



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**October 26, 2006**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Cornerstone National Bank  
Charter Number 23870**

**1670 East Main Street  
Easley, South Carolina 29642**

**Comptroller of the Currency  
Carolinas (Charlotte)  
6100 Fairview Road Suite 1154  
Charlotte, NC 28210**

**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*.**

Cornerstone National Bank's performance rating is supported by the following factors:

- A reasonable loan-to-deposit ratio;
- A substantial majority of loans are in the assessment area;
- Reasonable distribution of loans to borrowers of different income levels within the assessment area;
- Reasonable distribution of loans to businesses of different sizes, particularly to small businesses;
- Reasonable geographic distribution of loans in the assessment area; and,
- No complaints were received during this evaluation period.

## **SCOPE OF EXAMINATION**

This Performance Evaluation assesses Cornerstone National Bank's (CNB) capacity to help meet the credit needs of the community in which it operates. The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area (AA) through its lending activities. We assessed the bank's performance by reviewing a sample of loans from its two primary loan products, Commercial and Residential Mortgage loans originated between January 1, 2004 and June 30, 2006. Consumer loans are not a primary product and were not reviewed during this evaluation period and there are no agricultural related loans. We used the 2000 United States (U.S.) Census demographic information that included the revised MSA boundaries and definitions established by the Office of Management Budget.

One community contact was conducted for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining the performance of local financial institutions. The contact indicated that affordable housing is a growing need in the market, both purchase as well as rental housing. According to the community contact, current demand for home sales have declined as individuals are concerned about economy and that there is more demand for affordable rental housing. The contact indicated that major regional banks have assisted with financing in the market. The contact feels that banks could assist by providing mortgages, training programs and counseling classes for first time homebuyers, and/or by providing operating grants.

## DESCRIPTION OF INSTITUTION

CNB is an intrastate institution headquartered in Easley, South Carolina (SC) with three full service banking locations. It commenced operations in September 1999 with the opening of its main office in Pickens County, located in Easley, SC, a middle-income census tract (#108.04). In August 2002, it opened its second banking office (Berea area) in Greenville County, Greenville, SC, a moderate-income census tract (#37.02). A third office (Powdersville area) opened in July 2005 in Anderson County, Piedmont, SC, an upper-income census tract (#101.02). The last two offices were opened during the evaluation period, adding ninety census tracts (CT) to the bank's AA. CNB is wholly owned by a single bank holding company, Cornerstone Bancorp (CB), also located in Easley, SC. CB reported total assets of \$121 million as of June 30, 2006 and \$113 million as of December 31, 2005.

CNB offers a variety of products and services which include drive-up facilities and automated teller machine access at all of the branches as well as telephone and internet-banking services with 24-hour access to customer account information. It provides internet-banking access at [www.cornerstonenatbank.com](http://www.cornerstonenatbank.com). Services include account balance inquires, funds transfer, and bill pay services.

CNB offers a variety of lending programs with a primary focus on commercial lending, and to a lesser extent, residential real estate lending. Although it does not offer thirty-year term residential real estate mortgages; they offer their customers access to non-affiliated mortgage lenders with home mortgage applications processed through the bank. Furthermore, the majority of residential real estate loans originated by the bank were non-owner occupied properties. Business lending represents seventy-six percent of the total loan portfolio with the remaining twenty-four percent in consumer lending. This is consistent with the institution's overall strategic goals and objectives. There are no financial circumstances or legal impediments, other than legal lending limits, which would adversely impact the bank's ability to meet the credit needs of its assessment area. CNB's rating at its preceding Community Reinvestment Act (CRA) examination, dated March 19, 2001, was Satisfactory.

The following table highlights the composition of the bank's loan portfolio:

<b>Distribution of Loan Portfolio</b>		
<b>Loan Type</b>	<b>Dollars of Loans (\$000s)</b>	<b>% by Dollars of Loans</b>
<i>Commercial Real Estate including Commercial &amp; Industrial</i>	\$65,378	73.67%
Non-farm Non-residential Properties	\$27,727	
Construction and Land Development	\$22,763	
Commercial and Industrial	\$14,888	
<i>Residential Real Estate, including Multifamily</i>	\$21,069	23.74%
Secured by 1-4 Family Residential by 1 <sup>st</sup> liens	\$14,941	
Secured by 1-4 Family Residential by junior liens	\$ 189	
Secured by 1-4 Family Residential, open-end	\$ 3,691	
Secured by Multifamily (5 or more) Residential	\$ 2,248	
<i>Consumer</i>	\$2,302	2.59%
<i>Total</i>	\$88,749	100%

