

Business

Severn Bank looks for compromise on sensitive property lending

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Severn Bancorp Inc. will do its best to find common ground with environmental advocates on its lending policies for property near the Chesapeake Bay, officials said, after a proposal to curtail such lending was defeated at the company's annual meeting.

South Arundel Citizens for Responsible Development, a local nonprofit, used its 100 shares in the company to introduce a resolution that could have stopped the Annapolis-based parent company of Severn Savings Bank from financing developments that fall within a protected area around the Chesapeake Bay.

The resolution — introduced at the meeting last week — was not filed in time to become part of the official schedule, and did not pass. Still, the two groups have agreed to meet to discuss the bank's lending, as it relates to the bay, furthering the debate over how executives should consider environmental and social effects when making strategic decisions.

"Your obligation as a manager and a director is to maximize shareholder value. A social issue is not your bailiwick," said Charles Elson, director of the John L. Weinberg Center for Corporate Governance at the University of Delaware. "People invest in a bank to make a profit on their investment."

He said corporate ballots often become a platform for wider discussion of an issue.

Alan Hyatt, chairman and president of Severn, said the company realizes the value of good corporate citizenship, and tries to make it clear that it cares about the environment. The company rewards customers who open a new line of checking accounts by donating to the Chesapeake Bay Foundation, and installed

a “green roof,” which reduces runoff, on its new headquarters that opened last year.

“We think it’s a good idea to do something to give back,” he said. “We hope people recognize that this is a good organization and we hope that they do business with us.”

Mike Shay, vice president and founding member of the Citizens for Responsible Development, said that is one of the reasons the nonprofit approached Severn. Many companies succeed based on their commitment to environmental or socially responsible ethics, he said.

“[Severn] has framed their corporate image to be responsive to the community, and to entertain environmental concerns,” said Shay. “As such, we’re hoping to work with them to further their environmental sensitivity to the community.”

Still, Hyatt said executives have to keep in mind that they are responsible to shareholders, most of whom are largely interested in a company’s capital performance. He said an outright prohibition on making loans in the “critical area” around the bay would not give the bank very much flexibility in a county with geography like Anne Arundel County, and could put it at a disadvantage.

“Not making loans in the critical area, all that’s going to do is prevent this bank from taking advantage of legitimate business opportunities while other people make the loans,” Hyatt said.

Shay said an agreement between the two groups would be a “unique and historic” collaboration of local entities.

“I think that this bank, in choosing the high road, will find rewards by community patronage of their bank if seen as an environmental partner in our community,” he said.

Hyatt said the bank may consider giving special review to environmental effects of some loans.

“We may at least agree to scrutinize projects that we finance for environmental viability,” he said. “It’s not beyond our ability to do that.”

About 160 financial institutions around the country and the world have signed onto a United Nations Environmental Programme statement, which recognizes environmental effects as a part of the evaluation process for loans.

Several institutions that operate in the area have signed on to that agreement, including the Bethesda-based, socially responsible investment company Calvert

Group Ltd., Bank of America Corp., Wachovia Corp., JP Morgan Chase & Co., American International Group Inc. and Citigroup.