



PUBLIC DISCLOSURE

April 18, 2016

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

400 7th Street S.W., Washington, DC 20291

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 Severn Savings Bank, FSB's (Seven) rating include:

- Severn's loan to deposit ratio is more than reasonable.
- The bank's distribution of loans represents reasonable dispersion throughout the assessment area (AA) with reasonable penetration to businesses of different sizes. However, penetration among individuals of different income levels is weak.
- Severn needs to improve its lending in the AA. A majority of its primary loan product is outside of the bank's AA.
- Severn's responsiveness to community development needs and opportunities in its AA is excellent.

Scope of Examination

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

The lending test for Severn covers its performance from January 1, 2014 through December 31, 2015, as this is representative of its lending strategy since the last CRA examination. The evaluation period for the CD test is from January 1, 2012 through September 30, 2015.

Severn's primary loan product is HMDA reportable lending. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The 2014 and 2015 HMDA data were tested and found to be reliable. Therefore, HMDA data were used to evaluate the bank's home loan performance. CD loans, investments, and services were verified to ensure that they met the regulatory definition for community development. We also evaluated the bank's small business loans since business loans were slightly less than home loans, but still represented a significant portion of the bank's total lending activities.

Description of Institution

Severn is a federally chartered intrastate stock savings bank, headquartered in Annapolis, Maryland. As of December 31, 2015, Severn had total assets of \$759 million and Tier 1 Capital of \$113 million.

Severn operates four branches throughout Anne Arundel County, Maryland. The bank has two branches located in Annapolis, which includes its headquarters, one branch in Glen Burnie, and one in Edgewater, Maryland. All branches offer lobby hours of 8:00am to 5:00pm, 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 that offers a variety of residential mortgage loan products, including fixed- and adjustable-rate loans, construction-permanent loans, and lot loans. Single-family residential mortgage is Severn's primary business focus. In addition to residential lending, Severn offers commercial and business lending products. Deposit products and services include the basic savings and checking account, mobile banking, and online banking, which include account inquiries, intra-bank transfers, and online bill pay.

As of December 31, 2015, Severn reported net loans of \$602 million or 79 percent of total assets. The loan portfolio composition is as follows:

Table 1 - Loan Portfolio Summary by Loan Product December 31, 2015	
Loan Category	% of Gross Loans and Leases
Home Loans	55.17%
Business Loans	44.52%
Farm Loans	0.04%
Consumer Loans	0.12%
Other Loans	0.15%

Source: Call Report, December 2015

There are no legal or financial impediments to Severn's ability to meet the credit and CD needs of its AA. The bank was rated Satisfactory at its last CRA examination dated August 9, 2012.

Description of Assessment Area

Severn has one AA, Anne Arundel County located in Maryland, which is described below.

Anne Arundel Assessment Area

The Anne Arundel AA is comprised of all 104 census tracts within Anne Arundel County, which is part of the Baltimore MSA. The AA includes those geographies where the bank has its main office and branches. The AA meets the requirements of the regulation and does not arbitrarily exclude any moderate-income areas. There are no low-income census tracts in this AA.

Demographic Information for the Anne Arundel AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	104	0.00	10.58	40.38	47.12	1.92
Population by Geography	537,656	0.00	8.46	40.58	50.09	0.88
Owner-Occupied Housing by Geography	148,426	0.00	4.72	39.94	55.33	0.00
Business by Geography	40,269	0.00	3.72	38.55	57.53	0.20
Farms by Geography	859	0.00	1.98	34.46	63.56	0.00
Family Distribution by Income Level	136,705	13.57	15.77	21.07	49.60	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	40,101	0.00	16.92	47.79	35.29	0.00
Median Family Income HUD Adjusted Median Family Income for 2015 Households Below Poverty Level		81,788 89,600 5%	Median Housing Value Unemployment Rate (Jan 2016 BLS update)		381,615 5.1%	

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

Source: 2010 US Census, 2015 HUD updated MFI, and BLS Jan 2016 updated Baltimore MSA Unemployment Rate

Anne Arundel County is located on the Chesapeake Bay, south of the city of Baltimore. The county is 588 square miles of which 415 square miles is land and 173 square miles is water. The county is bordered mostly by water. Annapolis, the capital of Maryland, is also the county seat of Anne Arundel County, 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 104 census tracts that include no low-income geographies, 11 moderate-income geographies, 42 middle-income geographies, and 49 upper-income geographies. The remaining two census tracts include the Baltimore/Washington

International Airport, and Coast Guard Yard, which is a shipyard operated and maintained by the United States Coast guard.

Expansion of the local economy of the MSA is characterized as strengthening, with job growth progressing at a more rapid clip. The top three employment sectors are education and health services, federal government, and professional and business services.

