

# **PUBLIC DISCLOSURE**

April 25, 2011

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**CornerstoneBank  
2060 Mount Paran Road, NW, Suite 100  
Atlanta, GA 30327  
Docket #: 15682**

**Office of Thrift Supervision  
Southeast Region  
1475 Peachtree Street, NE  
Atlanta, Georgia 30309**

**NOTE:** This document is an evaluation of the record of Cornerstone Bank (Cornerstone or bank) in meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of Cornerstone. The rating assigned to this bank does not represent an analysis, conclusion, or opinion of the Office of Thrift Supervision (OTS) concerning the safety and soundness of Cornerstone.



## Office of Thrift Supervision

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May 24, 2011

Board of Directors  
Cornerstone Bank  
2060 Mount Paran Road, NW, Suite 100  
Atlanta, Georgia 30327

Members of the Board:

Enclosed is Cornerstone's written Community Reinvestment Act (CRA) Performance Evaluation. The OTS prepared the evaluation as of April 25, 2011. Pursuant to the provisions of the CRA and OTS regulations (12 C.F.R. 563e), Cornerstone must make this evaluation and CRA rating contained therein, available to the public within 30 business days of receiving it.

The evaluation must be placed in your CRA public file at your home office within this time frame. You may not alter or abridge the evaluation in any manner. At your discretion, you may retain previous written CRA Performance Evaluation(s) with the most recent evaluation in your CRA public file.

If you elect to prepare a response to the evaluation, you must place the response in the CRA public file along with the evaluation, and forward a copy of it to this office.

All appropriate personnel, particularly customer contact personnel, need to be aware of the responsibilities that the bank has to make this evaluation available to the public. Consequently, we suggest you review Cornerstone's internal procedures for handling CRA inquiries, including those pertaining to the evaluation and other contents of the CRA public file.

We strongly encourage the Board of Directors, senior management, and other appropriate personnel to review this document and to take an active interest and role in the CRA activities of Cornerstone.

Sincerely,

Valorie Owen  
Compliance Review Examiner V

Enclosure

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## **General Information**

The CRA requires the OTS to assess a savings association's record of meeting the credit needs of its entire community, including low- and moderate-income (LMI) neighborhoods, consistent with safe and sound operation of the savings association. The OTS must prepare a written evaluation of the savings association's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Cornerstone Bank prepared by the OTS, as of April 25, 2011. The OTS evaluates performance in assessment areas delineated by Cornerstone rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the bank's branches. The OTS rates the CRA performance of a savings association consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 563e.

## **Institution**

### Overall Rating

**INSTITUTION'S CRA RATING:** **Satisfactory**  
**The Lending Test is rated:** **Satisfactory**  
**The Community Development Test is rated:** **Satisfactory**

Based upon Cornerstone's overall record of lending within the assessment area, a rating of "Satisfactory" is assigned for the Lending Test. The bank maintained a strong loan-to-deposit (LTD) ratio and the majority of its mortgage loan originations were secured by properties located inside the assessment area. In addition, Cornerstone's percentage of lending within LMI census tracts exceeded that of other lenders and the assessment area demographics. Finally, the evaluation determined that the bank's record of lending to LMI borrowers was poor.

Cornerstone's performance under the community development test is also considered "Satisfactory." The bank has demonstrated an adequate responsiveness to the community development needs of its assessment area during the review period through its community development lending and community development services.

### Scope of Examination

At the preceding evaluation, conducted as of October 30, 2006, Cornerstone was assigned a CRA rating of "Satisfactory record of meeting community credit needs" based on the evaluation standards for a small savings association. The bank's performance for the current evaluation is based upon the standards for an "intermediate small savings association" (ISSA).

On July 1, 2007, the OTS implemented a revised CRA evaluation format for ISSAs. The definition of an ISSA means a small savings association with assets of at least \$280 million and less than \$1.122 billion as of December 31st of both of the two prior calendar years. The asset thresholds are updated annually in the Federal Register, with the history of the updates and examples of their implementation published at <http://www.ffiec.gov/cra/examinations.htm>. Given the bank's asset size during the review period, its performance for this evaluation is based upon the standards for an ISSA. ISSAs are evaluated under two tests: the existing lending test for small institutions and a community development test.