*Source: Consolidated Report of Condition & Income (June 2006)*

## **DESCRIPTION OF ASSESSMENT AREA**

CNB's assessment area (AA) meets the technical requirements of the CRA and does not arbitrarily exclude low- and moderate-income census tracts. The defined AA consists of Greenville, Pickens, and Anderson Counties. Greenville and Pickens County are a part of the Greenville Metropolitan Statistical Area (GP-MSA #24860). Anderson County is part of the Anderson Metropolitan Statistical Area (A-MSA#11340). All three counties are a part of the Greenville-Anderson-Seneca Combined Statistical Area. The AA includes one hundred and fifty census tracts. The bank's GMSA AA has five low-, twenty-eight moderate-, fifty-seven middle-, and twenty-six upper-income census tracts. Its AMSA AA has no low-, six moderate-, twenty-three middle-, four upper-income census tracts, and one tract that is not classified.

According to the 2000 U.S. Census, the total population of this defined AA is 656,113. The GP-MSA AA has a total population of 490,373 people, an increase of 18% from 1990 to 2000. The A-MSA AA has a total population of 165,740, an increase of 14.2% from 1990 to 2000. The census median family income for the GP-MSA AA is \$47,387 and \$44,322 for the A-MSA AA. The Department of Housing and Urban Development's (HUD) 2005 updated median family income estimate for the GP-MSA AA is \$55,900 and \$52,000 for the A-MSA AA.

Competition in the AA is strong and includes many financial options. As of June 30, 2006, the Federal Deposit Insurance Corporation (FDIC) reported thirty-four financial institutions, with two hundred and fifty-six offices, operate in the AA. The FDIC's deposit market share report, for the same time period, reflects thirty-one banks, with two hundred and eleven total offices, operate in the Greenville MSA and seventeen banks, with sixty-two offices, operating in the Anderson MSA. These bank's held over twelve billion dollars in deposits. CNB's market share of this deposit base was less than one percent. Five regional banks held over sixty-six percent of the market share in the Greenville MSA and fifty-five percent in the Anderson MSA. Non-bank institutions offer additional financial services. Major competitors also include offices/branches of large, regional and local community banks.

### ***Greenville-Pickens MSA AA***

Greenville and Pickens Counties are located in the northwestern region of SC, with the city of Greenville as the county seat and the latest city in the county. These counties are part of the Greenville South Carolina Metropolitan Statistical Area. They were formerly a part of the Greenville-Spartanburg-Anderson MSA; however, metropolitan area designations changed as a result of the 2000 U.S. Census. The Greenville MSA also includes Laurens and Pickens County.

Greenville County's population has grown moderately over the past decade. According to the 2000 U.S. Census, the population of Greenville County grew by 18.6 percent to 379,616. Pickens County's population grew by nearly 18 percent to 110,757. Manufacturing, government, and retail services primarily supports the local economy. The five largest employers in Greenville County are Greenville Hospital System, School District of Greenville County, South Carolina State Budget and Control Board, General Electric Company, and Saint Francis Health System. The five largest employers in Pickens County are Clemson University, State of South Carolina, School District of Pickens County, and Palmetto Baptist Medical

Center.

The 2000 U.S. Census report shows Greenville County as being comprised of five low-, twenty-four moderate-, thirty-eight middle-, and twenty-three upper-income census tracts. It shows Pickens County as having no low-income, four moderate-income, nineteen middle-income, and three upper-income CT. Of the two banking offices located in Greenville County, one is located in a middle- and the other is in a moderate-income geography.

