SEVERN BANCORP INC
Form 10-Q
November 06, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

or

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

Commission File Number 0-49731

SEVERN BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	52-1726127 (I.R.S. employer identification no.)
200 Westgate Circle, Suite 200 Annapolis, Maryland (Address of principal executive offices)	21401 (Zip Code)

410-260-2000
(Registrant's telephone number, including area code)

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 for 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 þ No o

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 "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer o Accelerated filer þ Non- accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Number of shares of the registrant's Common Stock, $0.01 par value, outstanding as of the close of business on November 6, 2008: 10,066,679 shares.

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PART I– FINANCIAL INFORMATION

Item 1. Financial Statements

SEVERN BANCORP, INC. AND SUBSIDIARIES
Annapolis, Maryland
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)
(dollars in thousands, except per share amounts)

	September 30, 2008	December 31, 2007
ASSETS		
Cash and due from banks	$ 7,083	$ 6,415
Interest bearing deposits in other banks	350	814
Federal funds sold	11,016	4,037
Cash and cash equivalents	18,449	11,266
Investment securities held to maturity	1,356	2,383
Loans held for sale	-	1,101
Loans receivable, net of allowance for loan losses of $12,155 and $10,781, respectively	885,219	891,913
Premises and equipment, net	30,563	31,289
Federal Home Loan Bank of Atlanta stock at cost	8,694	10,172
Foreclosed real estate	8,506	2,993
Accrued interest receivable and other assets	11,492	11,117
Total assets	$ 964,279	$ 962,234
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits	$ 689,662	$ 652,773
Short-term borrowings	-	15,000
Long-term borrowings	153,000	175,000
Subordinated debentures	20,619	20,619
Accrued interest payable and other liabilities	3,095	3,566
Total liabilities	866,376	866,958
Stockholders’ Equity		
Common stock, $0.01 par value, 20,000,000 shares authorized; 10,066,679 issued and outstanding	101	101
Additional paid-in capital	46,864	46,768
Retained earnings	50,938	48,407
Total stockholders' equity	97,903	95,276
Total liabilities and stockholders' equity	$ 964,279	$ 962,234

The accompanying notes to consolidated financial statements are an integral part of these statements.

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SEVERN BANCORP, INC. AND SUBSIDIARIES
Annapolis, Maryland
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(dollars in thousands, except per share data)

	For Three Months Ended September 30, 2008	2007	For Nine Months Ended September 30, 2008	2007
Interest Income				
Loans	$ 14,910	$ 17,795	$ 47,271	$ 52,990
Securities, taxable	17	52	56	171
Other	121	354	613	1,040
Total interest income	15,048	18,201	47,940	54,201
Interest Expense				
Deposits	6,133	7,568	19,800	21,809
Short-term borrowings	25	183	62	407
Long-term borrowings and subordinated debentures	1,766	2,121	5,659	6,061
Total interest expense	7,924	9,872	25,521	28,277
Net interest income	7,124	8,329	22,419	25,924
Provision for loan losses	2,865	750	4,365	1,712
Net interest income after provision for loan losses	4,259	7,579	18,054	24,212
Other Income				
Real estate commissions	329	299	707	1,903
Real estate management fees	159	172	506	492
Mortgage banking activities	27	101	316	469
Other	222	101	580	790
Total other income	737	673	2,109	3,654
Non-Interest Expenses				
Compensation and related expenses	2,076	2,556	6,829	8,555
Occupancy, net	437	416	1,253	1,273
Other	1,475	1,042	4,726	2,921
Total non-interest expenses	3,988	4,014	12,808	12,749
Income before income tax provision	1,008	4,238	7,355	15,117
Income tax provision	421	1,806	3,012	6,304

Net income	$	587	$	2,432	$	4,343	$	8,813
Basic earnings per share	$	.06	$	.24	$	.43	$	.88
Diluted earnings per share	$	.06	$	.24	$	.43	$	.87
Common stock dividends declared per share	$	.06	$	.06	$	.18	$	.18

The accompanying notes to consolidated financial statements are an integral part of these statements.

SEVERN BANCORP, INC. AND SUBSIDIARIES
Annapolis, Maryland
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(dollars in thousands)

	For The Nine Months Ended September 30, 2008	2007
Cash Flows from Operating Activities		
Net income	$ 4,343	$ 8,813
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred loan fees	(1,990)	(2,606)
Net amortization of premiums and discounts	3	3
Provision for loan losses	4,365	1,712
Provision for depreciation	1,011	974
Gain on sale of loans	(225)	(159)
Proceeds from loans sold to others	16,903	18,778
Loans originated for sale	(15,577)	(16,050)
Stock-based compensation expense	96	96
Increase in accrued interest receivable and other assets	(375)	(1,075)
Decrease in accrued interest payable and other liabilities	(471)	(1,538)
Net cash provided by operating activities	8,083	8,948
Cash Flows from Investing Activities		
Proceeds from maturing investment securities	1,000	2,000
Principal collected on mortgage backed securities	24	364
Net increase in loans	(6,116)	(38,826)
Net proceeds from sale of foreclosed property	4,922	1,319
Investment in premises and equipment	(285)	(3,668)
Proceeds from disposal of premises and equipment	-	1,784
Redemption (purchase) of Federal Home Loan Bank of Atlanta stock	1,478	(704)
Net cash provided by (used in) investing activities	1,023	(37,731)

SEVERN BANCORP, INC. AND SUBSIDIARIES
Annapolis, Maryland
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) CONTINUED
(dollars in thousands)