## ***Institution (continued)***

The examination review period for the current evaluation is from January 1, 2008, through December 31, 2010. Products reviewed included home purchase and refinance mortgage loans, and home improvement loans originated during this period that were reportable under the Home Mortgage Disclosure Act (HMDA). The bank's community development lending, investments, and services were also reviewed to arrive at the assigned overall rating.

## **Description of Institution**

Cornerstone is a federally-chartered stock savings bank headquartered in Atlanta, Georgia, with assets of approximately \$474.6 million as of December 31, 2010. The bank is a full service institution with branch offices located in the adjoining cities of Sandy Springs and Decatur, GA, and is a wholly owned subsidiary of Cornerstone Bancshares, Inc., a unitary, non-diversified, savings and loan holding company. No offices were closed during the review period; however, the Decatur office was opened on March 16, 2009.

All of Cornerstone's offices are located in upper-income census tracts and the headquarters office does not have a drive-thru facility. Each office is open from 9:00 a.m. to 4:00 p.m. Monday through Thursday, and until 5:00 p.m. on Friday. Cornerstone also operates Automated Teller Machines (ATM) at the branch locations. However, the ATMs do not accept deposits.

In recent years, Cornerstone has focused upon commercial and residential real estate lending and lending to small businesses in conjunction with the Small Business Administration's (SBA) guaranteed loan program. During the review period, the bank has also continued to offer conventional fixed- and adjustable-rate single-family residential mortgage loans to individuals for the construction, purchase, or refinancing of single-family dwellings, and certain consumer loans as well. Additionally, Cornerstone has maintained a transactional website offering online bill pay with account inquiry and transfer capabilities to its customers.

As of December 31, 2010, Cornerstone's mortgage loan portfolio represented approximately 52.1 percent of assets. At that time, single- and multi-family mortgage loans represented approximately 14.6 percent of the mortgage loan portfolio while construction loans, nonresidential loans, and land loans represented approximately 1.1 percent, 30.7 percent, and 6.3 percent, respectively, of the bank's mortgage loan portfolio. Non-mortgage loans represented 12.8 percent of assets, cash and investment securities represented 20.2 percent of assets, and mortgage-backed securities represented approximately 10.4 percent of assets.

**Institution (continued)**

The following table shows Cornerstone’s lending volume during the review period and how the bank’s performance compares to that of its peer group<sup>a</sup>.

Cornerstone Bank Loan Origination Volume <sup>b</sup>									
Loan Type	2010			2009			2008		
	\$(000)	Inst. %	Peer %	\$(000)	Inst. %	Peer %	\$(000)	Inst. %	Peer %
Const. (Res)	5,551	1.01	0.77	4,079	0.90	0.91	10,530	3.01	1.83
Const. (Non-Res)	45	0.01	0.05	10,805	2.40	0.12	25,086	7.18	0.44
Perm. (Res)	11,406	2.01	9.11	5,680	1.30	11.86	35,031	10.02	10.03
Perm (Non-Res)	28,178	5.13	1.37	18,233	4.04	1.65	96,185	27.53	2.81
Land	4,541	0.83	0.06	2,064	0.46	0.11	5,090	1.46	0.38
Commercial	32,898	5.99	1.05	29,858	6.62	1.20	73,726	21.10	2.04
Consumer	8,071	1.47	0.30	13,546	3.00	0.39	27,485	7.87	0.51

There are no legal restrictions that adversely impact Cornerstone’s ability to meet community credit needs. However, in June 2010, OTS issued a Cease and Desist Order against the bank that, among other things, imposed brokered deposit, growth, and lending restrictions. These restrictions specifically prohibit Cornerstone from originating certain types of new commercial real estate and construction loans without approval of the OTS, and require that the bank reduce problem assets and improve its profitability.

**Description of Assessment Area**

Cornerstone’s assessment area consists of all of the following contiguous counties located in the metro Atlanta area: Cobb, Dekalb, Fulton, and Gwinett Counties, which are part of the Atlanta-Sandy Springs-Marietta, GA Metropolitan Statistical Area (MSA). According to 2000 Census data, the total population of the assessment area was 2,678,070. Based upon data compiled from the 2000 Census, the following demographic data for the assessment area was identified:

Census Tract Income Category	Percent of MFI	Number of Census Tracts	Distribution of Population	Owner-Occupied Housing Units
Low-Income	<50%	68	8.3%	3.5%
Moderate-Income	>50%-<80%	99	20.8%	14.0%
Middle-Income	>80%-<120%	130	33.6%	35.6%
Upper-Income	>120%	143	37.3%	46.9%
<b>Total</b>		<b>440</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>a</sup> Cornerstone’s peer group is composed of all OTS-regulated stock savings associations with assets in the range of \$300 million to \$1 billion.

