



PUBLIC DISCLOSURE

May 9, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

CornerStone Bank, National Association
Charter Number 24859

54 South Main Street
Lexington, Virginia 24450

Office of the Comptroller of the Currency
Roanoke Field Office
4419 Pheasant Ridge Road
Suite 300
Roanoke, Virginia 24014

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 major factors supporting the institution's rating include:**

- The bank's quarterly average net loan-to-deposit (LTD) ratio is excellent based on the bank's size, financial condition, area credit needs, and relevant competitive factors.
- A majority of the bank's loans were made inside its assessment area (AA).
- The distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes.

SCOPE OF EXAMINATION

CornerStone Bank, N.A. (CornerStone) was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. The evaluation period for the Lending Test covers the bank's performance from January 1, 2013 through December 31, 2015.

Information regarding the bank's financial performance was as of December 31, 2015, whereas information regarding the bank's deposit market share within its AA was as of June 30, 2015.

We analyzed bank-generated reports of loan origination data from January 1, 2013 through December 31, 2015. Based on this analysis, we determined the bank's primary loan products to be Home Mortgage and Small Business Loans based on the percentage of total number of loans originated during the evaluation period. The products were chosen based on the highest percentages originated by both dollar and number. Although consumer loans accounted for 38.92 percent of the loans originated by number, they comprised only 10.48 percent of the loans originated by dollar amount. Please refer to **Table 1** for loan origination data for each loan type during the evaluation period.

Table 1 – Loan Originations in Evaluation Period		
Type	% by Dollar	% by Number
Business Loans	48.35	32.36
Mortgage Loans	32.38	27.92
Consumer Loans	10.48	38.92
Farm Loans	4.50	0.44
Multi-family Loans	4.29	0.36
Total	100.00	100.00

Source: Bank-generated reports for evaluation period.

DESCRIPTION OF INSTITUTION

The bank opened February 17, 2009 and is an intrastate bank headquartered in Lexington, Virginia. The bank has no affiliate relationships and was not involved in any merger or acquisition activity during the review period. The bank is not located in a low- or moderate-income area, or an agency-designated underserved/distressed nonmetropolitan middle-income census tract (CT), or in a major disaster area.

The bank is a full service community bank serving the County of Rockbridge and the independent cities of Lexington and Buena Vista, all located in central Virginia. The bank has two full service locations. The main office location has an automated teller machine (ATM) that accepts deposits and is located in the city of Lexington, which is an upper-income census tract. The branch location also has an ATM that accepts deposits and is located in Rockbridge County. There is one additional ATM at a stand-alone location that does not accept deposits. The branch location and the stand-alone ATM locations are in middle-income census tracts. The bank did not open or close any branches during the review period.

The bank offers a variety of deposit and loan products to meet consumer and commercial banking needs. The website, www.cornerstonebankva.com, provides information on products and services for both consumers and businesses. Banking services are standard and include online banking. The bank's business strategy primarily targets commercial loans and residential real estate loans, and consumer credits.

As of March 31, 2016, the bank had total assets of \$127.4 million and Tier One Capital plus the Allowance for Loan and Lease Losses of \$13.5 million. Gross loans were \$103.3 million, or 81.14 percent of total assets. **Table 2** depicts the loan portfolio by percentage of loan product as of March 31, 2016.

Table 2. Loan Portfolio by Loan Product	
Loan Product Category	Percent of total loans
Commercial /Commercial Real Estate	44.11
1-4 Family Residential Mortgage	35.75
Construction & Land Development	10.36
Secured by Farmland /Agricultural	3.93
Multi-family Residential	3.03
Consumer	2.81
All Other	0.01
Total	100.00

Source: Data obtained from the Uniform Bank Performance Report for the quarter ended March 31, 2016, Page 7A.

Banking competition in the AA is moderate. The June 30, 2015 FDIC Deposit Market Share Report ranks CornerStone second out of nine institutions in the AA. The bank has one office and holds 15.37 percent of the market share. Branch Banking & Trust Company (BB&T) ranks first with five offices and 28.64 percent; Wells Fargo Bank, N.A. ranked third with one office and 12.37 percent; Carter Bank & Trust ranked fourth with

one office and 10.23 percent; and Bank of Botetourt ranked fifth with three offices and 11.22 percent. The bank’s primary competition comes from BB&T, Bank of Botetourt and Carter Bank and Trust.

