



INTERMEDIATE SMALL BANK

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

PUBLIC DISCLOSURE

February 6, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Cornerstone Bank, National Association
Charter Number 2683**

**529 Lincoln Avenue
York, Nebraska 68467**

**Comptroller of the Currency
Omaha South Field Office
13710 FNB Parkway, Suite 110
Omaha, Nebraska 68154**

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 Lending Test is rated: **Satisfactory**

The Community Development Test is rated: **Satisfactory**

The overall performance of Cornerstone Bank, N.A. (Cornerstone) is satisfactory. Primary factors contributing to the bank's rating follow:

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A substantial majority of Cornerstone's loans are made within its Assessment Area (AA).
- Borrower distribution of loans reflects reasonable penetration, given the demographics of the AA.
- Community development (CD) lending, investments, and services demonstrate satisfactory responsiveness to the CD needs in Cornerstone's AA.

SCOPE OF EXAMINATION

This examination included a review of the bank's lending activity from January 1, 2003 to December 31, 2005, and CD activities from April 9, 2003 to February 6, 2006.

We identified agricultural and commercial loans (including agricultural real estate and commercial real estate, respectively) as the bank's primary products based on the number and dollar amount of loans originated in 2003, 2004, and 2005. To test CRA lending performance, we pulled an original sample of 20 agricultural loans and 20 business loans originated during the evaluation period. The data from these samples was used for the inside/outside AA ratio. To perform other lending tests, we eliminated loans outside the AA from the sample and added enough loans to provide a sample of 20 agricultural loans and 20 business loans within the AA.

DESCRIPTION OF INSTITUTION

Cornerstone is a \$538 million intrastate institution located in east central Nebraska. The bank is a wholly owned subsidiary of First York Ban Corp, a one-bank holding company. The bank maintains 26 branches located in 19 communities throughout the AA. Since the last CRA examination, the bank opened four branches in Wal-Mart stores located throughout the AA, and merged with two community banks that were previously owned by the holding company. This activity added a total of eight branches to the bank. Cornerstone also maintains 20 deposit-taking ATMs. The bank has not closed any branches since the last CRA examination.

As of December 31, 2005, the bank's net loans totaled \$310 million, representing 58% of total assets. The loan mix is heavily weighted in agricultural (42%) and commercial (37%) loans. The remainder of the bank's loan portfolio is made up of 1-4 family residential loans (7%),

consumer loans (6%), and other loans (8%). The bank has \$42 million in Tier 1 capital.

Cornerstone received a “Satisfactory” rating at the last CRA examination, dated April 9, 2003. There are no legal or financial factors that impede the bank’s ability to help meet the credit needs of its AA. Refer to the bank’s CRA Public File for more information.

DESCRIPTION OF ASSESSMENT AREA

The bank’s AA encompassed 43 contiguous Census Tracts (CTs). It includes the southern portion of Platte County, as well as the whole counties of Boone, Butler, Clay, Fillmore, Hall, Hamilton, Merrick, Nance, Polk, Wheeler, and York. The bank’s AA meets the requirements of the regulation and does not arbitrarily exclude any low- and moderate-income areas. It is composed of 38 middle-income CTs and five upper-income CTs. Refer to the bank’s CRA Public File for more information. The demographic highlights of the AA are summarized below.

The AA has a population of 152 thousand. The Housing and Urban Development (HUD) updated median family income for the AA was \$44 thousand for 2005, and the weighted average of median housing was \$74 thousand. Unemployment rates for counties in the AA ranged from 2.5% to 3.8% for December 2005. These unemployment rates are comparable to the December 2005 unemployment rate for the State of Nebraska at 3.7%. The local economy remains focused on agriculture, although retail sales and manufacturing provide some economic diversification in some of the larger towns in the AA.

Cornerstone has the largest deposit market share in the AA, at 11%. Competition for loans and deposits is strong. There are 29 other financial institutions headquartered in the AA, as well as 17 other financial institutions operating branches in the AA but headquartered outside the AA.

During our evaluation of Cornerstone, we made contact with two community organizations to determine the needs and opportunities in the AA. The contacts included an organization focused on providing community services to low- and moderate-income (LMI) individuals, and an organization focused on promoting economic development activities. These contacts indicated a need for small business and small farm loans, as well as affordable housing for LMI individuals and families. They were unaware of the availability of any CD investment opportunities in the AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank’s overall CRA performance is Satisfactory. This is supported by separate conclusions for the lending test and the community development test, details of which follow.

Lending Test

The bank’s performance under the Lending Test is rated Satisfactory.

Loan-to-Deposit Ratio

Cornerstone's LTD ratio is reasonable given the bank's size and financial condition, and the credit needs of the AA. The bank's quarterly average LTD ratio for the last ten quarters was comparable with other financial institutions chartered within the AA. The bank's LTD ratio averaged 65% during this timeframe. Competing banks' ratios ranged from 62% to 121%.