<sup>b</sup> This data was obtained from the Lending, Investment, Foreclosure, and Restructuring Activity section of the Uniform Thrift Performance Report generated for Cornerstone Bank.

### ***Institution (continued)***

The assessment area's economy appears to be well diversified and not heavily dependent upon any one industry or employer. The area's largest employers are The Coca Cola Company, Delta Airlines, Georgia Institute of Technology, Georgia State University, Home Depot, Lockheed Martin Aeronautics Company, Turner Broadcasting Company, and Kroger and Publix Supermarkets as well as other medical, municipal, and educational system employers. However, as a result of prevailing economic conditions and the recession during the review period, the unemployment rate in the Atlanta-Sandy Springs-Marietta, GA MSA increased from 5.3 percent in January 2008 to 10.7 percent in January 2010; but by December 2010, it had decreased slightly to 10.1 percent.

According to information obtained from the Federal Deposit Insurance Corporation (FDIC), as of June 30, 2010, there were 86 federally insured depository institutions, including Cornerstone, located in the designated assessment area operating a total of 859 branch offices with approximately \$85.9 billion in customer deposits. The two banks with the greatest deposit market share within the assessment area were SunTrust Bank (27.4 percent) and Wells Fargo Bank, N.A. (21.5 percent). In comparison, Cornerstone's market share of deposits was only 0.5 percent.

### **Conclusions With Respect To Performance Tests**

#### **Loan-to-Deposit (LTD) Ratio**

Information compiled from the OTS' Thrift Financial Reports disclosed that Cornerstone's LTD ratio averaged 93.3 percent during the 16-quarter period ended December 31, 2010. This ratio compares favorably, but is just below the average LTD ratio of 96.0 percent during this period for similarly sized savings associations in the Southeast Region of the OTS. Nevertheless, the examiner considers this ratio to reflect an excellent record of investing deposit funds in loans and concludes that Cornerstone's LTD ratio exceeds the standards for satisfactory performance.

#### **Lending within the Assessment Area**

As noted in the Description of Institution section of this evaluation, Cornerstone originated a very large volume of loans during the review period, exceeding that of its peer group in most categories, sometimes by a very significant amount. While HMDA-reportable mortgage loans did not represent the largest lending category, the bank nevertheless originated a reasonable volume of these types of loans. Further, because of regulatory reporting requirements, this loan type was the easiest of the types to analyze to determine the bank's record of lending in its assessment area. As demonstrated in the following table, a significant majority of Cornerstone's HMDA-reportable loans were made in its assessment area.

***Institution (continued)***

Assessment Area	Number of Loans	Percent	Loan Amount (000's)	Percent
Inside	171	91.0%	\$ 19,883	92.1%
Outside	17	9.0%	1,706	7.9%
Total	188	100.0%	\$ 21,589	100.0%

Based upon the above, the examiner concludes that Cornerstone’s record of lending within the assessment area exceeds the standards for satisfactory performance for this criterion.

**Lending to Borrowers of Different Income Levels**

To evaluate Cornerstone’s lending to borrowers of different income levels within the assessment area, the examiner identified specific income categories (low-, moderate-, middle-, and upper-income) using the Department of Housing and Urban Development's (HUD) estimated median family income (MFI) figures for the Atlanta-Sandy Springs-Marietta, GA MSA. These figures were \$69,200, \$71,700, and \$71,800, for the years 2008, 2009, and 2010, respectively. Low-income is defined as family income less than 50 percent of the MFI of the MSA. Similarly, the ceiling for moderate-income is less than 80 percent, the middle-income ceiling is less than 120 percent, and upper-income is greater than or equal to 120 percent.

The examiner compared the bank's mortgage lending record to the percentage of families within the assessment area within each respective income range. This analysis utilizes the best information available, and assumes that while income levels have increased since 2000, the population distribution among income ranges has not significantly changed.