Severn faces heavy competition from other financial institutions. Competitors include several large regional financial institutions, mortgage/finance companies, and credit unions.

In conducting the bank's performance assessment, a local organization was contacted, which indicated there is a need for affordable housing for low- and moderate-income individuals in the AA. There is also a need for support for community services to low- and moderate-income households, education and job training programs to support workforce development, afterschool and childcare programs, and support for CD programs and services that will help stabilize neighborhoods, while improving the quality of life in low- and moderate-income communities.

Conclusions with Respect to Performance Tests

LENDING TEST

Severn's performance under the lending test is satisfactory. The bank has reasonable penetration among businesses of different sizes but weak penetration among borrowers of different income levels. Severn's geographical distribution of loans is overall reasonable with reasonable loan dispersion among small businesses and weak dispersion for home loans purchased or originated. The median housing value in the Anne Arundel AA is \$381,615. Given that the average income for a low- and moderate-income family is \$44,791 and \$71,671 respectively, it is difficult for a low- or moderate-income family to purchase a home in this AA. The bank's loan-to-deposit ratio is more than reasonable.

Loan-to-Deposit Ratio

Severn's average loan to deposit ratio is more than reasonable given the bank's size, financial condition, and AA's credit needs. The bank's quarterly loan-to-deposit ratio averaged 110 percent over the 13 quarters since the last CRA examination. This ratio ranged from a quarterly low of 103 percent to a quarterly high of 117 percent since the prior CRA examination. The bank's net loan-to-deposit ratio compares favorably with other financial institutions of similar size and location. Severn ranks first of four similarly situated banks. The average net loan-to-deposit ratios for the other three banks ranged from 76 percent to 105 percent.

Lending in Assessment Area

Severn needs to improve lending within its AA. The bank does not meet the standard for satisfactory performance under this criterion as a substantial majority of the bank's loans are outside of its AA. During 2014 and 2015, 1,173 primary loan products were originated or purchased yet only 456 (39 percent) loans were made within the AA. These consisted of 367 home mortgages and 89 small business loans.

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

Performance in the Anne Arundel AA

The bank has only one AA, Anne Arundel. The borrower distribution of loans in the Anne Arundel AA is weak with weak penetration. However, as previously discussed, the high median housing value in the AA makes it difficult for low- and moderate-income individuals and families to purchase a home. Loans for affordable housing is identified as a credit need in this AA.

A. Home Loans

The distribution of home loans to borrowers reflects weak penetration among borrowers of different income levels. Even when taking into consideration the AA's 5 percent poverty level, the bank's level of lending to low-income borrowers is significantly lower than the demographic comparator and reflects weak penetration. The bank's lending to moderate-income borrowers represents reasonable penetration since it is near the demographic comparator. The following table shows the distribution of home loan products among borrowers of different income levels for 2014 and 2015.

Table 2 - Borrower Distribution of Residential Real Estate Loans in the Anne Arundel AA										
Borrower Income Level	Low		Moderate		Middle		Upper		N/A	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Loans	13.57	4.9	15.77	12.81	21.07	18.53	49.6	54.08	0.00	5.72

Source: HMDA data for 2014-2015 and HUD-updated 2010 U.S. Census data

B. Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Fifty-six percent or 49 of 88 of the bank's loans to businesses originated and purchased during the loan sampling period were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. Seventy-nine percent of the banks loans in the AA were made to

small businesses.

The following table shows the borrower distribution of commercial loans among different size businesses in the AA.

Table 2A - Borrower Distribution of Loans to Businesses/Farms in the Anne Arundel AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable / Unknown	Total %
% of AA Businesses	78.98	5.18	15.84	100
% of Bank Loans in AA by #	55.68	44.32	N/A	100
% of Bank Loans in AA by \$	100.00	0.00	N/A	100

Source: Business loan data sampled from 2014-2015

Geographic Distribution of Loans

The bank's geographic distribution of loans within this AA reflects reasonable dispersion throughout the bank's AAs. There are no conspicuous gaps identified within Severn's AAs. However, while the geographic distribution of business loans is reasonable, the geographic distribution of home loans within the moderate-income census tracts reflects very weak dispersion. This dispersion is caused by the relatively high cost of housing in the AA, which makes it difficult for low- and moderate-income individuals to purchase a home.. There are 104 census tracts within the AA. Although there are no low-income census tracts in this AA, it includes 11 moderate-income census tracts.

Performance in the Anne Arundel AA

A. Home Loans

There are no low-income census tracts within the bank's AA. However, the bank's geographic distribution of home loans in the moderate-income census tract of the AA reflects very weak dispersion. Again, this is due to the relatively high cost of housing within the AA, which makes it difficult for low- or moderate-income families and individuals to purchase homes..