	For The Nine Months Ended September 30, 2008	2007
Cash Flows from Financing Activities		
Net increase in deposits	36,889	10,289
Net increase (decrease) in short-term borrowings	(15,000)	7,000
Additional borrowed funds, long-term	30,000	20,000
Repayment of borrowed funds, long-term	(52,000)	(10,000)
Cash dividends and cash paid in lieu of fractional shares	(1,812)	(1,814)
Proceeds from exercise of options	-	13
Net cash provided by (used in) financing activities	(1,923)	25,488
Increase (decrease) in cash and cash equivalents	7,183	(3,295)
Cash and cash equivalents at beginning of year	11,266	18,715
Cash and cash equivalents at end of period	$ 18,449	$ 15,420
Supplemental disclosure of cash flows information:		
Cash paid during period for:		
Interest paid	$ 25,916	$ 27,989
Income taxes paid	$ 3,844	$ 7,064
Transfer of loans to foreclosed real estate	$ 13,494	$ 2,860

The accompanying notes to consolidated financial statements are an integral part of these statements.

SEVERN BANCORP, INC. AND SUBSIDIARIES
Annapolis, Maryland

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 - Principles of Consolidation

The unaudited consolidated financial statements include the accounts of Severn Bancorp, Inc. (the "Company"), and its wholly owned subsidiaries, Louis Hyatt, Inc., SBI Mortgage Company and SBI Mortgage Company's subsidiary, Crownsville Development Corporation, and its subsidiary, Crownsville Holdings I, LLC, and Severn Savings Bank, FSB (the "Bank"), and the Bank's subsidiaries, Homeowners Title and Escrow Corporation, Severn Financial Services Corporation, SSB Realty Holdings, LLC, SSB Realty Holdings II, LLC, and HS West, LLC. All intercompany accounts and transactions have been eliminated in the accompanying financial statements.

Note 2 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation of the results of operations for the interim periods presented have been made. Such adjustments were of a normal recurring nature. The results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2008 or any other interim period. The unaudited consolidated financial statements for the three and nine months ended September 30, 2008 should be read in conjunction with the audited consolidated financial statements and related notes, which were included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Note 3 - Cash Flow Presentation

In the statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, Federal Home Loan Bank of Atlanta ("FHLB Atlanta") overnight deposits, and federal funds sold. Generally, federal funds are sold for one-day periods.

Note 4 – Reclassifications

Certain prior year's amounts have been reclassified to conform to the current year's method of presentation.

Note 5 - Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding for each period. Diluted earnings per share is computed by dividing net income by weighted average number of shares of common stock outstanding after consideration of the dilutive effect of the Company's outstanding stock options. Potential common shares related to stock options are determined using the treasury stock method. For the three and nine month periods ended September 30, 2008, all of the

SEVERN BANCORP, INC. AND SUBSIDIARIES
Annapolis, Maryland

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Company's outstanding stock options, which totaled 114,950, were not included in the diluted earnings per share calculation because they were antidilutive. There were 122,815 outstanding stock options not included in the diluted earnings per share calculation for the three and nine month periods ended September 30, 2007.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Common shares – weighted average (basic)	10,066,679	10,066,679	10,066,679	10,066,150
Common share equivalents – weighted average	-	-	-	9,489
Common shares – diluted	10,066,679	10,066,679	10,066,679	10,075,639

Note 6 - Guarantees

The Company does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Generally all letters of credit, when issued, have expiration dates within one year. The credit risks involved in issuing letters of credit are similar to those that are involved in extending loan facilities to customers. The Company generally holds collateral supporting these commitments. The Company had $11,623,000 of standby letters of credit outstanding as of September 30, 2008. Management believes that the proceeds obtained through a liquidation of collateral would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The amount of the liability as of September 30, 2008 and December 31, 2007 for guarantees under standby letters of credit issued was not material.

Note 7 - Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The following table presents the Bank's capital position:

	Actual at September 30, 2008	Actual at December 31, 2007	To Be Well Capitalized Under Prompt Corrective Provisions
Tangible (1)	11.5%	11.3%	N/A

Tier I Capital (2)	14.2%	13.7%	6.0%
Core (1)	11.5%	11.3%	5.0%
Total Capital (2)	15.2%	14.9%	10.0%

(1) To adjusted total assets
(2) To risk-weighted assets.

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SEVERN BANCORP, INC. AND SUBSIDIARIES
Annapolis, Maryland

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Note 8 - Stock-Based Compensation

On April 30, 2008, the Company's stockholders approved the 2008 Equity Incentive Plan, referred to as the "2008 Plan" for directors, officers, and other key employees of the Company. The 2008 Plan replaces the Company's Stock Option and Incentive Plan, referred to as the "1998 Plan" which expired in 2007. Under the terms of the 2008 Plan, the Company may grant awards including stock options, stock appreciation rights, stock awards and other awards based on the Company's common stock. The maximum number of shares of common stock with respect to which awards may be awarded under the plan can not exceed 500,000, increased from time to time by a number of shares equal to the number of shares of common stock that are issuable pursuant to option grants outstanding under the 1998 Plan as of April 30, 2008 ("Existing Options") that subsequently expire, terminate or are cancelled. As of September 30, 2008, 121,000 shares of Common Stock, which includes 6,050 shares that were forfeited, were subject to Existing Options under the 1998 Plan. Awards under the 2008 Plan are granted under terms and conditions determined by the Compensation Committee of the Board of Directors.