Cornerstone's LTD ratio calculated above does not include residential real estate loans that were sold on the secondary market. From 2003 to 2005, the bank originated \$72 million in residential real estate loans that were subsequently sold.

Lending in Assessment Area

The bank originated a substantial majority of its loans in the AA. For agricultural loans sampled, the bank originated 85% by number and 94% by dollar amount in the AA. For commercial loans sampled, the bank originated 90% by number and 60% by dollar amount within its AA.

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

The bank had a satisfactory record of lending to farms and businesses of different sizes.

The distribution of agricultural borrowers reflected satisfactory penetration among farms of different sizes. 2002 Agricultural Census information reveals that 80% of AA farms are small, with revenues of less than \$250 thousand. Twelve percent of farms reported revenues of \$250 thousand to \$500 thousand, and 8% reported revenues over \$500 thousand.

Based on 20 borrowers sampled, the bank's lending to small farms is comparable to AA demographics, with 65% of loans to farms with revenues of less than \$250 thousand, 10% of loans to farms with revenues of \$250 thousand to \$500 thousand, and 5% of loans to farms with revenues over \$500 thousand. There was no income information in the credit files for 20% of agricultural loans in our sample, but based on loan size and other credit file information, it appeared that these four loans would fall into the lower revenue range.

The distribution of commercial borrowers reflected satisfactory penetration among businesses of different sizes. 2004 business demographic data reveals that 65% of the businesses in the bank's AA are small, with revenues of less than \$1 million. Five percent of AA businesses reported revenues over \$1 million, while 30% did not report revenue information. Based on 20 borrowers sampled, the bank does a good job of lending to small businesses in the AA, with 100% of loans sampled made to borrowers with revenues of less than \$1 million.

Geographic Distribution of Loans

A geographic analysis of the bank's lending was not meaningful, as the AA consists of only middle- and upper-income geographies.

Response to Complaints

Neither the bank nor the OCC received any complaints about Cornerstone's performance in helping to meet AA credit needs during the evaluation period.

Community Development Test

Given the need and availability for CD opportunities in the bank's AA, Cornerstone has made a satisfactory response to the CD needs through CD loans, qualified investments, and CD services.

Number and amount of community development loans

CD lending demonstrates satisfactory responsiveness to needs in the bank's AA. The bank made one community development loan since the last CRA examination totaling \$50 thousand. This loan was made to a nonprofit organization that helps provide affordable single-family homes for LMI families.

The bank made numerous other loans during the evaluation period that are included in the Lending Test portion of this assessment and are not given consideration under the Community Development Test. However, these loans, as detailed below, reflect the bank's commitment to provide financing to promote affordable housing in the AA.

- A \$68 thousand loan to provide affordable single-family homes for LMI families;
- Two loans totaling \$162 thousand under the Nebraska Investment Finance Authority (NIFA) first-time homebuyer program, which provides lower interest rates, downpayment assistance, and / or closing cost assistance to qualified borrowers. Both of these loans were made to moderate-income borrowers;
- Five loans totaling \$289 thousand under the United States Department of Agriculture's Rural Economic and Community Development (RECD) loans programs, which provide no downpayment loans to LMI borrowers to purchase, construct, or repair single-family homes in designated rural areas. All of these loans were made to moderate-income borrowers;
- Seventy loans originated using both the NIFA and RECD loan programs described above, totaling \$4.1 million. Of these loans, 17 were originated to low-income borrowers and 53 were originated to moderate-income borrowers. The dollar amounts originated to low- and moderate-income borrowers were \$894 thousand and \$3.2 million, respectively.

Number and amount of qualified investments

Qualified investments demonstrate satisfactory responsiveness to needs in the bank's AA. Examiners determined that there are limited opportunities for making qualified investments in the AA. Cornerstone made \$312 thousand in qualified CD investments and donations in the AA. This included a prior period investment with an outstanding balance of \$300 thousand promoting affordable housing in the AA; a \$5 thousand investment in an organization that provides low-income housing in the AA; and \$7 thousand in donations to a variety of organizations located within the AA whose primary focus is CD activities.

Extent to which the bank provides community development services

The bank's provision of CD services demonstrates satisfactory responsiveness to the CD needs of the AA. Bank officers and directors are involved in providing various CD services in the AA and have significant involvement in ten different organizations located in the AA that focus on meeting CD needs. These activities provided financial expertise to organizations that help meet the credit needs of LMI individuals or small businesses by facilitating affordable housing, small business development, and community service.

Bank's responsiveness, through community development activities, to community development lending, investment, and services needs

In summary, the bank demonstrates satisfactory responsiveness to the CD needs of the AA. The bank's CD activities largely focus on providing affordable housing, which was identified as a CD need in the AA by community contacts.

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.