The following table details the bank's performance compared to the percentage of owner-occupied housing units in each census tract income level.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Anne Arundel AA				
Census Tract Income Level	Low	Moderate	Middle	Upper

Loan Type	% of Owner Occupied	% of Bank Loans	% of Owner Occupied	% of Bank Loans	% of Owner Occupied	% of Bank Loans	% of Owner Occupied	% of Bank Loans
Home Loans	N/A	N/A	10.58	2.18	40.38	33.24	47.12	64.58

Source: HMDA data for 2014-2015 and HUD-updated 2010 U.S. Census data

B. Business Loans

The bank's geographic distribution of business loans reflects reasonable dispersion in the moderate-income census tracts. As previously stated, there are no low-income census tracts within the AA.

The following table details the bank's performance as compared to the percentage of businesses in each census tract income level.

Table 3A - Geographic Distribution of Loans to Businesses/Farms in the Anne Arundel AA

Census Tract Income	Low		Moderate		Middle		Upper		N/A	
	% of AA Bus/Farms	% of Number of Loans	% of AA Bus/Farms	% of Number of Loans	% of AA Bus/Farms	% of Number of Loans	% of AA Bus/Farms	% of Number of Loans	% of AA Bus/Farms	% of Number of Loans
Small Business	N/A	N/A	3.52	2.04	36.70	38.78	59.70	59.18	0.08	0.00

Source: Business loan data sampled from 2014-2015

Responses to Complaints

Severn has not received any complaints concerning its lending performance within the AA during this evaluation period.

COMMUNITY DEVELOPMENT TEST

The CD Test is rated Outstanding. During the evaluation period, Severn displayed excellent responsiveness to the needs of the communities within its AA. The bank provided \$14.8 million in CD loans and CRA qualified investments to help meet the CD needs of its AA. In addition, bank personnel provided technical expertise to six CD organizations serving the AA. The bank's level of CD activities is considered excellent, given its size and capacity, and considering the CD needs and opportunities of its AA.

Number and Amount of Community Development Loans in the Anne Arundel AA

Severn has shown excellent responsiveness as indicated by the level of CD loans in its AA.

Since the last CRA examination, the bank originated 15 CD loans within its AA that had

a total value of \$14,822,985. The following are CD loan examples:

- \$2,500,000 to fund the construction of low-income homes
- \$2,200,000 to finance 63 low-income housing units
- \$900,000 time note to a community organization to purchase a property to be used as a safe house to accommodate a large number of women and children who are victims of domestic violence and human trafficking.

Number and Amount of Qualified Investments

Since the last CRA examination, Severn made 64 qualified investments totaling \$213,977 to organizations that provide community services to low- and moderate-income individuals in the AA. The following are some of the qualified investments:

- \$10,000 contribution to a community action agency that helps to reduce poverty. It provides early intervention, diversion, and preventative services including counseling to youths at risk within the community.
- \$10,000 donation to a domestic violence shelter and safe house.
- \$7,500 contribution to an organization that provides affordable housing to low- and moderate-income families.
- \$7,500 donation to a community organization that provides after school and summer programs to disadvantaged youths in the AA.
- \$4,000 contribution to a community organization that provides housing in a group environment to people with intellectual and developmental disabilities.
- \$2,500 donation to an organization that provides guidance to children living in public and subsidized housing.
- \$1,000 donation to a shelter for the homeless.

Extent to Which the Bank Provides Community Development Services

Severn has four bank branches all of which are located within the bank's AA. Although none of these branches are located in any moderate-income census tracts (no low-income census tracts are in the AA), the bank maintains a full-service branch office and ATM that is located in S.E. Glen Burnie, which abuts one moderate-income census tract and is relatively close to four additional moderate-income census tracts. This location facilitates increased access to financial services by low- and moderate-income families and individuals. The branch hours are Mondays through Thursdays from 8 AM – 5 PM, 8 AM – 6 PM on Fridays, and 9 AM – 12 PM on Saturdays.

During the evaluation period, several bank officers provided CD services to qualifying programs in the AA. One officer served as a member of the Board of a community organization that provides affordable housing to low- and moderate-income families. Another officer served on the Board of a community organization that supports and creates opportunities for youths living in public housing. Finally, another officer served as President and Chairman of the Board of an organization that provides healthy, lead-free, and safe housing in low-income neighborhoods.

Responsiveness to Community Development Needs

Severn's CD activities, as a whole, demonstrate outstanding responsiveness to the CD needs and opportunities of its AA, in particular considering the bank's capacity, performance context, and the competition for CD opportunities in the assessment area. Identified needs include affordable housing, and afterschool programs for low- and moderate-income households. The bank's CD loans, investments and services have targeted these areas of need.

There are no low-income tracts within the Anne Arundel AA. Families in the AA total 136,705, of which 18,549 are low-income and 21,552 are moderate-income, which represents 29 percent of total families in the AA.

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.