Stock options granted under the 1998 Plan or the 2008 Plan generally have a term of five years with a maximum term of ten years, and are granted with an exercise price at least equal to the fair market value of the common stock on the date the options are granted. Generally, options granted to directors of the Company vest immediately, and options granted to officers and employees vest over a five-year period, although the Compensation Committee has the authority to provide for different vesting schedules.

Stock-based compensation expense for the three and nine months ended September 30, 2008 and September 30, 2007 totaled $32,000 and $96,000, respectively. There were 0 and 825 options exercised during the three and nine months ended September 30, 2008 and September 30, 2007, respectively. No options were granted during the three and nine months ended September 30, 2008 and 2007.

Note 9 - Fair Values of Financial Instruments

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years.

The primary effect of SFAS No. 157 on the Company was to expand the required disclosures pertaining to loans accounted for under SFAS No. 114 and foreclosed assets.

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair market hierarchy under SFAS No. 157 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

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SEVERN BANCORP, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following table summarizes the valuation of assets and liabilities measured at fair value on a recurring basis, by the above SFAS No. 157 pricing observability as of September 30, 2008 (dollars in thousands):

	Fair Value Measurement at Reporting Date Using			
	Total	Level 1	Level 2	Level 3
Loans accounted for under SFAS 114	$31,311	-	-	$31,311
Foreclosed real estate	8,506	-	-	8,506

Loans accounted for under SFAS No. 114 – loans included in the above table were those that were accounted for under SFAS No. 114, Accounting by Creditors for Impairment of a Loan, in which the Company has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurement. The fair value consists of the loan balances less their valuation allowances as determined under SFAS No. 114.

Foreclosed real estate – fair value of real estate acquired through foreclosure was based on independent third party appraisals of the properties. These values were determined based on the sales prices of similar properties in the proximate vicinity.

During the period there were no assets or liabilities that were required to be re-measured on a nonrecurring basis.

The following table summarizes the roll forward of level 3 assets for the nine months ended September 30, 2008 (dollars in thousands):

	Impaired Loans	Foreclosed Real Estate
Balance at December 31, 2007	$ 6,599	$ 2,993
Transfer to foreclosed real estate	(7,653)	10,695
Additions	40,292	92
Additional reserves	(4,758)	(611)
Paid off/sold	(3,169)	(4,663)
Balance at September 30, 2008	$ 31,311	$ 8,506

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SEVERN BANCORP, INC. AND SUBSIDIARIES
Annapolis, Maryland

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

The above $4,758,000 in additional reserves recorded against impaired loans was included in the provision for loan losses on the statement of income for the nine months ended September 30, 2008. The $611,000 of additional reserves recorded against foreclosed real estate was included in other non-interest expenses on the statement of income for the nine months ended September 30, 2008. Included in the $10,695,000 of loans transferred to foreclosed real estate were 8 loans totaling $3,042,000 that were not considered impaired per SFAS No. 114.

Note 10 - Recent Accounting Pronouncements

FASB Statement No. 141 (R) “Business Combinations” was issued in December of 2007. This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. This Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of a company’s fiscal year beginning after December 15, 2008. This new pronouncement will impact the Company’s accounting for any business combinations beginning January 1, 2009.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles.” This Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. This Statement is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.” The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

In October 2008, the FASB issued FSP No. 157-3, “Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active” (FSP 157-3), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to the Company’s September 30, 2008 financial statements. The application of the provisions of FSB 157-3 did not have any effect on the Company’s results of operations or financial condition as of and for the periods ended September 30, 2008.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company

The Company is a savings and loan holding company chartered as a corporation in the state of Maryland, and is headquartered in Annapolis, Maryland. It conducts business through three subsidiaries: the Bank, a federal savings bank, which is the Company's principal subsidiary; Louis Hyatt, Inc., doing business as Hyatt Commercial, a commercial real estate brokerage and property management company; and SBI Mortgage Company, which holds mortgages that do not meet the underwriting criteria of the Bank, and is the parent company of Crownsville Development Corporation, doing business as Annapolis Equity Group, which acquires real estate for syndication and investment purposes. The Bank has four branches in Anne Arundel County, Maryland, which offer a full range of deposit products. The Bank originates mortgages in its primary market of Anne Arundel County, Maryland and, to a lesser extent, in other parts of Maryland, Delaware and Virginia. The Company's common stock trades under the symbol "SVBI" on the Nasdaq Capital Market.

Bank Strategy

The Bank has expanded its customer focus and product offerings while narrowing its focus in real estate related mortgage lending to maintaining and developing relationships with existing customers. It is also strengthening its brand positioning and selectively seeking opportunities to expand its branch network. Each of these is discussed in turn:

- Expand customer focus and product offerings. The Bank is expanding beyond a core savings and real estate related mortgage lending focus to provide a full array of consumer and commercial banking products and services such as asset-based lending, cash management, and demand deposit services. For instance, the Bank has expanded its commercial lending activities to include asset-based financing for small and medium-sized businesses where collateral for such loans may include borrower assets such as accounts receivable, inventory, machinery, equipment, and other forms of security as well as real estate. As of September 30, 2008, $6.8 million, or 0.8%, of the Bank's loan portfolio consisted of commercial loans for business purposes. The Bank has also begun penetrating the commercial deposit-taking market including efforts to provide cash management services and related commercial deposit products to small and medium-sized businesses in its target geographic market.

- Deepen its relationship-based approach to real estate related mortgage lending. During the current period of weakening real estate markets, the Bank is pursuing an intensified relationship-based lending approach focused on strengthening ties to existing and past customers and is not aggressively pursuing new customers for its real estate related mortgage lending products.