During the evaluation period, there were no legal, financial, or other factors impeding the bank’s ability to help meet the credit needs of its assessment areas. The bank received a “Satisfactory” rating in its November 2011 CRA Performance Evaluation.

DESCRIPTION OF ASSESSMENT AREA

Rockbridge County VA non-MSA AA (Rockbridge AA)

TABLE 3. Demographic Information for Full Scope Area: Rockbridge AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	6	0.00	0.00	66.67	33.33
Population by Geography	35,999	0.00	0.00	62.57	37.43
Owner-Occupied Housing by Geography	9,984	0.00	0.00	66.58	33.42
Business by Geography	2,550	0.00	0.00	54.24	45.76
Farms by Geography	197	0.00	0.00	68.02	31.98
Family Distribution by Income Level	9,368	17.19	17.45	19.56	45.80
Distribution of Low and Moderate Income Families throughout AA Geographies	3,245	0.00	0.00	76.73	23.27
Median Family Income		\$48,460	Median Housing Value		\$185,403
HUD Adjusted Median Family Income for 2015		\$52,700	Unemployment Rate (Bureau of Labor Statistics March 2016)		
Households Below Poverty Level		17%			4.0%

Source: 2010 US Census and 2015 HUD updated MFI

The bank has one AA located near the central portion of Virginia. This non-metropolitan AA includes Rockbridge County and the independent cities of Buena Vista and Lexington. The AA consists of six CTs and has no low- or moderate-income tracts. The two upper-income CTs include the city of Lexington and the CT to the south of Lexington. A substantial portion of the AA includes three large, middle-income CTs that comprise rural areas of Rockbridge County. The fifth middle-income CT comprises the city of Buena Vista, which is a small geographic portion of the AA. None of the tracts were designated as distressed or underserved non-metropolitan middle-income geographies. This AA meets the regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. Please refer to **Table 3** for demographic data on the AA.

The independent cities of Lexington and Buena Vista are located within Rockbridge County. The independent city of Lexington is the county seat of Rockbridge County and is the largest city in the AA. Virginia Military Institute, which is the nation’s first military school, and Washington and Lee University, are located in Lexington. The independent

city of Buena Vista is located approximately six miles east of Lexington and is home to Southern Virginia University.

Rockbridge County has a diversified economy with strong manufacturing, trade, services and agricultural sectors. The top industries of employment in the AA are retail trade, manufacturing, government services, and accommodation and food services. The top employers in the AA according to the Virginia Employment Commission, are Mohawk Esv Incorporated, Rockbridge County Schools, Wal*Mart, the County of Rockbridge, and White's Truck Stop.

The Shenandoah Valley Small Business Development Center, established by James Madison University, is available to assist potential and current business owners with starting a business, business expansions, and business growth. This organization is a valuable resource in the AA. The 2015 Business Geodemographic data reported there are 2,550 businesses in the AA, of which 79.73 percent reported gross annual revenues of less than or equal to \$1 million; and 82.38 percent had less than 10 employees.

In 2013, the County, in cooperation with the Cities of Lexington and Buena Vista, Washington and Lee University and the federal government, completed a \$10 million dollar broadband infrastructure project, extending fiber optic service to many areas which had been previously underserved.

We obtained current unemployment rates for the AA from the U. S. Bureau of Labor Statistics. As of March 31, 2016, the unemployment rate in Rockbridge County was 5.2 percent, the city of Lexington was 7.0 percent, and the city of Buena Vista was 6.1 percent, which are all above the Virginia statewide average of 4.0 percent and the national average of 5.0 percent.

The financial institutions are active in the community and compete aggressively for opportunities. A community contact indicated there was a need for down payment assistance for potential homebuyers; and there were opportunities to work with USDA Rural Development. The contact did not express any criticisms regarding local financial institutions' involvement in the region. The contact stated that the banks are very responsive and easy to work with.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the lending test is rated "Satisfactory". The loan-to-deposit ratio is reasonable. A majority of the loans are located inside the AA. The borrower distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes.

