



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 21, 2011

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

Virginia 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 ratio is reasonable based on the bank's size, financial condition, area credit needs, and relevant competitive factors.
- A majority of the bank's loans are made inside its assessment area.
- The distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes.

SCOPE OF EXAMINATION

This performance evaluation assesses CornerStone Bank's (CornerStone) performance as a small bank under the lending test. This was CornerStone's first Community Reinvestment Act examination and included a full-scope review of its' CRA activities. This review covers the bank's performance from February 17, 2009 through November 21, 2011. This review covers CornerStone's two primary products, home loans and business loans. The products were chosen based on the highest percentages originated by both dollar and number. Although consumer loans accounted for 34% of the loans originated by number, they comprised only 7% of the loans originated by dollar amount.

Type	% by Dollar	% by Number
Home Loans	63%	43%
Business Loans	25%	21%
Consumer Loans	7%	34%
Farm Loans	5%	2%
Total	100%	100%

Source: Data collected by the bank

Our analysis included a sample of twenty-seven home loans and thirty business loans originated from February 17, 2009 through November 21, 2011.

DESCRIPTION OF INSTITUTION

CornerStone is a de novo bank that opened February 17, 2009. The bank is an intrastate bank headquartered in Lexington, Virginia. Lending is centered in small business, commercial real estate, and consumer credits. The bank has no affiliate relationships and was not involved in any merger or acquisition activity during the review

period.

CornerStone is a full service community bank serving the county of Rockbridge and the cities of Lexington and Buena Vista, all located in central Virginia. CornerStone has only one full service location. This location has an automated teller machine (ATM) that accepts deposits and is located in the city of Lexington. The bank is not located in a low- or moderate-income area, or in an agency-designated underserved/distressed nonmetropolitan middle-income census tract, or in a major disaster area. CornerStone has one additional ATM that does not accept deposits. CornerStone relocated both the main office and operations center to the bank's current location during 2011. The new location is in the same census tract as the former main office and operations center. CornerStone did not open or close any branches during the review period.

CornerStone offers a variety of deposit and loan products to meet consumer and commercial banking needs. CornerStone's 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.

As of September 30, 2011, CornerStone had total assets of \$71.4 million and Tier One Leverage Capital of \$7.9 million. CornerStone reported \$60.1 million in net loans and \$63.2 million in total deposits. Net loans represent 79.41 percent of average assets. CornerStone's loan portfolio is comprised of commercial (56.71 percent), residential real estate (37.45 percent), agricultural (2.66 percent), consumer (2.61 percent), and other (0.57 percent).

Banking competition in the AA is moderate. The June 30, 2011 FDIC Deposit Market Share Report ranks CornerStone sixth out of ten institutions in the AA. Bank of America recently closed their only branch in the AA, and there are currently nine institutions in the AA with a total of 19 offices. CornerStone has one office and holds 9.39 percent of the market share behind Branch Banking & Trust (five offices and 28.00 percent), Wells Fargo (one office and 12.72 percent), Bank of Botetourt (three offices and 11.22 percent), SunTrust (two offices and 10.38 percent), and Carter Bank & Trust (one office and 10.23 percent). CornerStone's primary competition comes from Branch Banking & Trust for commercial loans, Bank of Botetourt for consumer loans, and Wells Fargo for home loans.

There are no legal or financial circumstances that impede CornerStone's ability to help meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA(S)

CornerStone has one assessment area (AA) located near the central portion of Virginia. This non-metropolitan AA includes Rockbridge County and the independent cities of Buena Vista and Lexington. CornerStone's only banking office and deposit taking automated teller machine (ATM) are both located in the city of Lexington. The AA consists of six census tracts (CTs) and is devoid of low- or moderate-income tracts.

The one upper-income CT includes a very small geographic portion of the AA and comprises the city of Lexington. A substantial portion of the AA includes four large, middle-income CTs that comprise rural areas of Rockbridge County. The city of Buena Vista is situated in the fifth middle-income CT, which includes a small geographic portion of the AA. None of the tracts have been designated as distressed or underserved. This AA meets the regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

As of the 2000 census, the total population of the AA was 34,024. Within the population are 8,887 families and 13,212 households. The number of families in each income category is as follows: 1,421 (15.99 percent) low-income; 1,400 (15.75 percent) moderate-income; 2,180 (24.53 percent) middle-income; and 3,886 (43.73 percent) upper-income. The percentage of households below the poverty level is 13.15 percent. The 2010 HUD updated Median Family Income (MFI) is \$53,300. There are 14,642 total housing units in the AA, of which 65.67 percent are owner occupied, 27.07 percent are rental units, and 9.40 percent are vacant. The academic institutions support the high number of rental units in the area, with 92.05 percent of rental units occupied. The weighted average monthly gross rent is \$439, and the weighted average median cost of housing in the AA is \$98,744.