The following table highlights the demographic composition of the bank's Greenville-Pickens MSA AA:

<b>Demographic and Economic Characteristics of Pickens-Greenville AA</b>	
<i>Population</i>	490,373
Number of Families	131,280
Number of Households	191,041
% Owner-Occupied	63%
% Occupied Rentals	28%
% Vacant	9%
<i>Geographies</i>	
Number of Census Tracts	116
% Low-Income Census Tracts	4.31%
% Moderate-Income Census Tracts	24.14%
% Middle-Income Census Tracts	49.14%
% Upper-Income Census Tracts	22.41%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$47,387
2005 HUD-Adjusted MFI	\$55,900
<i>Economic Indicators</i>	
Unemployment Rate*: Greenville MSA	6.0%
Unemployment Rate*: Greenville County	5.6%
Unemployment Rate*: Pickens County	7.3%
South Carolina Unemployment Rate*	6.7%
2005 Median Housing Value	\$103,316
% of Households Below Poverty Level	11%

Table 2 - Source: 2000 U.S. Census Data; U.S. Department of Labor (June 2006)

### ***Anderson MSA AA***

Anderson County is located approximately half way between Atlanta, Georgia, and Charlotte, North Carolina, along U.S. Interstate 85 in the Piedmont Plateau section of Northwestern South Carolina. Anderson County is approximately 220 miles inland in the foothills of the Blue Ridge Mountains. Anderson County's population has grown moderately over the past decade. County population increased by 14.2 percent to 165,740. Anderson County is part of the Anderson MSA, formerly a part of the Greenville-Spartanburg-Anderson MSA. The change in metropolitan area designation occurred as a result of the 2000 Census. The City of Anderson, and county seat, is the largest township in the County.

Anderson's economy revolves around manufacturing. The top major industries in Anderson include manufacturers of automotive products, metal products, industrial machinery, plastics, publishing and textiles. The five largest employers in the county by facility are AnMed Health, Anderson County School District, Electrolux Home Products, State of SC Budget and Control, and Robert Bosch Corporation. The major manufacturing employers are Electrolux, Robert Bosch Corporation, and Michelin North America Incorporated.

According to the 2000 U.S. Census, Anderson County is comprised of no low-income, six moderate-income, twenty-three middle-income, four upper-income census tracts, and one tract is not classified. CNB has one office in an upper-income census tract and it is not near moderate-income tracts. With the distance of the branch from the five moderate-income tracts, CNB's lending opportunity would be somewhat limited.

The following table highlights the demographic composition of the bank's Anderson MSA AA:

<b>Demographic and Economic Characteristics of Anderson SC MSA</b>	
<i>Population</i>	165,740
Number of Families	47,518
Number of Households	65,690
% Owner-Occupied	68%
% Occupied Rentals	21%
% Vacant	10%
<i>Geographies</i>	
Number of Census Tracts	34
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	17.65%
% Middle-Income Census Tracts	67.65%
% Upper-Income Census Tracts	11.76%
% Unclassified Census Tracts	2.94%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$44,322
2005 HUD-Adjusted MFI	\$52,000
<i>Economic Indicators</i>	
Unemployment Rate*: Anderson MSA	7.8%
South Carolina Unemployment Rate*	6.7%
2005 Median Housing Value	\$82,839
% of Households Below Poverty Level	13%

*Source: 2000 U.S. Census Data; U.S. Department of Labor (June 2006)*

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank's performance under the Lending Test is rated "Satisfactory". Based on a full-scope review, the bank's performance in the Greenville-Pickens MSA AA and Anderson MSA AA is satisfactory.

### *Loan-to-Deposit Ratio*

CNB's average loan-to-deposit ratio is reasonable considering the size of the bank and the competition in the AA. Since our last CRA examination in March 2001, the bank's average quarterly loan-to-deposit ratio is 83.08 percent, which compares favorably to bank's of similar size throughout the national at 80.91 percent for the same time period. Although the bank faces strong competition in its AA, none of the bank's competitors are considered similarly situated, particularly in terms of length of time in business, asset size, and operating history.

### *Lending in Assessment Area*

CNB's lending levels reflect a satisfactory responsiveness to community credit needs. Our analysis revealed a substantial majority of the number and dollar amount of residential mortgage loans and business loans evaluated were originated within the bank's AA. Our review included a sample of 84 loans (commercial, commercial real estate, and residential real estate) and revealed that 95.24 percent in number and 95.12 percent in dollar volume are made in Cornerstone NB's AA. Performance for each category reviewed is detailed in the following table:

<b>Assessment Area Lending (Evaluation Period January 2004 to June 2006)</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage Loans	51	94.44%	3	5.56%	54	\$3,511	91.05%	\$345	8.95%	\$3,856
Commercial Loans	29	96.67%	1	3.33%	30	\$4,222	98.83%	\$50	1.18%	\$4,246
<b>Totals</b>	<b>80</b>	<b>95.24</b>	<b>4</b>	<b>4.76%</b>	<b>84</b>	<b>\$7,733</b>	<b>95.14%</b>	<b>\$395</b>	<b>4.88%</b>	<b>\$8,102</b>