- Strengthen brand visibility and leadership. The Bank has launched a new brand-building campaign designed to differentiate it in the marketplace, emphasizing a full set of financial services offerings as the leading independent, locally oriented bank.

- Selectively branch out within the target market. The Bank is pursuing a branch acquisition "fill-in" market distribution and service coverage strategy designed to ensure convenience of branch locations for its customers. With four existing branches, the Bank provides significant market coverage. However, with the continued growth and increasing geographic dispersion of its customer base within its target market, the opportunity exists to further increase the convenience and accessibility of its full service branches to its customer base.

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Bank Competition

The Annapolis, Maryland area has a high density of financial institutions, many of which are significantly larger and have greater financial resources than the Bank, and all of which are competitors of the Bank to varying degrees. The Bank’s competition for loans comes primarily from savings and loan associations, savings banks, mortgage banking companies, insurance companies and commercial banks. Its most direct competition for deposits has historically come from savings and loan associations, savings banks, commercial banks and credit unions. The Bank faces additional competition for deposits from money market mutual funds and corporate and government securities funds and investments. The Bank also faces increased competition for deposits from other financial institutions such as brokerage firms and insurance companies. The Bank is a community-oriented financial institution serving its market area with a wide selection of mortgage loan products. Management considers the Bank’s reputation for financial strength and customer service to be a major competitive advantage in attracting and retaining customers in its market area. The Bank also believes it benefits from its community orientation.

Forward Looking Statements

In addition to the historical information contained herein, the discussion in this report contains forward-looking statements that involve risks and uncertainties and may be affected by various factors that may cause actual results to differ materially from those in the forward-looking statements. The forward-looking statements contained herein include, but are not limited to, those with respect to the Bank’s strategy; management’s determination of the amount of the loan loss allowance; the effect of changes in interest rates; and changes in deposit insurance premiums. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “will,” “would,” “could,” “should,” “guidance,” “p “project,” “forecast,” “confident,” and similar expressions are typically used to identify forward-looking statements. The Company’s operations and actual results could differ significantly from those discussed in the forward-looking statements. Some of the factors that could cause or contribute to such differences include, but are not limited to, the success of the Bank’s strategy; changes in the economy and interest rates both in the nation and Company’s general market area; federal and state regulation; and competition and other factors detailed from time to time in the Company’s filings with the Securities and Exchange Commission (the “SEC”), including “Item 1A. Risk Factors” contained in this Report and in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Critical Accounting Policies

The Company’s significant accounting policies are set forth in Note 1 of the audited consolidated financial statements as of December 31, 2007 which were included in the Company’s Annual Report on Form 10-K. Of these significant accounting policies, the Company considers its policy regarding the allowance for loan losses to be its most critical accounting policy, because it requires management’s most subjective and complex judgments. In addition, changes in economic conditions can have a significant impact on the allowance for loan losses and therefore on the provision for loan losses and results of operations. The Company has developed policies and procedures for assessing the adequacy of the allowance for loan losses, recognizing that this process requires a number of assumptions and estimates with respect to its loan portfolio. The Company’s assessments may be impacted in future periods by changes in economic conditions, the impact of regulatory examinations, and the discovery of information with respect to borrowers that is not known to management at the time of the issuance of the consolidated financial statements.

Overview

The Company provides a wide range of retail and commercial banking services. Deposit services include checking, individual retirement accounts, money market, savings and time deposit accounts. Loan services include various types of commercial, consumer, and real estate lending. The Company also provides ATMs, corporate cash management services, debit cards, Internet banking including on-line bill pay, mortgage lending, safe deposit boxes, and telephone banking, among other products and services.

The Company continues to experience challenges similarly faced by many financial institutions resulting from the slowdown in the real estate markets, including increased loan delinquencies and a decrease in the demand for certain loan products including construction, development, and land acquisition loans. Continued declines in real estate values, home sales volumes and financial stress on borrowers as a result of the uncertain economic environment, including job losses and other factors, have adversely affected our borrowers. This economic deterioration has caused loan delinquencies and impaired loans to increase. In addition, strong competition for new loans and deposits has caused the interest rate spread between the Company's cost of funds and what it earns on loans to decrease from 2007 levels. This was primarily due to an increase in non-accrual loans, and to decreases in interest rates earned on loans outpacing the decreases in interest paid on deposits and other borrowings. The Company's loan portfolio has decreased $6,694,000, or 0.8%, to $885,219,000 at September 30, 2008, compared to $891,913,000 at December 31, 2007.

The Company has experienced an increase in delinquent loans and has increased its provision for loan losses from 2007 levels accordingly. The Company believes that the allowance for loan losses is adequate at September 30, 2008.

During the quarter ended June 30, 2008, the Company was the victim of an external fraud scheme involving falsified line of credit advance requests that totaled approximately $2.26 million. Of that amount, $260 thousand was not covered under the Company's insurance policy, was written-off during the quarter ended June 30, 2008 and was included in non-interest expenses. The remaining $2.0 million was recorded as a receivable at June 30, 2008, and was received from the Company's insurance provider during the quarter ended September 30, 2008.

The Company expects to experience difficult market conditions as it seeks to grow its loan portfolio in a comparatively slower market. If interest rates increase, there may be less demand for borrowing. The Company will continue to manage loan and deposit pricing against the risks of rising costs of its deposits and borrowings.

The Company's success continues to be dependent on the strength of the markets in which it operates, including the Company's ability to originate and grow its mortgage loans, as well as its continuing ability to maintain comparatively low overhead costs.

