

FIRST UNITED CORP/MD/  
Form 10-K  
March 05, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008  
OR

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 0-14237

FIRST UNITED CORPORATION  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of incorporation or organization)

52-1380770  
(I.R.S. Employer Identification Number)

19 South Second Street, Oakland, Maryland  
(Address of principal executive offices)

21550-0009  
(Zip Code)

Registrant's telephone number, including area code: (800) 470-4356

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:  
Common Stock, par value \$.01 per share

Name of Each Exchange on Which Registered:  
NASDAQ Global Select Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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 of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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Indicate by check mark if disclosures of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "accelerated filer", "large 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 Act). Yes  No

The aggregate market value of the registrant's outstanding voting and non-voting common equity held by non-affiliates as of June 30, 2008: \$ 106,519,790.

The number of shares of the registrant's common stock outstanding as of February 28, 2009: 6,122,411

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement for the 2008 Annual Meeting of Shareholders to be filed with the SEC pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

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## Forward-Looking Statements

This Annual Report of First United Corporation (the “Corporation” on a parent only basis and “we”, “our” or “us”, on a consolidated basis) filed on Form 10-K may contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Readers of this report should be aware of the speculative nature of “forward-looking statements”. Statements that are not historical in nature, including those that include the words “anticipate”, “estimate”, “should”, “expect”, “believe”, “intend”, and similar expressions, are based on current expectations, estimates and projections about, among other things, the industry and the markets in which the Corporation operates, and they are not guarantees of future performance. Whether actual results will conform to expectations and predictions is subject to known and unknown risks and uncertainties, including risks and uncertainties discussed in this report; general economic, market, or business conditions; changes in interest rates, deposit flow, the cost of funds, and demand for loan products and financial services; changes in our competitive position or competitive actions by other companies; changes in the quality or composition of loan and investment portfolios; the ability to manage growth; changes in laws or regulations or policies of federal and state regulators and agencies; and other circumstances beyond our control. Consequently, all of the forward-looking statements made in this document are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated will be realized, or if substantially realized, will have the expected consequences on our business or operations. For a more complete discussion of these and other risk factors, see Item 1A of Part I of this report. Except as required by applicable laws, the Corporation does not intend to publish updates or revisions of forward-looking statements it makes to reflect new information, future events or otherwise.

## PART I

### ITEM 1. BUSINESS

#### General

The Corporation is a Maryland corporation chartered in 1985 and a financial holding company registered under the federal Bank Holding Company Act of 1956, as amended (the “BHC Act”). The Corporation’s primary business is serving as the parent company of First United Bank & Trust, a Maryland trust company (the “Bank”), First United Insurance Group, LLC, a Maryland insurance agency (the “Insurance Group”), OakFirst Loan Center, Inc., a West Virginia finance company, and OakFirst Loan Center, LLC, a Maryland finance company, (together with OakFirst Loan Center, Inc. the “OakFirst Loan Centers”). OakFirst Loan Center, Inc. has one subsidiary, First United Insurance Agency, Inc., which is a Maryland insurance agency.

At December 31, 2008, the Corporation had assets of approximately \$1.64 billion, net loans of approximately \$1.12 billion, and deposits of approximately \$1.22 billion. Shareholders’ equity at December 31, 2008 was approximately \$73 million.

The Corporation maintains an Internet site at [www.mybankfirstunited.com](http://www.mybankfirstunited.com) on which it makes available, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to the foregoing as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the Securities and Exchange Commission (the “SEC”).

#### Banking Products and Services

The Bank operates 26 banking offices, one call center and 32 Automated Teller Machines (“ATM’s”) in Allegany County, Frederick County, Garrett County, and Washington County in Maryland, and in Berkeley County, Mineral County, and Monongalia County in West Virginia. The Bank is an independent community bank providing a

complete range of retail and commercial banking services to businesses and individuals in its market areas. Services offered are essentially the same as those offered by the regional institutions that compete with the Bank and include checking, savings, and money market deposit accounts, business loans, personal loans, mortgage loans, lines of credit, and consumer-oriented retirement accounts including individual retirement account (“IRA”) and employee benefit accounts. In addition, the Bank provides full brokerage services through a networking arrangement with PrimeVest Financial Services, Inc., a full service broker-dealer. The Bank also provides safe deposit and night depository facilities, and a complete line of insurance products and trust services. The Bank’s deposits are insured by the Federal Deposit Insurance Corporation (the “FDIC”).

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Lending Activities—The majority of the Corporation’s lending activities are conducted through the Bank.