*Source: Sample of loans*

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

Overall, performance for lending to borrowers of different incomes and businesses of different sizes is reasonable and meets the standards for satisfactory performance. CNB’s lending to businesses of different sizes, particularly to small businesses, exceeds the standards for satisfactory performance. Its distribution of residential mortgage loans to borrowers of different income levels reflects an adequate penetration among individuals of different income levels.

Commercial lending, particularly small business lending, is the bank’s primary business line. The distribution of small business loans carried the most weight in determining lending performance. Residential mortgage loans were given less weight as the majority of loans originated were non-owner occupied and it is not a significant activity for the bank. Our review included a sample of forty residential real estate and twenty-five business loans from the Greenville-Pickens MSA AA and twenty residential real estate and twenty business loans from the Anderson MSA AA. The following details the bank’s lending by MSA AA.

**Small Business Lending in the Greenville-Pickens MSA AA:** Loans to businesses with revenues of one million or less represented 84 percent of reportable small business loans in the Greenville MSA AA, which exceeds the 62.64 percent of area businesses that reported revenues of less than one million. In addition, 80 percent were for original amounts of less than \$250 thousand. The following tables indicate the bank’s responsiveness to providing small business lending:

<b>Borrower Distribution of Loans to Businesses/Farms in Pickens-Greenville MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	62.64%	61.12%	31.25%	100%
% of Bank Loans in AA by #	84.00%	16.00%	00.00%	100%
% of Bank Loans in AA by \$	86.03%	13.97%	00.00%	100%

*Source: Sample of loans & Dunn and Bradstreet data*

<b>Borrower Distribution of Loans to Businesses by Loan Size in Pickens-Greenville MSA AA</b>				
Loan Size (000's)	# of Loans	% of Number	\$ Volume of Loans (000)	% of \$ Volume
\$0 - \$100,000	11	44%	\$ 384	10%
\$100,001 - \$250,000	9	36%	\$1,436	36%
\$250,001 - \$500,000	4	16%	\$1,295	32%
\$500,001 - \$1,000,000	1	4%	\$ 900	22%
Over \$1,000,000	0	0%	\$ 0	0%
<b>Total</b>	<b>25</b>	<b>100%</b>	<b>4,015</b>	<b>100</b>

*Source: Sample of loans*



**Small Business Lending in the Anderson MSA AA:** Loans to businesses with revenues of one million or less represented 90 percent of reportable small business loans in the Anderson MSA AA, which exceeds the 62.91 percent of area businesses that reported revenues of less than one million. Tables seven and eight detail the results of the business loan sample analysis for the Anderson MSA AA. In addition, 90 percent were for original amounts of less than \$250 thousand. The following tables indicate the bank’s responsiveness to providing small business lending:

<b>Borrower Distribution of Loans to Businesses/Farms in Anderson MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	62.91%	4.73%	32.36%	100%
% of Bank Loans in AA by #	90.00%	10.00%	00.00%	100%
% of Bank Loans in AA by \$	89.22%	10.78%	00.00%	100%

*Source: Sample of loans & Dunn and Bradstreet data*

<b>Borrower Distribution of Loans to Businesses by Loan Size in Anderson MSA AA</b>				
Loan Size (000’s)	# of Loans	% of Number	\$ Volume of Loans (000)	% of \$ Volume
\$0 - \$100,000	17	85%	\$ 641	31%
\$100,001 - \$250,000	1	5%	\$ 171	8%
\$250,001 - \$500,000	1	5%	\$ 438	21%
\$500,001 - \$1,000,000	1	5%	\$ 800	39%
Over \$1,000,000	0	0%	\$ 0	0%
<b>Total</b>	<b>20</b>	<b>100%</b>	<b>\$2,050</b>	<b>100</b>

*Source: Sample of loans*

**Residential Mortgage Lending in the Greenville-Pickens MSA & Anderson MSA AA:** The dispersion of residential mortgage loans in the AA is adequate. The percentage of residential mortgage loans to low-income borrowers is significantly lower than the percentage of low-income families in the AA. This low level of penetration is reasonable considering that eleven percent of families live below the poverty level and would generally not have the financial capacity to qualify for a mortgage loan.

