjusted accordingly. Quantitative and qualitative adjustment factors for the consumer and residential mortgage portfolios are consistent with those for the commercial portfolios. Certain loans in the consumer portfolio identified as having the potential for further deterioration are analyzed individually to confirm the appropriate risk grading and accrual status, and to determine the need for a specific reserve. Consumer loans originated on the Bank that are greater than 120 days past due are generally charged off. For consumer loans originated by Mariner Finance, all such loans greater than 90 days past due are considered nonaccrual and are generally charged off when they become 180 days past due.

ALT A Mortgages Repurchased

In accordance with AICPA SOP 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, we record repurchased loans at their estimated fair value at the time of repurchase. At March 31, 2008, we maintained $13.374 million of loans repurchased in accordance with covenants in our sales agreements with investors.

In establishing the loan s estimated fair value, management makes significant assumptions concerning the ultimate collectibility of delinquent loans and their ultimate realizable value. While these projections are made with the most current data available to management, actual realized losses could differ due to the changes in the borrowers willingness or ability to resolve the delinquency status, changes in the actual volume of future repurchases, changes in the real estate market, or changes in market values of those loans which are liquidated. Management updates these assumptions continually as greater experience becomes available.

We believe our exposure to and resolution of our repurchase obligations are substantially complete. We did not repurchase any loans during the first three months of 2008.

The following table shows the total portfolio of repurchased loans and their status as of March 31, 2008:

(dollars in thousands)	Principal Balance at Repurchase	Initial Write-Down	Carrying Value	Additional Allocated Reserves (1)
Nonaccrual 1st mortgages	$ 4,666	$ 92	$ 4,574	$ 129
Nonaccrual 2nd mortgages	127	45	82	82
Delinquent 1st mortgages (2)	1,026		1,026	65
Modifications (3)	7,988	524	7,464	408
Current loans	228		228	15
	$ 14,035	$ 661	$ 13,374	$ 699

(1) Additional allocated reserves are included in the allowance for loan losses

(2) Includes ALT A loans that are 30 days or more past due that are not on nonaccrual status, except for past-due modifications

(3) Includes ALT A modifications that are 30 days or more past due that are not on nonaccrual status

All ALT A loans which were 90 days delinquent as of March 31, 2008 were evaluated individually for impairment, with any estimated loss compared to the carrying amount recorded as a specific reserve. All other ALT A loans were evaluated collectively for impairment and were assigned a six percent or greater general reserve, depending on loan type.

The nonaccrual and delinquent loans are currently in the process of collection and the resolution of many of these loans may be through foreclosure of the property. The modifications in the table represent repurchased loans we have renegotiated at lower rates in order to improve the borrower s ability to pay.

Transferred ALT A Loans

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.

We maintain $14.348 million in first-lien mortgage loans and $3.487 million in second-lien mortgage loans that were transferred from loans held for sale to our mortgage and consumer loan portfolios, respectively, net of write-downs of $548,000 and $510,000, respectively. These loans are ALT A loans originated for sale and subsequently transferred as the secondary market for these products became increasingly illiquid. All of the loans transferred were current with respect to principal and interest payments at the time of transfer. Currently, $1.931 million of these loans are on nonaccrual, with specific reserves of $193,000.

At March 31, 2008, consumer impaired loans consisted of ALT A loans and amounted to $6.587 million, all of which were classified as nonaccrual. At March 31, 2008, all of the consumer impaired loans were real estate collateral dependent. The reserve for loan losses for impaired loans was $340,000 as of March 31, 2008.

Unallocated

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

Our total allowance at March 31, 2008 is considered by management to be sufficient to address the credit losses inherent in the current loan portfolio. However, our determination of the appropriate allowance level is based upon a number of assumptions we make about future events, which we believe are reasonable, but which may or may not prove valid. Thus, there can be no assurance that our charge-offs in future periods will not exceed our allowance for loan losses or that we will not need to make additional increases in our allowance for loan losses.

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

	Three Months Ended March 31,	
(dollars in thousands)	**2008**	**2007**
Allowance for loan losses, beginning of year	$ 12,789	$ 12,399
Loans charged off:		
Commercial		(67)
Commercial/residential construction		
Commercial mortgages		(340)
Residential construction - consumer	(135)	
Residential mortgages	(1,409)	
Consumer (1)	(1,636)	(795)
Total loans charged off	(3,180)	(1,202)
Recoveries:		
Commercial	13	
Commercial/residential construction		
Commercial mortgages		
Residential construction - consumer		
Residential mortgages	212	29
Consumer	151	123
Total recoveries	376	152
Net charge-offs	(2,804)	(1,050)
Provision for loan losses	3,823	537
Allowance for loan losses, end of period	$ 13,808	$ 11,886
Loans (net of premiums and discounts):		
Period-end balance	$ 853,214	$ 857,051
Average balance during period	849,040	859,389
Allowance as a percentage of period-end loan balance	1.62%	1.39%
Percent of average loans:		
Provision for loan losses (annualized)	1.81%	0.25%
Net charge-offs (annualized)	1.33%	0.50%

