



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 09, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Severn Savings Bank, FSB
Charter Number 708190

200 Westgate Circle
Annapolis, MD 21401

Office of the Comptroller of the Currency
Washington DC Field Office

Patriot Square
395 E Street, SW
Washington, DC 20024

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Outstanding.

The major factors supporting the institution's rating include:

- Severn's average loan-to-deposit ratio is more than reasonable, and meets the standards for outstanding performance;
- A majority of Severn's loans were originated within the bank's combined assessment area;
- Severn's record of lending to borrowers of different income levels reflects reasonable penetration;
- The geographic distribution of loans does not provide for meaningful analysis due to the fact that there are no Low- income census tracts, and only seven moderate- income census tract in the AA; and
- Severn's responsiveness to community development needs and opportunities in its assessment area is outstanding considering the bank's size, financial capacity, and competition for community development opportunities.

Scope of Examination

Severn Savings Bank (Severn) was evaluated under the Intermediate Small Bank examination procedures, which assesses the bank's performance under the lending test and the community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to the CD needs in its AA through CD lending, qualified investments and community development services.

The lending test covers Severn's performance from January 1, 2009, through December 31, 2011, as this is representative of its lending strategy since the last CRA examination. Based upon the bank's internally prepared loan report, we determined the bank's primary loan product is HMDA reportable lending. The evaluation period for the CD test is from January 1, 2009 through December 31, 2011. CD loans, investments, and services submitted by management were verified to ensure that they met the regulatory definition for community development.

Description of Institution

Severn Savings Bank, FSB, is a federally chartered stock savings bank headquartered in Annapolis, Maryland. As of June 30, 2012, Severn had total assets of \$891 million and Tier 1 Capital of \$118 million.

Severn operates a total of four branches throughout Anne Arundel County, Maryland. The bank has two branches located in Annapolis, including their headquarters, one branch in Glen Burnie, and one in Edgewater, Maryland. All branches offer lobby hours of 8:00am to 4:00pm along with extended hours until 6:00pm on Fridays, and Saturday hours of 9:00am to 12:00pm. Automated Teller Machines (ATMs) are located at the headquarters Annapolis branch and the Edgewater branch, and drive up windows are available at the second Annapolis branch, Edgewater, and Glen Burnie branches. Safe deposit boxes are available at both the headquarters Annapolis branch, and the Edgewater branch. There were no branches opened or closed, and there were no mergers or acquisitions during the evaluation period.

Severn is a full service community bank, primarily a single-family mortgage lender, offering a variety of residential mortgage loan products, including fixed- and adjustable-rate loans, construction-permanent loans, and lot loans. In addition to residential lending, Severn offers commercial and business lending products.

As of June 30, 2012, Severn reported net loans and leases of \$665 million or 75 percent of total assets. The loan portfolio is comprised of: 49 percent permanent residential real estate loans, 18 percent other construction and land development loans, and 29 percent commercial loans, primarily real estate secured. Severn's primary lending activity throughout the review period was single family mortgage lending.

There are no financial or legal impediments hindering Severn's ability to help meet the credit needs of the communities it serves.

Severn's last Public Evaluation (PE), dated March 23, 2009, was rated Satisfactory.

Description of Assessment Area(S)

Severn has designated all of Anne Arundel County as it's assessment area. The information in the table below provides the demographic data of the AA:

SEVERN ASSESSMENT AREA 2000 CENSUS DEMOGRAPHIC INFORMATION							
95 CENSUS TRACTS							
	TRACT/BLOCK NUMBER AREA (BNA) INCOME LEVEL						
		TOTAL	LOW	MODERATE	MIDDLE	UPPER	NA*
CENSUS TRACTS/BNAs	#	95	0	7	43	44	1
POPULATION	#	489,656	0	32,937	207,020	246,288	3,411
BY LOCATION	%	100.00%	0.00%	7.73%	42.28%	50.30%	0.70%
% OWNER OCCUPIED		72.18%	0.00%	2.50%	40.87%	56.64%	0%
% RENTER OCCUPIED		23.40%	0.00%	21.80%	45.65%	32.56%	0%
% VACANT		4.42%	0.00%	9.91%	43.24%	46.85%	0%
MEDIAN HOUSING VALUE		\$167,449	\$0	\$119,506	\$139,464	\$197,701	0
MEDIAN AGE OF HOUSING		17	0	19	18	13	0
% OF FAMILIES BELOW POVERTY LEVEL		3.56%					

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2010 HUD updated MFI

The bank's assessment area, Anne Arundel County, is located on the Chesapeake Bay between Washington, D.C. and Baltimore. The county has 432 miles of shoreline, which provides waterfront living for many residents. Annapolis, the State Capital, is also the county seat and the location of the U.S. Naval Academy. Baltimore/Washington International Airport is located in the northwest section of the county and is a hub of commercial and industrial development. Anne Arundel County is comprised mostly of middle- and upper-income census tracts.