The percentage of residential mortgage loans to moderate-income borrowers is also well below the percentage of moderate-income families residing in the AA. Overall, the low level of penetration is reasonable because residential real estate lending is not the bank’s primary business line; majority of these loans were to non-owner occupied properties; and a banker resigned, leaving the Anderson community without a lender for approximately 7 months. Furthermore, CNB does not offer long-term residential real estate products.

The following tables show the percentage of residential mortgage loans in the AA compared to the percentage of families by income level residing in the Greenville-Pickens and Anderson MSA AA.

<b>Borrower Distribution of Residential Real Estate Loans in Greenville &amp; Pickens MSA AA</b>								
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 Mortgage	19.07%	7.50%	17.88%	7.50%	21.74%	30.00%	41.32%	55.00%

Source: Sample of loans & 2000 U.S. Census data

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Anderson AA</b>								
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 Mortgage	19.55%	10.00%	17.96%	5.00%	22.67%	50%	39.82%	35.00%

Source: Sample of loans & 2000 U.S. Census

### Geographic Distribution of Loans

Overall, the distribution of business loans and residential real estate loans by income of the geography is satisfactory. Lending to small businesses of various sizes is reasonable as discussed below for the AA. Its distribution for residential real estate loans by income level of geography is good and exceeds AA demographics. Our review included a sample of 40 residential real estate and 25 business loans from the Greenville-Pickens MSA AA and 20 residential real estate and 20 business loans from the Anderson MSA AA. The following details the bank's performance by MSA AA.

Small Business Lending in the Greenville-Pickens MSA AA: CNB's record of lending to small businesses of various sizes reflects a reasonable geographic dispersion throughout the bank's Greenville-Pickens MSA AA with 20 percent of the number of loans in low- and moderate-income tracts compared to the percent of AA businesses in low- and moderate-income census tracts of 20.54 percent. The bank's performance is detailed in the following table:

<b>Geographic Distribution of Loans to Businesses/Farms in Greenville-Pickens MSA AA</b>										
Census Tract Income Level	Low		Moderate		Middle		Upper		Not Applicable	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial	4.09%	4.00%	16.45%	16.00%	50.21%	72.00%	29.25%	8.00%	0.00%	0.00%

Source: Sample of loans & Dunn and Bradstreet data

**Small Business Lending in the Anderson MSA AA:** CNB’s record of lending to small businesses of various sizes reflects an adequate geographic dispersion throughout the bank’s Anderson MSA AA with 5 percent of the number of loans in moderate-income census tracts compared to the percentage of AA businesses in moderate-income census tracts of 16.24 percent. This low level of penetration is reasonable considering the Powdersville’s branch recently entered the market and has been in operation for approximately eleven months. The bank’s performance is detailed in the following table:

<b>Geographic Distribution of Loans to Businesses/Farms in Anderson MSA AA</b>										
Census Tract Income Level	Low		Moderate		Middle		Upper		Not Applicable	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Business es/Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial	0.00%	0.00%	16.24%	5.00%	63.43%	60.00%	17.85%	35.00%	2.47%	0.00%

Source: Loan sample & Dunn and Bradstreet data

**Residential Mortgage Lending in the Greenville-Pickens MSA & Anderson MSA AA:** CNB’s geographic distribution of residential mortgage loans by income level of the geography exceeds the standards for satisfactory performance. As shown below in table 11, the bank’s distribution of residential mortgage loans in low- and moderate-income geographies exceeds the percentage of owner occupied housing in low- and moderate-income geographies. The following tables reflect the bank’s lending performance:

<b>Geographic Distribution of Residential Real Estate Loans in Greenville-Pickens MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential RE	1.25%	2.50%	15.78%	47.50%	53.67%	45.00%	29.30%	5.00%

Source: Loan sample & 2000 U.S. Census data

<b>Geographic Distribution of Residential Real Estate Loans in Anderson MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential RE	0.00%	0.00%	13.81%	30.00%	68.46%	50.00%	17.73%	20.00%

Source: Loan sample & 2000 U.S. Census data

### **Responses to Complaints**

Management has not received any CRA related complaints since the last examination. However, an informal response process is in place to address such complaints when they are received.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.