(1) 2008 includes $835,000 of ALT A second mortgage loans originated by the Bank

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

	March 31, 2008			December 31, 2007		
(dollars in thousands)	**Amount**	**Percent of Total**	**Percent of Loans to Total Loans**	**Amount**	**Percent of Total**	**Percent of Loans to Total Loans**
Commercial	$ 606	4.4%	8.0%	$ 606	4.7%	8.5%

Commercial/residential construction	1,858	13.5%	14.3%	1,456	11.4%	15.1%
Commercial mortgages	2,283	16.5%	31.8%	2,316	18.1%	32.7%
Residential construction - consumer	844	6.1%	10.9%	719	5.6%	10.1%
Residential mortgages	1,285	9.3%	10.7%	1,542	12.1%	10.0%
Consumer	4,147	30.0%	24.3%	4,021	31.4%	23.6%
Unallocated	2,785	20.2%		2,129	16.7%	
Total	$ 13,808	100.0%	100.0%	$ 12,789	100.0%	100.0%

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 $13.808 million and $12.789 million as of March 31, 2008 and December 31, 2007, respectively. The provision for loan losses recognized to maintain the allowance was $3.823 million for the three months ended March 31, 2008, as compared to $537,000 for the same period in 2007. The provision for loan losses increased primarily due to increases in our unallocated reserves related to the overall decline in economic and other factors general to our market area, as well as to replenish the allowance for increased charge-offs. In addition, we experienced declines in values of real estate collateral related to our residential construction loan portfolio. We recorded net charge-offs of $2.804 million during the first three months of 2008 compared to net charge-offs of $1.050 million for the same period in 2007, primarily due to increases in net charge-offs of ALT A first and second mortgages. During the first three months of 2008, annualized net charge-offs as compared to average loans outstanding increased to 1.33%, as compared to 0.50% during the same period of 2007. Total charge-offs for the Bank totaled $2.418 million, while Mariner Finance charge-offs were $762,000 for the three months ended March 31, 2008. Management believes the allowance for loan losses is adequate as of March 31, 2008.

Nonperforming Assets

Nonperforming assets, expressed as a percentage of total assets, totaled 3.13% at March 31, 2008, 3.48% at December 31, 2007, and 1.73% at March 31, 2007. The decrease and distribution of the balances compared to December 31, 2007 reflect the transfer of loans previously classified as nonaccrual to real estate acquired through foreclosure, and subsequently to sale of the property. In addition, the March 31, 2008 balance reflects additional write-downs taken on properties as well as the addition to nonaccrual status of two commercial construction loans to the same borrower for $2.135 million. The following tables show the distribution of nonperforming assets and loans greater than 90 days past due as of December 31:

(dollars in thousands)	**March 31, 2008**	**December 31, 2007**	**March 31, 2007**
Nonaccruing loans:			
Commercial	$	$	$ 891
Residential construction commercial	6,860	5,268	10,644
Commercial mortgages	1,754	3,926	327
Residential construction consumer	3,002	3,362	531
Alt A first and second mortgages	6,587	9,203	2,245
Other residential mortgages	339	823	204
Other consumer	1,810	1,807	1,009
	20,352	24,389	15,851
Real estate acquired through foreclosure:			
Commercial			
Residential construction commercial	3,378	3,601	100
Commercial mortgages	866	1,101	235
Residential construction consumer	2,743	2,299	633
Alt A first and second mortgages	12,895	11,980	4,725
Other residential mortgages			298
Other consumer			
	19,882	18,981	5,991
Total nonperforming assets	$ 40,234	$ 43,370	$ 21,842
Loans past-due 90 days or more and accruing:			
Commercial	$	$ 92	$ 88
Residential construction commercial	4,632		3,883
Commercial mortgages	1,485	663	1,370
Residential construction consumer	159	219	174
Alt A first and second mortgages	6,907	1,825	12,963
Other residential mortgages			
Other consumer	708	220	2

	$	13,891	$	3,019	$	18,480

Deposits

Deposits totaled $942.184 million as of March 31, 2008, increasing $37.231 million or 4.1% over the December 31, 2007 balance of $904.953 million. The increase in deposits was primarily due to increases in regular savings accounts and time deposits, partially offset by decreases in NOW, money market, and noninterest-bearing demand deposits. During 2008, we accepted approximately $46.000 million in brokered time deposits to fund increased residential mortgage originations. The mix of deposits has changed somewhat during 2008, with a higher percentage of interest-bearing nontransaction accounts and less noninterest-bearing demand and interest-bearing transaction accounts as of March 31, 2008 compared to December 31, 2007. The deposit breakdown is as follows:

