



SMALL BANK

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

PUBLIC DISCLOSURE

November 16, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Carolina National Bank and Trust Company
Charter Number 24332**

**1350 Main Street
Columbia, SC 29201**

**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 - 2

This institution is rated Satisfactory. The factors and data supporting this rating are as follows:

- Carolina National Bank's (CNB) loan-to-deposit ratio is reasonable.
- A majority of the bank's loans have been made within the bank's Assessment Area (AA).
- CNB's distribution of loans by borrower income level is adequate.
- CNB's geographic distribution of loans is adequate.

DESCRIPTION OF INSTITUTION

CNB is a \$98 million bank located in Columbia, SC. The bank operates two full-service banking offices in the Columbia area. The main office offers ATM and a drive-through service a block away in a stand-alone facility. CNB is wholly owned by a single bank holding company, Carolina National Corporation, also located in Columbia, SC. CNC reported total assets of \$98 million as of December 31, 2004.

CNB offers a full range of banking products and services. As of December 31, 2004, loans totaled \$88 million and deposits totaled \$87 million. Loans represent 92% of total assets. The distribution of CNB's loan portfolio was as follows: 1-4 family residential properties (25%); commercial and commercial real estate (66%); and consumer loans (9%). The bank did not originate a material volume of agriculture related loans during this evaluation period. As illustrated by their loan mix, CNB is primarily a commercial lender, and to a lesser extent, a home mortgage lender. As a result, our analysis of the bank's CRA performance was limited to a sample of commercial and consumer mortgage loans, with greater emphasis placed on the commercial loan performance.

The bank originated 1,160 credits totaling \$113 million from their initial opening through our evaluation period. CNB's Tier 1 capital was \$6.5 million and their risk-based capital to risk weighted assets equals 10.37% as of December 31, 2004. There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs within its AA. The bank opened for business on July 15, 2002 and this is CNB's first CRA examination.

DESCRIPTION OF ASSESSMENT AREA

CNB's AA is comprised of the Columbia, SC Metropolitan Statistical Area (MSA). The delineation meets the legal requirements of the regulation and does not arbitrarily exclude any low- or moderate- income geographies. The AA consists of 9 low (14%), 21 moderate (33%), 18 middle (28%) and 2 upper (22%) income census tracts based on 2000 census data. There were also two census tracts in the AA with no reported income data. CNB's main banking office is located in census tract 15, which is a middle-income geography.

Approximately 52,526 families reside in the AA. Of this total, 25% are classified low income,

19% are moderate-income, 21% are middle-income, and 35% are upper-income. The 2003-updated MSA median family income for the Columbia MSA was \$60,600. The total population of the AA is 232,482.

The overall economic condition of the AA is good. As of December 31, 2004, the unemployment rate for the county was 5.2%, which is below the state average of 6.7%. The local economy is centered in education, healthcare and government service related jobs. The University of South Carolina and Palmetto Health Alliance are among the largest employers. Additional major employers include Blue Cross/Blue Shield of SC and the Kilgore Group.

Competition in the AA is strong. There are 13 financial institutions competing for business in the AA. These competitors operate 85 branches in the AA, including offices of multinational and regional banks.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our analysis included an evaluation of commercial and home mortgage loans, as these are the primary loan products based on the bank's current loan portfolio composition. We selected all commercial loans and a random sample of 34 home equity loans originated or purchased during the evaluation period. Our evaluation period was July 15, 2002 through December 31, 2004. Although the bank opened on July 15, 2002, we were unable to evaluate the bank's performance for 2002 due to an insufficient number of originations by product type for sampling purposes. As a result, the bank's percentage of lending in their AA, as well as the bank's performance based on the distribution by borrower income level and geography were based on 2003 and 2004 originations.

Loan-to-Deposit Ratio

CNB's quarterly average loan-to-deposit ratio since opening is 77%. This ratio is reasonable based on the bank's capacity to lend within its AA. There are no similarly situated institutions within the bank's AA based on the size or age of the institution for comparison purposes. However, the bank's ratio is consistent with other banks of similar size throughout the state despite its status as a relatively new bank.

Lending in Assessment Area

Based on our samples, a majority of the bank's loans were made within their AA. By loan product, 79% of the number and 73% of the dollar volume of the bank's commercial loans were originated within their AA. Our sample of home equity lines of credit reflected 97% of loans by number and 99% of loans by dollar volume were originated within their AA.

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

CNB's distribution of commercial loans is reasonable. CNB originated 43% of commercial loans by number and 43% by dollar volume to small businesses (businesses with revenues of \$1 million or less). This level of performance is slightly below the AA demographic information. Small businesses represent 61% of all businesses in the AA. The bank's level of performance is reasonable based on the age and operating history of the bank. In addition, nearly half (47%) of CNB's commercial loans were originated at amounts of \$100 thousand or less.

CNB's distribution of home equity mortgage loans is adequate. The bank originated 7% and 20% of their home equity lines of credit to low- and moderate-income borrowers based on the number of loans sampled, respectively. By dollar volume of loans, they originated 2% and 14% to these borrowers, respectively. Demographic information indicates 24% of the families in the AA are low-income and 19% are moderate income. The bank's lending volume to low-income borrowers is below AA demographics, but is mitigated by the fact that the bank is less than three years old and residential mortgage lending is not a primary product line for the institution. In addition, 15% of the families that reside in the AA live below the poverty level, which makes it difficult for them to afford and maintain a home. Lastly, 46% of the AA's housing is designated as rental property, which also impacts the bank's ability to make home mortgage related loans.

Geographic Distribution of Loans

CNB's geographic distribution of loans is adequate. CNB originated 9% of their commercial loans by number in low- income census tracts and 25% of their commercial loans in moderate-income tracts. CNB originated 10% and 23% of the dollar volume of commercial loans in low- and moderate- income census tracts, respectively. AA demographics indicate 24% of businesses are located in a low- income census tract. The bank's commercial loan volume in low-income census tracts is below the demographics, but is mitigated by the bank's short operating history. The bank's performance in the moderate- income census tracts compares favorably to AA demographics, which indicate 28% of the businesses are located in moderate- income census tracts. Given the bank is primarily a commercial lender, greater reliance was placed on commercial loan performance.

CNB originated 3% of their home equity mortgage loans by number in low- income census tracts and 15% of their home equity mortgage loans in moderate- income census tracts. This level of performance is slightly below demographic information, which indicates the AA is comprised of 14% low- income census tracts and 36% moderate- income census tracts. The bank's level of performance is reasonable based on the age and operating history of the bank.

Responses to Complaints

CNB did not receive any CRA related consumer complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.