Results of Operations

Net income decreased by $1,845,000, or 75.9%, to $587,000 for the third quarter of 2008, compared to $2,432,000 for the third quarter of 2007. Basic and diluted earnings per share decreased by $.18, or 75.0%, to $.06 for the third quarter of 2008, compared to $.24 for the third quarter of 2007. Net income for the nine months ended September 30, 2008 decreased by $4,470,000, or 50.7%, to $4,343,000, compared to $8,813,000 for the same period in 2007. The decrease in net income and basic and diluted earnings per share over last year was a result of the Company's lower interest rate spread, lower real estate commissions, and a higher provision for loan losses. The interest rate spread is the difference between the Company's cost of funds and yield on earning assets. The Company's interest rate spread decreased by .67%, to 2.95% for the nine months ended September 30, 2008, compared to 3.62% for the same period in 2007.

Net interest income, which is interest earned net of interest expense, decreased by $1,205,000, or 14.5%, to $7,124,000 for the third quarter of 2008, compared to $8,329,000 for the third quarter of 2007. Net interest income for the nine months ended September 30, 2008 decreased by $3,505,000, or 13.5%, to $22,419,000, compared to $25,924,000 for the same period in 2007. The primary reason for the decrease in net interest income was an increase in non-accrual loans, and because the interest rates earned on the Company's loan portfolio have decreased faster than the decrease in interest rates paid on the Company's interest bearing liabilities. Net yield on interest earning assets for the nine months ended September 30, 2008 was 3.27%, compared to 3.96% for the same period in 2007.

The provision for loan losses increased by $2,115,000, or 282.0%, to $2,865,000 for the third quarter of 2008, compared to $750,000 for the third quarter of 2007. The provision for loan losses for the nine months ended September 30, 2008 increased by $2,653,000, or 155.0%, to $4,365,000, compared to $1,712,000 for the same period in 2007. The provision for loan losses and allowance for loan losses are based on management's judgment and evaluation of the loan portfolio. Management assesses the adequacy of the allowance for loan losses and the need for any addition thereto, by considering the nature and size of the loan portfolio, overall portfolio quality, review of specific problem loans, economic conditions that may affect the borrowers' ability to pay or the value of property securing loans, and other relevant factors. While management believes the current allowance for loan losses is adequate, changing economic and other conditions may require future adjustments to the allowance for loan losses. For additional discussion, see "Asset Quality" below.

Total other income increased by $64,000, or 9.5%, to $737,000 for the third quarter of 2008, compared to $673,000 for the third quarter of 2007. The primary reason for the increase in other income was an increase in fees and service charges. Total other income for the nine months ended September 30, 2008 decreased $1,545,000, or 42.3%, to $2,109,000 compared to $3,654,000 for the same period in 2007. The primary reasons for the decrease during the first nine months of 2008, compared to the first nine months of 2007 was a decrease in real estate commissions earned during the first quarter of 2008 compared to the first quarter of 2007 and the gain realized on property sold by Hyatt Commercial in the first quarter of 2007. Real estate commissions increased $30,000, or 10.0%, to $329,000 for the third quarter of 2008, compared to $299,000 for the third quarter of 2007. Total real estate commissions for the nine months ended September 30, 2008 decreased $1,196,000, or 62.8%, to $707,000, compared to $1,903,000 for the same period in 2007. This decrease was primarily the result of higher commissions earned in 2007 on the sale of two large commercial properties. Mortgage banking activities decreased $74,000, or 73.3%, to $27,000 for the third quarter of 2008 compared to $101,000 for the third quarter of 2007. Mortgage banking activities decreased $153,000, or 32.6%, to $316,000 for the nine months ended September 30, 2008 compared to $469,000 for the same period in 2007. The primary reason for this decline was the decision to close Homeowners' Title in August 2008, which resulted in fewer fees earned by the Company. Other income for the nine months ended September 30, 2008 decreased $210,000, or 26.6%, to $580,000 compared to $790,000 for the same period in 2007. This decrease was primarily the result of a $322,000 gain recognized on the sale of property owned by Hyatt Commercial in 2007.

Total non-interest expenses decreased by $26,000, or 0.6%, to $3,988,000 for the third quarter of 2008, compared to $4,014,000 for the third quarter of 2007. Total non-interest expenses for the nine months ended September 30, 2008 increased $59,000, or 0.5%, to $12,808,000, compared to $12,749,000 for the same period in 2007. Compensation and related expenses decreased by $480,000, or 18.8%, to $2,076,000 for the third quarter of 2008, compared to $2,556,000 for the same period in 2007. Total compensation and related expenses for the nine months ended September 30, 2008 decreased $1,726,000, or 20.2%, to $6,829,000, compared to $8,555,000 for the same period in 2007. This decrease was primarily because of lower salaries paid in 2008 due to staff vacancies not being refilled until needed, and lower commissions paid by Hyatt Commercial to commercial real estate agents. Net occupancy costs increased by $21,000, or 5.0%, to $437,000 for the third quarter of 2008, compared to $416,000 for the third quarter of 2007. Total net occupancy for the nine months ended September 30, 2008 decreased $20,000, or 1.6%, to $1,253,000, compared to $1,273,000 for the same period in 2007. This decrease was the result of costs and depreciation incurred on the Company's new headquarters partially offset by a full nine month's rental income in 2008 compared to a partial nine month's rental income in 2007 on space leased out in the Company's headquarters. Other non-interest expenses increased $433,000, or 41.6%, to $1,475,000 for the third quarter of 2008, compared to $1,042,000 for the third quarter of 2007. Other non-interest expense for the nine months ended September 30, 2008 increased by $1,805,000, or 61.8%, to $4,726,000, compared to $2,921,000 for the same period in 2007. This increase was primarily due to a charge off taken in June 2008 for losses incurred relating to a fraudulent wire scheme, additional legal fees and costs relating to loan delinquencies, and increased deposit insurance premiums.