	March 31, 2008		December 31, 2007	
(dollars in thousands)	**Balance**	**Percent of Total**	**Balance**	**Percent of Total**
NOW & money market savings deposits	$ 264,349	28.0%	$ 286,074	31.6%
Regular savings deposits	56,247	6.0%	51,917	5.8%
Time deposits	483,112	51.3%	417,252	46.1%
Total interest-bearing deposits	803,708	85.3%	755,243	83.5%
Noninterest-bearing demand deposits	138,476	14.7%	149,710	16.5%
Total deposits	$ 942,184	100.0%	$ 904,953	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 mature in greater than one year. As of March 31, 2008, our core deposits were $417.497 million. 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), a mortgage loan, and a line of credit to finance consumer receivables. 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 can be paid without penalty. Long-term borrowings through the FHLB have original maturities up to 13 years and generally contain prepayment penalties.

Long-term borrowings, which totaled $160.534 million and $155.130 million at March 31, 2008 and December 31, 2007, respectively, consist of long-term advances from the FHLB, a line of credit used to fund consumer finances receivables, and a mortgage loan on our former headquarters building. The amortized cost of FHLB advances totaled $85.000 million at March 31, 2008, unchanged from December 31, 2007; however, $60.000 million of the advances are now recorded at fair value ($64.567 million) in accordance with SFAS No. 159, making the total carrying amount of FHLB advances $89.567 million. As of March 31, 2008 and December 31, 2007, the balance on the mortgage loan was $9.367 million and $9.407 million, respectively, and the balance on the consumer receivable line of credit was $61.600 million and $57.600 million, respectively.

Short-term borrowings consist of short-term promissory notes, which decreased from $37.509 million at December 31, 2007 to $36.871 million at March 31, 2008 due to $638,000 in pay-offs.

As an ongoing part of our funding and capital planning, we issue trust preferred securities from statutory trusts (Trust Preferred Securities), which are wholly owned by First Mariner Bancorp. The proceeds from the sales of Trust Preferred Securities ($71.500 million), combined with our equity investment in these trusts ($2.224 million), are exchanged for subordinated deferrable interest debentures. We currently maintain seven of these trusts with aggregated debentures of $73.724 million as of both March 31, 2008 and December 31, 2007.

The Trust Preferred Securities are mandatorily redeemable, in whole or in part, upon repayment of their underlying subordinated debt at their respective maturities or their earlier redemption. The subordinated debt is redeemable prior to maturity at our option on or after its optional redemption dates.

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

Under applicable regulatory guidelines, a portion of the Trust Preferred Securities will qualify as Tier I capital, and the remaining portion will qualify as Tier II capital. Under applicable regulatory guidelines, $21.071 million of the outstanding Trust Preferred Securities qualify as Tier I capital and the remaining $50.429 million of the Trust Preferred Securities qualify as Tier II capital at March 31, 2008.

Capital Resources

Stockholders equity decreased $3.741 million in the first three months of 2008 to $60.829 million from $64.570 million as of December 31, 2007. Retained earnings declined by the net loss of $3.278 million for the first three months of 2008.

Common stock and additional paid-in-capital increased by $112,000 due to stock issued through the employee stock purchase plan ($106,000),and stock compensation awards ($6,000). Accumulated other comprehensive loss declined by $575,000 due to the decline in estimated fair values of the securities portfolio.

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 1 capital (common stockholders equity less certain intangible assets plus a portion of the Trust Preferred Securities) and Total Capital (Tier 1 plus the allowed portion of the allowance for loan losses plus any off-balance sheet reserves and the portion of Trust Preferred Securities not included in Tier 1 capital). Minimum required levels must at least equal 4% for Tier 1 capital and 8% for Total Capital. In addition, institutions must maintain a minimum of 4% leverage capital ratio (Tier 1 capital to average total assets for the previous quarter).

The Company and the Bank have exceeded their capital adequacy requirements to date. We regularly monitor the Company s capital adequacy ratios to assure that the Bank exceeds its regulatory capital requirements. The regulatory capital ratios are shown below:

	March 31, 2008	**December 31, 2007**	**Minimum Regulatory Requirements**
Regulatory capital ratios:			
Leverage:			
Consolidated	6.8%	6.9%	4.0%
The Bank	7.1%	7.1%	4.0%
Tier 1 capital to risk-weighted assets:			
Consolidated	8.1%	8.2%	4.0%
The Bank	8.7%	8.6%	4.0%
Total capital to risk-weighted assets:			
Consolidated	14.2%	14.2%	8.0%
The Bank	10.6%	10.4%	8.0%

Results of Operations

Net (Loss) Income

For the three months ended March 31, 2008, we realized a net loss of $3.278 million compared to net income of $100,000 for the three month period ended March 31, 2007. Basic and diluted losses per share for the first three months of 2008 totaled $(0.52) compared to basic and diluted earnings of $0.02 per share for the same period of 2007. Earnings for the three months ended March 31, 2008 were impacted by a higher provision for loan losses and charges to noninterest expenses for write-downs of real estate acquired through foreclosure related to repurchased mortgages and other problem assets.