The analysis indicates that mortgage loans originated within the assessment area during calendar years 2008 through 2010 were distributed among borrowers of different income levels as follows:

Borrower Income Category*	Loan Volume				Percent of Families*
	Number	No. Pct.	Dollar (000's)	\$ Pct.	
Low-Income	0	0.0%	\$0	0.0%	19.5%
Moderate-Income	1	1.5%	260	2.6%	16.8%
Middle-Income	3	4.6%	928	9.3%	20.5%
Upper-Income	62	93.9%	8,801	88.1%	43.2%
Total	66	100.0%	\$9,989	100.0%	100.0%
Income Not Available	105		\$9,894		

**\*Percent of families according to 2000 Census Data**

As noted in the table, borrower income was available for only 39 percent of the bank’s HMDA-reportable loans. This is largely explained by a large number of loans the bank made to corporations,

***Institution (continued)***

partnerships, and other entities not considered to be natural persons. We might normally question whether this number of loans is large enough, considering the bank’s size, to reach meaningful conclusions as to the distribution among borrowers of different incomes. However, this question is also normally based on a more broad distribution of loans among borrowers in these income categories. Cornerstone’s HMDA-reportable loans were not distributed broadly; in fact, 62 of the 66 loans for which the bank collected income were made to upper-income borrowers. This represents a significant disparity when compared to demographic characteristics of the assessment area, as well as to the record of other lenders. We believe that this percentage is significant enough to conclude that the bank has not done a good job of reaching LMI borrowers and therefore does not meet the standard for satisfactory performance for this criterion.

**Geographic Distribution of Loans**

The examiner reviewed Cornerstone’s loan records to determine the geographic distribution of mortgage loans originated by the bank within the assessment area during calendar years 2008 through 2010. The distribution was compared to the distribution of owner-occupied housing units throughout the assessment area’s low-, moderate-, middle-, and upper-income census tracts. The tables below detail the lending by census tracts in the assessment area:

Census Tract Income Category	Loan Volume				Percent of O.O.H.U.*
	Number	No. Pct.	Dollar (000)	\$ Pct.	
Low-Income	34	19.9%	\$ 3,305	16.6%	3.5%
Moderate-Income	81	47.4%	7,900	39.7%	14.0%
Middle-Income	36	21.0%	3,647	18.4%	35.6%
Upper-Income	20	11.7%	5,031	25.3%	46.9%
Total	171	100.0%	\$19,883	100.0%	100.0%

\*Percent of O.O.H.U.s according to 2000 Census Data

As reflected above, Cornerstone’s penetration of LMI census tracts exceeded the census demographics. Cornerstone’s lending patterns were also compared against calendar year 2008 and 2009 Aggregate HMDA data (2010 data was not available). The results of this analysis are presented below:

**Institution (continued)**

BNA / Census Tract Income Category	Cornerstone's 2008 and 2009 Loan Volume				Percent of O.O.H.U.*	2008-2009 Aggregate HMDA **
	Number of Loans	Percent of Loans	Dollar Amount (000)	Percent of Dollar Amount		
Low-Income	33	20.4%	\$ 3,151	18.6%	3.5%	3.6%
Moderate-Income	80	49.4%	7,553	44.7%	14.0%	11.0%
Middle-Income	34	21.0%	3,191	18.9%	35.6%	33.6%
Upper-Income	15	9.2%	3,009	17.8%	46.9%	51.8%
<b>Total</b>	<b>162</b>	<b>100.0%</b>	<b>\$16,904</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

\*Percent of O.O.H.U.s according to 2000 Census Data  
\*\*Percent of loans originated by PEER Lenders

As revealed in the above tables, the percentage of Cornerstone's loans within LMI tracts during the review period exceeded the percentage of OOHUs, as well as the record of other lenders in those tracts. Consequently, we concluded that Cornerstone's geographic distribution of lending exceeds the standards for satisfactory performance.

**Community Development Test**

During the review period, Cornerstone made six commercial and 30 small business loans totaling approximately \$27.5 million that qualify as community development loans. The examiner notes that the qualifying commercial loans totaled approximately \$14.3 million and were used to finance multifamily housing apartment complexes that provide housing for LMI individuals at rents at or below "fair market rents" for the Atlanta-Sandy Springs-Marietta, GA MSA as established by HUD<sup>c</sup>. According to management, LMI individuals predominantly occupy these projects and many of them receive HUD rental assistance vouchers.