The Bank’s commercial loans are primarily secured by real estate, commercial equipment, vehicles or other assets of the borrower. Repayment is often dependent on the successful operation of the borrower and may be affected by adverse conditions in the local economy or real estate market. The financial condition and cash flow of commercial borrowers is therefore carefully analyzed during the loan approval process, and continues to be monitored by obtaining business financial statements, personal financial statements and income tax returns. The frequency of this ongoing analysis depends upon the size and complexity of the credit and collateral that secures the loan. It is also the Bank’s general policy to obtain personal guarantees from the principals of the commercial loan borrowers.

Commercial real estate loans are primarily those secured by land for residential and commercial development, agricultural purpose properties, service industry buildings such as restaurants and motels, retail buildings and general purpose business space. The Bank attempts to mitigate the risks associated with these loans through low loan to value ratio standards, thorough financial analyses, and management’s knowledge of the local economy in which the Bank lends.

The risk of loss associated with commercial real estate construction lending is controlled through conservative underwriting procedures such as loan to value ratios of 80% or less, obtaining additional collateral when prudent, and closely monitoring construction projects to control disbursement of funds on loans.

The Bank’s residential mortgage portfolio is distributed between variable and fixed rate loans. Many loans are booked at fixed rates in order to meet the Bank’s requirements under the Community Reinvestment Act. Other fixed rate residential mortgage loans are originated in a brokering capacity on behalf of other financial institutions, for which the Bank receives a fee. As with any consumer loan, repayment is dependent on the borrower’s continuing financial stability, which can be adversely impacted by job loss, divorce, illness, or personal bankruptcy. Residential mortgage loans exceeding an internal loan-to-value ratio require private mortgage insurance. Title insurance protecting the Bank’s lien priority, as well as fire and casualty insurance, are also required.

Home equity lines of credit, included within the residential mortgage portfolio, are secured by the borrower’s home and can be drawn on at the discretion of the borrower. These lines of credit are at variable interest rates.

The Bank also provides residential real estate construction loans to builders and individuals for single family dwellings. Residential construction loans are usually granted based upon “as completed” appraisals and are secured by the property under construction. Site inspections are performed to determine pre-specified stages of completion before loan proceeds are disbursed. These loans typically have maturities of six to 12 months and may have a fixed or variable rate. Permanent financing for individuals offered by the Bank includes fixed and variable rate loans with three, five or seven year adjustable rate mortgages.

A variety of other consumer loans are also offered to customers, including indirect and direct auto loans, and other secured and unsecured lines of credit and term loans. Careful analysis of an applicant’s creditworthiness is performed before granting credit, and on-going monitoring of loans outstanding is performed in an effort to minimize risk of loss by identifying problem loans early.

An allowance for loan losses is maintained to provide for anticipated losses from our lending activities. A complete discussion of the factors considered in determination of the allowance for loan losses is included in Item 7 of Part II of this report.

Additionally, we meet the lending needs of under-served customer groups within our market areas in part through OakFirst Loan Center, Inc., located in Martinsburg, West Virginia, and OakFirst Loan Center, LLC, located in

Hagerstown, Maryland.

Deposit Activities—The Bank offers a full array of deposit products including checking, savings and money market accounts, regular and IRA certificates of deposit, Christmas Savings accounts, College Savings accounts, and Health Savings accounts. The Bank also offers the CDARS program to municipalities, businesses, and consumers, providing them up to \$50 million of FDIC insurance. In addition, we offer our commercial customers packages which include Treasury Management, Cash Sweep and various checking opportunities.

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Trust Services—The Bank’s Trust Department offers a full range of trust services, including personal trust, investment agency accounts, charitable trusts, retirement accounts including IRA roll-overs, 401(k) accounts and defined benefit plans, estate administration and estate planning.

Information about our income from and assets related to our banking business may be found in the consolidated statements of financial condition and the consolidated statements of income and the related notes thereto included in Item 8 of Part II of this annual report. At December 31, 2008, 2007 and 2006, the total market value of assets under the supervision of the Bank’s Trust Department was approximately \$472 million, \$547 million and \$502 million, respectively. Trust Department revenues for these years may be found in the Consolidated Statements of Income under the heading “Other operating income”, which is contained in Item 8 of Part II of this annual report.

#### Insurance Activities

We offer a full range of insurance products and services to customers in our market areas through the Insurance Group and First United Insurance Agency, Inc. Information about income from insurance activities for each of the years ended December 31, 2008, 2007 and 2006 may be found under “Other Operating Income” in the consolidated statements of income included in Item 8 of Part II of this annual report.