Our net income for the first three months of 2008 continued to be negatively impacted by weaknesses in the residential real estate markets which began in the later half of 2006 and have persisted throughout the first quarter of 2008. During the first quarter of 2008, we recorded losses of $2.011 million related to resolutions of nonperforming ALT A mortgages. This total reflects additional provisions after charge-offs and recoveries of $1.375 million for ALT A loans during the quarter and $636,000 for the sale and/or write-down of foreclosed properties. Our results also reflect an increase in our allowance for credit losses during the quarter by $1.019 million to increase our reserves for residential construction and development loans as well as increases in our unallocated allowance to provide additional cushion given the persistence in the weakness of overall economic conditions and increasing delinquency rates. Lastly, results were negatively impacted by the write-down of borrowings accounted for under fair value options that totaled $1.444 million in the first quarter of 2008. The negative valuation resulted due to the decline in market rates for comparable borrowings. The cumulative trading loss in the borrowings totaled $4.567 million as of March 31, 2008, and that loss will be fully recovered by the end of 2010 when the borrowings will reach their maturity and are repaid.

Return on average assets and return on average equity are key measures of a bank s performance. Return on average assets, the product of net (loss) income divided by total average assets, measures how effectively we utilize the Company s assets to produce income. Our return on average assets (annualized) for the three months ended March 31, 2008 was (1.07)% compared to 0.03% for the corresponding period in 2007. Return on average equity, the product of net (loss) income divided by average equity, measures how effectively we invest the Company s capital to produce income. Return on average equity (annualized) for the three months ended March 31, 2008 was (19.74)% compared to 0.51% for the corresponding period in 2007. All profitability indicators were significantly affected by the lower net income.

Net Interest Income

Net interest income, the amount by which interest income on interest-earning assets exceeds interest expense on interest-bearing liabilities, is the most significant component of our earnings. 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 Federal Reserve Board, are also determining factors.

Net interest income for the first three months of 2008 totaled $11.970 million, an increase of $763,000 from $11.207 million for the three months ended March 31, 2007. The increase in net interest income during 2008 was primarily due to a decrease in the rates paid on interest-bearing liabilities from 4.41% for the three months ended March 31, 2007 to 3.82% for the three months ended March 31, 2008, while the volume of average earning assets decreased from $1.113 billion as of March 31, 2007 to $1.081 billion as of March 31, 2008. The yield on average earning assets increased slightly from 7.92% for the three months ended March 31, 2007 to 7.99% for the three months ended March 31, 2008, despite a significant increase in nonaccrual assets. The net interest margin increased to 4.36% for the three months ended March 31, 2008, as compared to 3.99% for the comparable period in 2007, reflecting an increased mix of higher yielding loans.

Interest income. Total interest income decreased by $255,000 due to the decreased volume in average earning assets. Average loans outstanding decreased by $10.349 million, with decreases in all loan categories, except for residential mortgages and consumer loans, which increased primarily due to the repurchase of previously sold first- and second-lien ALT A mortgage loans during the last three quarters of 2007. Average loans held for sale increased $8.923 million, primarily due to an increase in the origination of mortgage loans. Average securities decreased by $50.044 million. Yields on earning assets for the period increased to 7.99% from 7.92% driven by an increase in the yield on total loans from 8.56% to 8.81%.

Interest expense. Interest expense decreased by $1.018 million to $9.754 million for the three months ended March 31, 2008, compared to $10.772 million for the same period in 2007. We experienced a decrease in the average rate paid on interest-bearing liabilities, from 4.41% for the three months ended March 31, 2007 to 3.82% for the three months ended March 31, 2008, which was partially offset by a higher level of interest-bearing liabilities. The decrease in the rate paid on interest-bearing deposits from 3.81% for the three months ended March 31, 2007 to 3.24% for the three months ended March 31, 2008 was driven primarily by decreases in the rates on money market accounts and the cost of borrowed funds. Average interest-bearing deposits increased by $25.626 million primarily due to an increase in the volume of time deposits. An increase in average borrowings of $12.245 million was due primarily to increased borrowings on the consumer finance line of credit of Mariner Finance to fund their consumer loan growth.

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.

	For the Three Months Ended March 31,					
	2008			2007		
	Average Balance (1)	Interest (2)	Yield/ Rate	Average Balance (1)	Interest (2)	Yield/ Rate
	(dollars in thousands)					
ASSETS						
Loans:						
Commercial loans and lines of credit	$ 65,194	$ 1,141	6.92%	$		