Loan-to-Deposit Ratio

The bank's average quarterly LTD ratio is reasonable based on the bank's size, financial condition, area credit needs, and relevant competitive factors. The bank's average quarterly LTD ratio meets the standards for satisfactory performance.

The bank's average quarterly LTD ratio for the 17 quarters (December 31, 2011 through December 31, 2015) since the previous CRA evaluation is 88.87 percent. The bank's quarterly LTD ratio ranged from a high of 93.37 percent at June 30, 2015 to a low of 78.50 percent at December 31, 2013. Competitor institutions reported an average quarterly LTD ratio of 77.79 percent with a low average quarterly LTD ratio of 50.62 percent and a high average quarterly LTD ratio of 93.55 percent.

Lending in Assessment Area

The bank originated a majority of its loans inside the AA. We determined from the loan sample of mortgage loans and business loans that 57.50 percent of loans originated in the evaluation period were located inside the AA. We placed more emphasis on number of loans rather than dollars of loans, because number provides a better picture of lending activity inside and outside of the bank's AA. **Table 4** provides the detail of loan originations inside and outside the AA.

TABLE 4 - Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	11	55.00	9	45.00	20	2,238	58.31	1,600	41.69	3,838
Business	12	60.00	8	40.00	20	1,957	29.14	4,760	70.86	6,717
Totals	23	57.50	17	42.50	40	4,195	39.74	6,360	60.26	10,555

Source: Loan Sample

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

The borrower distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes and meets the standard for satisfactory performance.

Home Mortgage Loans

The distribution of loans to borrowers of different incomes reflects reasonable penetration among individuals of different income levels, given the demographics of the Rockbridge AA.

To evaluate the bank's performance in the AA we used the sample of home mortgage loans originated in the AA during the evaluation period.

As indicated in the table below, the percentage of loans to low-income borrowers is significantly below the percentage of low-income families in the AA. The percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. Please refer to **Table 5** for the facts and data used to evaluate the borrower distribution of the bank’s home mortgage loan originations and purchases in the Rockbridge AA.

While the bank does not meet the standard for home loans to low-income families when compared to the demographic comparators in the table below, we gave consideration to several factors impacting the AA. The weighted average median cost of housing in the AA is \$185,403. According to the 2015 HUD data, the median family income is \$52,700 with low-income families earning \$26,349 or less and moderate-income families earning from \$26,350 to \$42,159. According to the 2010 U.S. Census data, 16.60 percent of households are below the poverty level. These factors limit the opportunities for banks to originate home loans to low- and moderate-income borrowers. Another factor that limits the opportunity to generate home mortgage loans is that 25.84 percent of the total housing units in the AA are rental units with an average monthly gross rent of \$636, making renting versus buying in the AA an attractive choice.

Table 5 shows the distribution of residential mortgage loans among different income levels for the evaluation period as compared to the percent of families in each category.

TABLE 5 - Borrower Distribution of Residential Real Estate Loans in the Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
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
Home Loans	17.19	0.00	17.45	30.00	19.56	0.00	45.80	70.00

Source: Loan Sample; 2010 U.S. Census data.

Business Loans

The bank’s record of originating business purpose loans among the Rockbridge AA businesses of different sizes reflects reasonable penetration considering the demographic context in which the bank operates.

To evaluate the bank’s performance in the AA we used the sample of business purpose loans originated in the AA during the evaluation period.

The distribution of borrowers reflects good penetration among businesses of different sizes. As indicated in **Table 6** below, the percentage of loans to small businesses (those with less than \$1 million in gross annual revenues) is near to the percentage of small businesses in the Rockbridge AA.

TABLE 6 - Borrower Distribution of Loans to Businesses in the Assessment Area				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Businesses	79.73	3.02	17.25	100.00
% of Bank Loans in AA by #	70.00	20.00	10.00	100.00
% of Bank Loans in AA by \$	82.97	16.32	0.71	100.00

Source: Loan Sample; Dun and Bradstreet Data

Geographic Distribution of Loans

There are no low-, or moderate-income CTs in the AA. The income distribution of geographies in the AA is not sufficient for a meaningful analysis of the geographic dispersion of the bank's loans in its AA.

Responses to Complaints

The bank received no complaints regarding its performance in helping to meet the credit needs of the AA during the evaluation period. This has a neutral impact on the CRA rating.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA 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.