Income Taxes

The income tax provision decreased by $1,385,000, or 76.7%, to $421,000 for the third quarter of 2008, compared to $1,806,000 for the third quarter of 2007. The income tax provision for the nine months ended September 30, 2008 decreased by $3,292,000, or 52.2%, to $3,012,000, compared to $6,304,000 for the same period in 2007. Both decreases are consistent with the decrease in pretax income. The effective tax rate for the nine months ended September 30, 2008 was 41.0% compared to 41.7% for the same period in 2007.

Analysis of Financial Condition

Total assets increased $2,045,000, or 0.2%, to $964,279,000 at September 30, 2008, compared to $962,234,000 at December 31, 2007. Cash and cash equivalents increased by $7,183,000, or 63.8%, to $18,449,000 at September 30, 2008, compared to $11,266,000 at December 31, 2007. This increase was primarily due to increased cash and due from banks and federal funds sold. The loan portfolio decreased during 2008, as net loans receivable decreased $6,694,000, or 0.8%, to $885,219,000 at September 30, 2008, compared to $891,913,000 at December 31, 2007. This decrease was the result of the continued general slowdown in loan demand during the third quarter of 2008. Loans held for sale decreased $1,101,000, or 100.0%, to $0 at September 30, 2008, compared to $1,101,000 at December 31, 2007. This decrease was primarily due to the timing of loans pending sale as of September 30, 2008. Total deposits increased $36,889,000, or 5.7%, to $689,662,000 at September 30, 2008 compared to $652,773,000 at December 31, 2007. This increase was primarily attributable to an ongoing campaign by the Company to attract money market deposit accounts and promotions to obtain shorter-term certificates of deposit. FHLB Atlanta borrowings decreased $37,000,000, or 19.5%, to $153,000,000 at September 30, 2008, compared to $190,000,000 as of December 31, 2007. This was a result of paying off short term and long term FHLB Atlanta advances with deposit growth.

Stockholders' Equity

Total stockholders' equity increased $2,627,000, or 2.8%, to $97,903,000 at September 30, 2008 compared to $95,276,000 as of December 31, 2007. This increase was primarily a result of net earnings, partially offset by dividends declared.

Asset Quality

Non-performing assets consist of non-accrual loans, restructured loans, and other real estate owned (foreclosed properties). Loans are placed in non-accrual status, when in the opinion of management, the collection of additional interest is unlikely or a specific loan meets the criteria for non-accrual status established by regulatory authorities (those loans 90 or more days in arrears). No interest is taken into income on non-accrual loans. A loan remains on non-accrual status until the loan is current as to both principal and interest.

Foreclosed real estate includes properties that have been repossessed or acquired in complete or partial satisfaction of debt. Such properties, which are held for resale, are carried at the lower of cost or fair value, including a reduction for the estimated selling expenses.

The following table presents the Company's non-performing assets as of September 30, 2008 and December 31, 2007 (dollars in thousands):

	September 30, 2008	Number of loans	December 31, 2007	Number of loans
Loans accounted for on a non-accrual basis:				
Mortgage loans:				
Residential - consumer	$ 19,628	54	$ 3,975	11
Residential - builder	23,258	40	3,389	6
Commercial	882	5	336	2
Non-mortgage loans:				
Consumer	1	2	-	
Commercial loans	-		-	
Total non-accrual loans	$ 43,769	101	$ 7,700	19
Accruing loans greater than 90 days past due	$ -		$ -	
Foreclosed real-estate	$ 8,506		$ 2,993	
Total non-performing assets	$ 52,275		$ 10,693	
Total non-accrual loans to net loans	4.9%		0.9%	
Allowance for loan losses	$ 12,155		$ 10,781	
Allowance to total loans	1.4%		1.2%	
Allowance for loan losses to total non-performing loans, including loans contractually past due 90 days or more	27.8%		140.0%	
Total non-accrual and accruing loans greater than 90 days past due to total assets	4.5%		0.8%	
Total non-performing assets to total assets	5.4%		1.1%	

The allowance for loan losses is based on management's judgment and evaluation of the loan portfolio. Management assesses the adequacy of the allowance for loan losses and the need for any addition thereto, by considering the nature and size of the loan portfolio, overall portfolio quality, review of specific problem loans, economic conditions that may affect the borrowers' ability to pay or the value of property securing loans, and other relevant factors. While management believes the current allowance is adequate, changing economic and market conditions may require future adjustments to the allowance for loan losses.

The following table summarizes the change in impaired loans for the nine months ended September 30, 2008 (dollars in thousands):

Impaired loans at December 31, 2007	$ 17,960
Added to impaired loans	60,974
Gross loans transferred to foreclosed real estate	(13,494)

Paid off prior to foreclosure	(8,139)
Impaired loans at September 30, 2008	$ 57,301

Included in the above impaired loans amount at September 30, 2008 is $13,532,000 of loans that are not in non-accrual status. In addition, there was a total of $52,862,000 of residential real estate loans included in impaired loans at September 30, 2008, of which $28,802,000 were to consumers and $24,060,000 to builders. Impaired loans are individually reviewed by management to determine their estimated fair market value, and a specific reserve is established, if necessary, for the difference between the original carrying value of any loan and its estimated fair market value.

