

Severn Savings Bank FSB

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March 3, 2006

Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: No. 2006-01

RE: OTS Docket No. 2006-01

Dear Chief Counsel:

The purpose of this letter is to comment on "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" ("Guidance") described in 71 FR 2302, dated January 13, 2006.

Severn Savings Bank, FSB ("Severn") is an \$840 ± million asset sized institution that focuses on the origination of mortgages of all types, including commercial real estate ("CRE") loans and construction loans. Severn is concerned that the implementation of the Guidance, as drafted, may cause a negative impact on Severn.

Much of the Guidance is accurate. There is no question that certain CRE loans are vulnerable during economic downturns. The risk is exacerbated where there is weak underwriting and where there is expansion into new markets without adequate control and reporting processes. However, I am concerned that the Guidance considers all CRE loans as being of equal risk. That is not the case. I am further concerned that the Guidance provides for the imposition of capital standards that could be applied in an arbitrary manner.

CRE Loans

The Guidance fails to distinguish risk levels inherent among CRE loans. For example, why should CRE loans that have been outstanding for a number of years, performing as agreed, amortizing down to low loan to value ratios, with "credit" tenants, be treated identically to a speculative office building loans, newly under construction, with no tenants?

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There is obviously a material difference between a CRE loan with financially substantial guarantors compared to one with financially weak guarantors. I note that owner occupied properties are excluded. Does this mean, for example, a condominium office unit 100% occupied by the owner? What if that same condominium unit is 40% occupied by the owner but rented to others? Is there a difference in the aforementioned example if the 60% of space has been rented for one (1) month or ten (10) years to the same tenant?

Another area of concern pertains to multi-family loans being included in the CRE category. Again, there are great disparities among multi-family loans. A five (5) unit, long time stable multi-family structure, securing a loan from strong guarantors should not be treated the same as a five hundred (500) unit project with guarantees that, as a practical matter, are meaningless.

CRE loans with strong and consistent rents, or credit tenants, should be treated differently than similar loans with no such history.

I suggest that the Guidance be revised to address purely speculative (loans that have no determined exit) and land development loans, as well as CRE loans in "new" markets offered by to an institution that has not had proper evaluations of the market in place.

Capital

The Guidance creates the potential for imposing capital levels based on arbitrary standards. Capital levels should not be determined exclusively based on the types of loans held in an institution's portfolio. Each institution should be evaluated with respect to its respective experience with certain types of CRE lending, the market that it is conducting its business within and its history of performance with CRE loans. The regulatory agencies might consider a risk based capital standard that assigns certain CRE loans specific weighting standards. It would be dangerous for the regulatory agencies to suddenly impose capital levels that might be difficult to quickly attain. This might result in misunderstandings by the public, causing harm to an institution's reputation. Potentially, stock prices of public companies could be negatively impacted, when the reality is that nothing within the institution actually changes.

A better approach for the Guidance might be to require an institution active in CRE loans to implement methods, including but not limited to, risk rating systems, early warning systems, maintaining an allowance for loan losses appropriate for its risks, evaluation of concentrations, setting forth internal limits of CRE loans, and the like, all commensurate for the particular institution.

Thank you for the opportunity to comment on the Guidance.

Very truly yours,

SEVERN SAVINGS BANK, FSB



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