The AA consists of 95 census tracts. Of the 95 census tracts, none are low-income geographies, 7 are moderate-income geographies, 43 are middle-income geographies, and 44 are upper-income geographies. The bank's current AA meets the requirements of the regulation and does not arbitrarily exclude any low-or-moderate-income areas.

The 2000 U.S. Census Data reported the total population of the AA to be 489,656. Within the AA, there are 178,754 households and 129,964 families. The 2000 Median Income for this AA was \$71,408 and the 2010 HUD Updated Median Family Income is \$84,500. Approximately 12.68 percent of families are low-income, 15.84 percent are moderate-income, 23.52 percent are middle-income, and 47.96 percent are upper-income. Approximately 3.56 percent of families are below the poverty level.

According to the 2000 U.S. Census Data, there are 186,937 housing units, of which, 72.18 percent are owner-occupied, 23.40 percent are rental-occupied, and 4.42 percent are vacant housing units. Approximately 2.50 percent of the owner occupied housing is in moderate-income geographies, 40.87 percent in middle-income geographies, and 56.64 percent in upper-income geographies. The median housing cost is \$167,449.

Severn faces competition from branches of larger regional and national banks as well as local community banks in its assessment area. Based on 2010 Peer Mortgage Data top competitors in the AA include: Wells Fargo, Bank of America, JP Morgan Chase, and BB&T. These four institutions make up almost 40 percent of the market share of single family lending. Severn, by contrast, generated approximately 1 percent of the number and dollar amount of single family lending in the AA for 2010.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's performance under the lending test is "Satisfactory". The loan-to-deposit ratio is more than reasonable. A majority of the bank's HMDA reportable loans were originated within the AA. The record of lending to borrowers of different incomes reflects reasonable penetration. The geographic distribution of loans is not a useful measure of performance due to the low number of Low- and Moderate- Income (LMI) census tracts within the AA.

Loan-to-Deposit Ratio

Severn's quarterly average net loan-to-deposit ratio is more than reasonable and meets the standards for outstanding performance. The bank's quarterly average loan-to-deposit (LTD) ratio over the twelve quarter review period was 111.40 percent. During this twelve-quarter period, this ratio ranged from a quarterly low of 103.72 percent to a quarterly high of 129.55 percent. Severn's quarterly average net LTD ratio compared favorably with other thrift institutions of similar size. The quarterly average net LTD for thrifts of similar size was 90.00 percent over the same twelve quarters. The ratios ranged from a quarterly low of 83.85 percent to a quarterly high of 98.55 percent during that period.

Lending in Assessment Area

Severn’s lending in the AA is satisfactory. The following table sets forth the percentage of the bank’s HMDA reportable lending inside and outside its AA for the review period:

HMDA Reportable Lending in Severn’s AA										
Loan Type	Number of Loans					Dollars of Loans(000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA Reportable	531	75.32	174	24.68	705	\$185,967	75.98	\$58,781	24.02	\$244,748

Source: HMDA L/AR 1/1/2009-12/31/2011

Severn made a majority of single family mortgage loans within their AA, which meets the standards for satisfactory performance. Throughout the evaluation period, the bank originated 531 loans or 75.32 percent of the number of total HMDA reportable loans within the AA. Additionally the bank originated 75.98 percent of the dollar volume of loans within the AA.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The distribution of loans, in Severn’s AA, reflects adequate penetration and meets the standards for satisfactory performance. The following chart discusses the bank’s performance within the AA.

HMDA-Reportable Assessment Area Lending: January 1, 2009 – December 31, 2011						
Borrower Income Levels (1)	Number	No. Pct.	Dollar (000)	\$ Percent	Percent of Families	2010 Aggregate HMDA
Low = <50%	28	5.27%	\$3,642	1.96%	12.68%	4.99%
Moderate = 50-79%	59	11.11%	11,006	5.92%	15.84%	14.64%
Middle = 80-119%	78	14.69%	20,780	11.17%	23.52%	21.68%
Upper = > 120%	313	58.95%	133,216	71.63%	47.96%	49.23%
Income N/A	53	9.98%	17,323	9.32%	0.00%	9.47%
Total*	531	100.00%	\$185,967	100.00%	100.00%	100.00%

The distribution of Severn’s HMDA-reportable lending to low- and moderate-income borrowers in the assessment area was substantially below the percentage of families residing in the assessment area. However, the percentage of lending to low-income borrowers compared well to the peer lending benchmark. Lending to low-income persons represented 5.27 percent of assessment area lending, which is slightly higher