In addition to the community development loans described above, Cornerstone was an active originator of US Small Business Administration (SBA) loans in the assessment area during the review period. According to management, proceeds of the SBA loans originated to bank business customers were typically used to hire additional employees and purchase new machines and upgrade technology. During the examination review period, the bank originated 49 SBA loans totaling approximately \$44.7 million in the assessment area. Additionally, as of December 31, 2010, approximately \$28.0 million in SBA loan applications were in the pipeline pending approval.

<sup>c</sup> Fair market rents (FMRs) are primarily used to determine payment standard amounts for HUD rental assistance programs and to assure that a sufficient supply of rental housing is available to program participants. FMRs throughout the USA are published annually by HUD. FMRs are gross rent estimates, segregated by unit bedroom size, and include the shelter rent plus the cost of all tenant-paid utilities, except telephone, cable/satellite television service, and internet service. See <http://www.huduser.org>.

### ***Institution (continued)***

However, for purposes of community development lending for the CRA examination since financing small-sized businesses promotes economic development in the assessment area<sup>d</sup>, the examiner used the loan size as a proxy for the size of the business and focused upon SBA loans made by Cornerstone with an original amount of \$1 million or less. This analysis disclosed that the bank had made 30 SBA loans in the assessment area, with an original amount of \$1 million or less, totaling approximately \$13.2 million during calendar years 2008 through 2010.

With regard to community development services, senior management and bank personnel have participated in a variety of activities during the review period.

Cornerstone's Chief Executive Officer (CEO) participated as a credit counselor with other Atlanta bankers during May 2010 in a credit counseling seminar sponsored by a local television station and a Georgia bankers group which provided credit counseling to homeowners struggling to pay their mortgages. The bank's president, along with an SBA official, also participated in a small business credit summit in DeKalb County, GA, during August 2010. Additionally, Cornerstone's president was a guest lecturer at an annual franchise membership conference in June 2010, which focused on accessing small business financing during tough economic times.

The bank also sponsored a small business workshop in conjunction with the University of Georgia small business development center in 2010 in Decatur, GA, and participated in small business expos in DeKalb County and Sandy Springs, GA, during May and July 2010, respectively. The bank also provides a community meeting room at its Decatur branch office that is used for various small business initiatives by several local organizations.

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

We identified no substantive violations of the antidiscrimination laws and regulations or other illegal credit practices at Cornerstone's most recent compliance examination.

#### ***Response to Community Complaints***

Neither the OTS nor Cornerstone received any complaints during the review period regarding the bank's performance in meeting the credit needs of the assessment area or exhibiting discriminatory lending patterns or practices.

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<sup>d</sup> Cornerstone Bank is not subject to "CRA Data Collection and Reporting" requirements, which require insured depository institutions over an asset-size threshold (currently \$1.122 billion) to report certain small-sized business loans to the Federal Reserve Board on an annual basis.

## **CRA Rating Definitions**

There are five separate and distinct CRA assessment methods set forth in the CRA: the lending, investment, and service tests for large, retail institutions; the intermediate small institution test for intermediate small savings associations; the streamlined examination method for small institutions; the community development test for wholesale and limited purpose institutions; and the strategic plan option for all institutions. OTS will assign an institution one of the four assigned ratings required by Section 807 of the CRA:

1. "Outstanding record of meeting community credit needs."
2. "Satisfactory record of meeting community credit needs."
3. "Needs to improve record of meeting community credit needs."
4. "Substantial noncompliance in meeting community credit needs."

OTS judges an institution's performance under the test and standards in the rule in the context of information about the institution, its community, its competitors, and its peers. Among the factors to evaluate in an examination are the economic and demographic characteristics of the assessment area(s); the lending, investment, service, and community development opportunities in the assessment area(s); the institution's product offerings and business strategy; the institution's capacity and constraints; the prior performance of the institution; in appropriate circumstances, the performance of a similarly situated institution; and other relevant information. An institution's performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. The institution's overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile. In addition, OTS adjusts the evaluation of an institution's performance under the applicable assessment method in accordance with §563e.21 and §563e.28, which provide for adjustments on the basis of evidence of discriminatory or other illegal credit practices.