#### COMPETITION

The banking business, in all of its phases, is highly competitive. Within our market areas, we compete with commercial banks, (including local banks and branches or affiliates of other larger banks), savings and loan associations and credit unions for loans and deposits, with consumer finance companies for loans, with insurance companies and their agents for insurance products, and with other financial institutions for various types of products and services. There is also competition for commercial and retail banking business from banks and financial institutions located outside our market areas.

The primary factors in competing for deposits are interest rates, personalized services, the quality and range of financial services, convenience of office locations and office hours. The primary factors in competing for loans are interest rates, loan origination fees, the quality and range of lending services and personalized services.

To compete with other financial services providers, we rely principally upon local promotional activities, personal relationships established by officers, directors and employees with its customers, and specialized services tailored to meet its customers’ needs. In those instances in which we are unable to accommodate a customer’s needs, we attempt to arrange for those services to be provided by other financial services providers with which we have a relationship.

The following table sets forth deposit data for the Maryland and West Virginia Counties in which the Bank maintains offices as of June 30, 2008, the most recent date for which comparative information is available.

	Offices (in Market)	Deposits (in thousands)	Market Share
Allegany County, Maryland:			
Susquehanna Bank	5	\$ 224,368	36.72%
Manufacturers & Traders Trust Company	7	172,975	28.31%
First United Bank & Trust	4	126,714	20.74%
PNC Bank NA	3	51,300	8.39%
Standard Bank	2	35,746	5.85%

Source: FDIC Deposit Market Share Report

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## Frederick County, Maryland:

PNC Bank NA	20	1,015,594	32.82%
Branch Banking & Trust Co.	12	593,671	19.18%
Frederick County Bank	4	225,184	7.28%
Bank Of America NA	5	222,764	7.20%
Manufacturers & Traders Trust Company	6	185,296	5.99%
Chevy Chase Bank FSB	6	152,430	4.93%
Woodsboro Bank	7	150,069	4.85%
Middletown Valley Bank	4	131,044	4.23%
SunTrust Bank	3	121,831	3.94%
First United Bank & Trust	3	103,390	3.34%
Sandy Spring Bank	4	65,731	2.12%
Provident Bank of Maryland	2	34,602	1.12%
Damascus Community Bank	2	22,152	0.72%
Wachovia Bank NA	1	16,287	0.53%
Columbia Bank	2	16,197	0.52%
Sovereign Bank	3	15,887	0.51%
Graystone Bank	1	11,591	0.37%
BlueRidge Bank	1	11,166	0.36%

Source: FDIC Deposit Market Share Report

## Garrett County, Maryland:

First United Bank & Trust	5	579,636	74.84%
Manufacturers & Traders Trust Co.	5	95,043	12.27%
Susquehanna Bank	2	70,569	9.11%
Clear Mountain Bank	1	25,408	3.28%
Miners & Merchants Bank	1	3,861	0.50%

Source: FDIC Deposit Market Share Report

## Washington County, Maryland:

Susquehanna Bank	10	607,697	30.67%
Hagerstown Trust Co.	11	398,102	20.09%
Manufacturers & Traders Trust Company	12	386,594	19.51%
Sovereign Bank	4	195,022	9.84%
PNC Bank NA	6	153,804	7.76%
First United Bank & Trust	3	68,526	3.46%
First National Bank of Greencastle	3	46,069	2.33%
Centra Bank	2	37,928	1.91%
Chevy Chase Bank FSB	3	37,310	1.88%
Citizens National Bank of Berkeley Springs	1	30,892	1.56%
Orrstown Bank	1	10,706	0.54%
Jefferson Security Bank	1	5,983	0.30%
Middletown Valley Bank	1	2,777	0.14%

Source: FDIC Deposit Market Share Report

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## Berkeley County, West Virginia:

Branch Banking & Trust Co.	5	311,844	30.97%
Centra Bank Inc.	3	217,491	21.60%
First United Bank & Trust	5	118,775	11.80%
City National Bank of West Virginia	4	106,957	10.62%
Susquehanna Bank	4	102,314	10.16%
Jefferson Security Bank	2	59,555	5.92%
Bank of Charles Town	2	42,352	4.21%
Citizens National Bank of Berkeley Springs	3	35,157	3.49%
Summit Community Bank	1	9,117	0.91%
MVB Bank Inc.	1	3,221	0.32%

Source: FDIC Deposit Market Share Report

## Hardy County, West Virginia:

Summit Community Bank, Inc.	2	308,677	65.58%
Capon Valley Bank	3	111,206	23.63%
Pendleton Community Bank, Inc.	1	23,493	4.99%
First United Bank & Trust	1	16,188	3.44%
Grant County Bank	1	11,148	2.37%

Source: FDIC Deposit Market Share Report

## Mineral County, West Virginia:

First United Bank & Trust