OMB Control Number 1505-0222

CPP

ANNUAL USE OF CAPITAL SURVEY - 2012

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

First United Corporation (First United Bank and Trust)

Person to be contacted regarding this report:	Carissa Rodeheaver	RSSD: (For Bank Holding Companies)	1132672
UST Sequence Number:	385	Holding Company Docket Number: (For Thrift Holding Companies)	N/A
CPP/CDCI Funds Received:	30,000,000	FDIC Certificate Number: (For Depository Institutions)	04857
CPP/CDCI Funds Repaid to Date:	0	Credit Union Charter Number: (For Credit Unions)	N/A
Date Funded (first funding):	Jan 30, 2009	City:	Oakland
Date Repaid[1]:	N/A	State:	Maryland

[1]If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒	Increase lending or reduce lending less than otherwise would have occurred.	The Bank was able to continue to make loans to creditworthy borrowers in 2012.
☒	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	In 2012, approximately $49.8 million in new loans were made to consumers (77% mortgage and home equity loans and 23% auto loans and personal lines) and $64.9 million were made to businesses (74% secured by real estate and 26% secured by business assets).
☐	Increase securities purchased (ABS, MBS, etc.).	The net amount of securities declined in 2012.

☒	Make other investments	None in 2012. In 2010, the Bank fully funded a $6 million investment in a low income housing tax credit project in its jurisdiction. In 2011, $1.2 million of permanent financing was funded to the same project.
☒	Increase reserves for non-performing assets	The Bank increased its allowance for loan losses by a net $1.7 million from December 2008 (immediately prior to the receipt of CPP funds) to $16.0 million at December 2012, increasing its coverage of the loan portfolio from 1.26% at December 2008 to 1.83% at December 2012.
☒	Reduce borrowings	The Corporation reduced its short and long term borrowing positions by $21.9 million during 2012, and by an aggregate of $106 million since December 2008.
☒	Increase charge-offs	In 2012, the Corporation recognized $12.8 million in net credit losses on loans and $0.5 million in net losses and write downs on Other Real Estate Owned. There were no "other than temporary" credit losses on investment securities in 2012.
☐	Purchase another financial institution or purchase assets from another financial institution	None.
☒	Held as non-leveraged increase to total capital	In January 2009, the CPP capital was brought in at the holding company level as a "buffer" to existing well-capitalized levels, and was pushed down to the Bank in March 2009. The CPP capital enabled the Corporation to remain above regulatory requirements from 2009 through 2012.

What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

The Corporation issued $30 million in preferred stock to the US Treasury in January 2009 under the CPP program. At December 31, 2008, the Corporation and the Bank maintained capital levels that exceeded the amounts to be considered "well-capitalized" under applicable regulatory requirements. Initially, the CPP capital provided an additional "buffer" to these capital levels.

During 2009 through 2012, the Bank recorded provisions for loan credit losses of $49.9 million, "other than temporary impairment" credit losses on its investment securities portfolio of $35.1 million, and $5.7 million in net losses and write downs on Other Real Estate Owned. The capital buffer provided by the CPP capital enabled the Corporation and the Bank to remain above applicable regulatory capital requirements throughout 2009 through 2012 despite these reductions to its income that were a direct consequence of the economic environment that persisted through 2010 and the slow recovery period beginning in 2011. The buffer of CPP capital enabled the Corporation to take a methodical approach to raising incremental capital. The Corporation raised a total of $10.5 million in capital via trust preferred securities issued to private investors in fourth quarter 2009 and first quarter 2010. Additionally, the Corporation returned to profitability in 2011, adding $2.0 million in net income to its capital base in 2011 and $3.0 million in 2012.

The CPP capital enabled the Bank to continue its ability to lend to creditworthy consumer and small business customers. Approximately 11,000 new loans totalling $660 million have been made to consumers and businesses in the four years since receipt of CPP capital. The loan production represents a decline in the number and amount of new loans from pre-recession levels, and has not been enough to compensate for the run-off of existing portfolio levels. However, the Bank was able to successfully compete in its marketplace that experienced a reduced demand for the types of loans that the Bank originates, and aided the Bank in shifting the overall mix of the loan portfolio, which helped to reduce concentrations in certain commercial real estate sectors.

What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

None.

Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

None.