1 Borrower income category is based on the percentage of the median family income of the MSA (or Statewide for non-MSA) in which that person lives.

than the peer lending benchmark of 4.99 percent. The evaluation also takes into account the percentage of families below the poverty rate, 3.56 percent. Families with incomes below the poverty level would find it difficult to qualify for a home loan. Additionally, Severn is competing with larger financial institutions for the opportunities to lend to low and moderate income borrowers throughout the AA; as four institutions: Wells Fargo, Bank of America, JP Morgan Chase, and BB&T make up almost 40% of the market share of single family lending. Taking into consideration the competition for loans to LMI individuals within the AA, Severn’s lending to low- and moderate-income borrowers in the assessment area meets the standards for satisfactory performance.

Geographic Distribution of Loans

The geographic distribution of loans does not provide for meaningful analysis due to the fact that there are no Low- income census tracts, and only seven moderate- income census tract in the AA.

HMDA-Reportable Assessment Area Lending: January 1, 2009 – December 31, 2011						
Income Level of Census Tract (1)	Number	No. Pct.	Dollar (000)	\$ Percent	% of OOHU (2)	2010 Aggregate HMDA
Low = <50%	0	0.00%	\$0	0.00%	0.00%	0.00%
Moderate = 50-79%	1	0.19%	56	0.03%	2.50%	1.53%
Middle = 80-119%	162	30.51%	51,821	27.87%	40.87%	36.21%
Upper = > 120%	368	69.30%	134,090	72.10%	56.64%	62.26%
Total	531	100.00%	\$185,967	100.00%	100.00%	100.00%

The bank made a small percentage of its loans in moderate-income geographies throughout the review period. There were no loans made in low-income census tracts because there are no low-income census tracts within the assessment area. Additionally, there are only seven moderate-income census tracts within the assessment area, which increases the competition for lending opportunities within those geographies.

Responses to Complaints

The bank has received no complaints concerning their lending performance in the assessment area.

² The numbers in this column represent the ratio of owner-occupied housing units in each census tract income category to the total number of owner-occupied housing units in the assessment area.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test in the assessment area is "Outstanding".

Severn's community development activities in their assessment area demonstrate a strong responsiveness to the community development needs. Throughout the evaluation period, Severn and its employees engaged in a number of community activities within the bank's assessment area. This section of the performance evaluation summarizes the bank's community development activities. The examiner considered Community Development Activities submitted by the bank from January 1, 2009 through December 31, 2011.

Number and Amount of Community Development Loans

Severn originated two community development loans in the Assessment area throughout the evaluation period totaling \$4 million. These lines of credit were utilized to fund the purchase and rehabilitation of affordable housing properties within the bank's assessment area. In addition, the bank made a number of non-HMDA reportable loans that were either made to an LMI borrower, small business, or helped to revitalize an LMI geography by financing housing. Severn originated seven qualifying home equity loans totaling \$595,000, two qualifying construction loans (to owner-occupants) totaling \$263,000, 74 small business loans secured by nonresidential real estate totaling \$6.0 million, 30 small business loans secured by residential real estate totaling \$7.4 million, and seven loans, totaling \$2.0 million, secured by 48 rental units with affordable rents during the review period.

Number and Amount of Qualified Investments

Throughout the evaluation period, Severn made several contributions to a variety of organizations which promote housing and community development, primarily for LMI areas and/or to LMI individuals, within the assessment area. Bank contributions totaled \$23,807 in 2009; \$49,340 in 2010 and \$49,835 in 2011; to a variety of organizations which promote housing and community development, primarily for LMI areas and/or to LMI individuals, within the assessment area. Organizations receiving contributions from Severn included the Maryland Food Bank, the Providence Center, the, the Anne Arundel Community College, the Light House Shelter, Everfi Financial, MD Hall for the Creative Arts, the Arundel Habitat for Humanity, and the YMCA.

Extent to Which the Bank Provides Community Development Services

Throughout the evaluation period, bank employees and officers provided financial and technical expertise to seven qualified community development organizations. Bank personnel have served on Boards, led committees, and held various leadership positions. The bank has maintained long-standing relationships with these community

development organizations. In addition to lending activities the bank has provided servicing for 98 loans made by the Habitat for Humanity of the Chesapeake. These loans are made to provide housing to low-income borrowers, often to help revitalize depressed areas. Servicing provided includes free initial loan setup, taxes and insurance tracking, participation remittance, general communications, payment processing, and all printing and postage for mailings to borrowers.

Responsiveness to Community Development Needs

The bank's community development activities, as a whole, demonstrate outstanding responsiveness to the community development needs of its assessment area, in particular when considering the bank's capacity, performance context, and the competition for community development opportunities in the assessment area.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.