As of September 30, 2008, the Company had foreclosed real estate consisting of 23 residential properties with a carrying value of $8,506,000. During the nine month period ended September 30, 2008, the Company sold a total of 11 properties previously included in foreclosed real estate. The properties had a combined net book value of $4,663,000 after total write-downs of $108,000, and were sold at a combined net gain of $259,000. In addition, the Company incurred $84,000 in expenses related to the sale of the properties. The following table summarizes the changes in foreclosed real estate for the nine months ended September 30, 2008, (dollars in thousands):

Foreclosed real estate at December 31, 2007	$	2,993
Transferred from impaired loans, net of specific reserves of $2,799		10,695
Property improvements		92
Property sold		(4,663)
Additional write downs		(611)
Foreclosed real estate at September 30, 2008	$	8,506

Liquidity

The Company’s liquidity is determined by its ability to raise funds through several sources including borrowed funds, capital, deposits, loan repayments, maturing investments, and the sale of loans. Based on the internal and external sources available, the Company’s liquidity position exceeded anticipated short-term and long-term needs as of September 30, 2008. Additionally, loan payments, maturities, deposit growth and earnings contribute a flow of funds available to meet liquidity requirements.

In assessing its liquidity, the management of the Company considers operating requirements, anticipated deposit flows, expected funding of loans, deposit maturities and borrowing availability, so that sufficient funds may be available on short notice to meet obligations as they arise so that the Company may take advantage of business opportunities.

Management believes it has sufficient cash flow and liquidity to meet its current commitments through the next 12 months. Certificates of deposit, which are scheduled to mature in less than one year, totaled $464,857,000 at September 30, 2008. Based on past experience, management believes that a significant portion of such deposits will remain with the Company. At September 30, 2008, the Company had commitments to originate loans of $36,527,000, unused lines of credit of $34,409,000, and commitments under standby letters of credit of $11,623,000. The Company has the ability to reduce its commitments for new loan originations, adjust other cash outflows, and borrow from FHLB Atlanta should the need arise. As of September 30, 2008, outstanding FHLB Atlanta borrowings totaled $153,000,000, and the Company had available to it an additional $132,470,000 in borrowing availability from FHLB Atlanta.

Net cash provided by operating activities decreased $864,000 to $8,084,000 for the nine months ended September 30, 2008, compared to $8,948,000 for the same period in 2007. This decrease was primarily the result of lower net income and lower proceeds from loans sold to others in 2008. Net cash provided by investing activities increased $38,753,000 to $1,022,000 for the nine months ended September 30, 2008, compared to net cash used of $37,731,000 for the same period in 2007. This increase was primarily due to less cash used to fund loan growth and higher proceeds from the sale of foreclosed property during the nine months ended September 30, 2008, compared to the same period in 2007. Net cash from financing activities decreased by $27,411,000 to cash used of $1,923,000 for the nine months ended September 30, 2008, compared to cash provided of $25,488,000 for the same period in 2007. This decrease was primarily due to increased repayments of borrowings from FHLB Atlanta partially offset by deposit growth.

Federal Home Loan Bank of Atlanta Line of Credit

The Bank has an available line of credit, secured by various loans in its portfolio, in the amount of thirty percent (30%) of its total assets, with the FHLB Atlanta. As of September 30, 2008, the total available line of credit with the FHLB Atlanta was approximately $288 million, of which $153 million was outstanding. The Bank, from time to time, utilizes the line of credit when interest rates are more favorable than obtaining deposits from the public. The following table sets forth information concerning the interest rates and maturity dates of the advances from the FHLB Atlanta as of September 30, 2008 (dollars in thousands):

Principal Amount	Rate	Maturity
$ -	-	2008
28,000	2.940% to 4.996%	2009
10,000	5.00%	2010
-	-	2011
-	-	2012
115,000	2.364% to 4.340%	Thereafter
$ 153,000		

Junior Subordinated Debt Securities Due 2035

As of September 30, 2008, the Company had outstanding $20,619,000 principal amount of Junior Subordinated Debt Securities Due 2035 (the “2035 Debentures”). The 2035 Debentures were issued pursuant to an Indenture dated as of December 17, 2004 (the “2035 Indenture”) between the Company and Wells Fargo Bank, National Association, as Trustee. The 2035 Debentures pay interest quarterly at a floating rate of interest of LIBOR (2.7654% at September 30, 2008) plus 200 basis points, and mature on January 7, 2035. Payments of principal, interest, premium and other amounts under the 2035 Debentures are subordinated and junior in right of payment to the prior payment in full of all senior indebtedness of the Company, as defined in the 2035 Indenture. The 2035 Debentures are first redeemable, in whole or in part, by the Company on January 7, 2010.

The 2035 Debentures were issued and sold to Severn Capital Trust I (the “Trust”), of which 100% of the common equity is owned by the Company. The Trust was formed for the purpose of issuing corporation-obligated mandatorily redeemable Capital Securities (“Capital Securities”) to third-party investors and using the proceeds from the sale of such Capital Securities to purchase the 2035 Debentures. The 2035 Debentures held by the Trust are the sole assets of the Trust. Distributions on the Capital Securities issued by the Trust are payable quarterly at a rate per annum equal to the interest rate being earned by the Trust on the 2035 Debentures. The Capital Securities are subject to mandatory redemption, in whole or in part, upon repayment of the 2035 Debentures. The Company has entered into an agreement which, taken collectively, fully and unconditionally guarantees the Capital Securities subject to the terms of the guarantee.

Private Placement Offering

As previously reported, the Company is in the process of raising additional capital through a private offering of units, consisting of shares of Series A 8.0% Non-Cumulative Convertible Preferred Stock ("Series A Preferred Stock") of the Company and a redeemable 8% Subordinated Note of the Company in the original principal amount of $50,000, to raise gross proceeds of between $10.0 million and $25.0 million. The Company intends to use the net proceeds from the sale of the units for general corporate purposes, including one or more of the following:

- contribution to the Bank (including investment in equity or subordinated indebtedness of the Bank) to fund its operations or provide additional capital for regulatory purposes,
- possible repayment of indebtedness of the Bank or the Company, and
- other general corporate purposes.

The units are being sold only to “accredited investors” as defined in Regulation D of the Securities Act of 1933, as amended (the “Securities Act”), pursuant to exemptions from registration requirements contained in the Securities Act, including Regulation D and the securities laws of certain states.

The Company has extended the offering through November 15, 2008, and reserves the right to modify, postpone or cancel the offering described above in its sole and absolute discretion.

The units and underlying Subordinated Notes, Series A Preferred Stock and Common Stock into which the Series A Preferred Stock is convertible have not been registered with the Securities and Exchange Commission or the securities commission of any state and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Effects of Inflation

The consolidated financial statements and related consolidated financial data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America and practices within the banking industry which require the measurement of financial condition and operating results in terms of historical dollars, without considering the changes in the relative purchasing power of money over time due to inflation. Unlike industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution’s performance than the effects of general levels of inflation.

Average Balance Sheet

The following table presents the Company’s distribution of the average consolidated balance sheets and net interest analysis for the nine months ended September 30, 2008 and September 30, 2007:

	Nine Months Ended September 30, 2008			Nine Months Ended September 30, 2007		
	Average Balance	Interest	Rate Annualized	Average Balance	Interest	Rate Annualized
			(dollars in thousands)			
ASSETS						
Loans (1)	$891,045	$47,271	7.07%	$847,303	$52,990	8.34%
Investment securities(2)	1,368	56	5.46%	5,774	171	3.95%
Other interest-earning assets (3)	20,682	613	3.95%	19,859	1,040	6.98%
Total interest-earning assets	913,095	47,940	7.00%	872,936	54,201	8.28%
Non-interest earning assets	49,567			52,268		
Total assets	$962,662			$925,204		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Savings and checking deposits	$119,170	1,495	1.67%	$134,039	2,420	2.41%
Certificates of deposit	550,233	18,305	4.44%	506,884	19,389	5.07%
Short-term borrowings	2,222	62	3.72%	11,111	407	4.88%
Long-term borrowings	168,444	5,659	4.48%	153,889	6,061	5.25%
Total interest-bearing liabilities	840,069	25,521	4.05%	808,923	28,277	4.66%
Non-interest bearing liabilities	25,077			25,403		
Stockholders' equity	97,516			90,878		
Total liabilities and stockholders’ equity	$962,662			$925,204		
Net interest income and interest rate spread		$22,419	2.95%		$25,924	3.62%
Net interest margin			3.27%			3.96%
Average interest-earning assets to average interest-bearing liabilities			108.69%			107.91%

(1) Non-accrual loans are included in the average balances and in the computation of yields.

(2) The Company does not have any tax-exempt securities.

(3)

Other interest-earning assets includes interest-bearing deposits in other banks, federal funds sold and FHLB stock investments.

Off-Balance Sheet Arrangements

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statement of financial position. The contract amounts of these instruments express the extent of involvement the Company has in each class of financial instruments.

The Company's exposure to credit loss from non-performance by the other party to the above mentioned financial instruments is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The credit risk involved in these financial instruments is essentially the same as that involved in extending loan facilities to customers. No amount has been recognized in the statement of financial condition at September 30, 2008 as a liability for credit loss.

Off-balance sheet financial instruments whose contract amounts represent credit and interest rate risk are summarized as follows (dollars in thousands):

Financial Instruments Whose Contract Amounts Represent Credit Risk	Contract Amount At September 30, 2008
Standby letters of credit	$11,623
Home equity lines of credit	$22,260
Unadvanced construction commitments	$58,306
Loan commitments	$14,268
Lines of credit	$34,409
Loans sold with limited repurchase provisions	$2,678

Recent Accounting Pronouncements

For information concerning recent accounting pronouncements, see Note 10 to the Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in market risk since December 31, 2007, as reported in the Company's Form 10-K filed with the SEC on March 12, 2008.

Item 4. Controls and Procedures

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2008. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2008, the Company's disclosure controls and procedures were effective in reaching a reasonable level of assurance that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is accumulated and communicated to its management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Item 4T. Controls and Procedures

Not applicable.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

There are various claims pending involving the Company, arising in the normal course of business. Management believes, based upon consultation with legal counsel, that liabilities arising from these proceedings, if any, will not be material to the Company’s financial condition and results of operations.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, “Item 1A. Risk Factors” in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 as well as the risk factors described in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2007, because if any of the risks actually occur, the Company’s business, financial condition or results of operations could be materially and adversely affected. The Risk factors in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 have not materially changed. The risks described in our Quarterly Reports on Form 10-Q and Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operation. This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The Company’s actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by the Company described in the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 and Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

SEVERN BANCORP, INC.

November 6, 2008	_Alan J. Hyatt___________________________ Alan J. Hyatt, Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
November 6, 2008	_Thomas G. Bevivino______________________ Thomas G. Bevivino, Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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Exhibit Index

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31.2	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002