The population of Rockbridge County is 20,808. Its county seat is Lexington. This population figure excludes those residing in the independent cities of Buena Vista and Lexington. The independent city of Lexington, with a population of 6,867, is the largest city in the AA and is located in the central portion of Rockbridge County. Virginia Military Institute, which is the nation's first military school, and Washington and Lee University, are located in Lexington. The city, which is steeped in civil war history, has a historical district that includes the Stonewall Jackson House and Lee Chapel. Much of the surrounding areas outside the City of Lexington include rural farmlands and portions of national forests. The independent city of Buena Vista, with a population of 6,349 individuals, is located approximately six miles east of Lexington and is home to Southern Virginia University.

The AA does not have a major regional airport, rail service, or navigable waterways. However, the AA is strategically positioned midway along the Eastern seaboard at the intersection of Interstates 81 and 64. This location provides excellent linkages to major U.S. markets. Over 40 percent of the U.S. population and in excess of 200,000 manufacturers are located within a 500 mile radius. The area's major economic drivers are higher education and tourism. The Virginia Military Institute, Washington & Lee University, and several smaller colleges in the area, provide employment to many of the county's residents and support real estate especially during the months when school is in session. The county is also a major tourist attraction because Generals Robert E. Lee and Stonewall Jackson were born and buried in the area. The Virginia Horse Center organizes a major horse show and competitions in the summer months, and the event attracts over 500,000 people to the county. This event gives a significant boost to the hospitality and restaurant businesses. The real estate market is still struggling, and there is about five to six years of inventory of unsold housing units. Property values in the area are estimated to have dropped about thirty percent, and the housing market is not anticipated to recover for at least two to three years.

According to data provided by Dunn and Bradstreet, approximately 3,422 businesses are operating in the AA. The assessment area has 3,234 non-farm businesses, of which 72.57 percent reported gross annual revenues of less than or equal to \$1 million. Additionally, 80.39 percent of the businesses reported less than 50 employees. Although the AA includes large tracts of rural land, only 188 of the businesses are farms. The primary sources of employment are manufacturing (1,636), retail trade (968), accommodation and food services (869), and education services (627). Tourism is a major contributor to the area, providing stable profits for local accommodation and food services. Major employers include Washington & Lee University, Virginia Military Institute, Mohawk Industries, and Stonewall Jackson Hospital.

The area has not experienced a reduction of available credit, especially in small business lending. The financial institutions are active in the community and compete aggressively for opportunities. A community contact indicated housing financing may not be experiencing the same level of support as business financing, but the contact was not aware of any significant gaps in financing or credit needs of the community that banks are not satisfying. The contact believes the financial institutions serving the area are satisfying the credit needs of the businesses and certainly that of qualified home purchasers.

Bank management provided information, including an independent study performed by Washington & Lee students, detailing a lack of creditworthy low- and moderate-income individuals in the AA. Management cited a specific example of the local chapter of Habitat for Humanity constructing four houses in the past year and being unable to find a creditworthy buyer for a few of the houses, despite more than reasonable qualification criteria. The independent study detailed numerous financial issues that contribute to low- and moderate-income individuals in the AA exhibiting lack of creditworthiness.

Virginia is beginning to recover after a milder than average recession. Although milder than average, Virginia still experienced effects of the national recession. According to the Bureau of Labor Statistics, as of September 2011, the average unemployment rate in the AA was 6.0%. However, this was lower than both the state and national rates of 6.5% and 9.1%, respectively. The unemployment rate for the AA is historically below the state and national rates. Mortgage originations in the state have declined from \$87 billion in 2007 to \$27 billion in 2010. Personal bankruptcies rose from 18,884 to 37,664 during the same period. However, the state's unemployment rate remains more than 2 percentage points below the national rate.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

CornerStone'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 assessment area. The borrower distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes.

Loan-to-Deposit Ratio

CornerStone's loan-to-deposit (LTD) ratio is reasonable. The quarterly average LTD ratio for the eleven quarters since the bank opened is 88.69 percent. We identified one similarly situated bank in the AA with a quarterly average LTD ratio of 91.17 percent for the same period.

Lending in Assessment Area

A majority of CornerStone's loans are located inside the assessment area. Of the total number of loans reviewed, 57.50 percent are located inside the assessment area. 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 assessment area. The following table provides further detail by primary product.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	13	65.00	7	35.00	20	1,809	58.99	1,258	41.01	3,067
Business	10	50.00	10	50.00	20	840	61.25	532	38.75	1,372
Totals	23	57.50	17	42.50	40	2,649	59.69	1,790	40.31	4,439

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.

Residential Mortgage Loans

The distribution of loans to borrowers of different incomes reflects reasonable penetration. Although CornerStone does not meet the standard for home loans to low- and moderate-income families when compared to the demographic comparators in the table below, we gave consideration to several factors impacting the AA. We considered the significant decrease in mortgages originated and decline in existing home prices in Virginia, an effect of the national recession. Additionally, the weighted average median cost of housing in the AA is \$98,744. According to 2010 HUD data, the median family income is \$53,300 with low-income families earning \$26,649 or less and moderate-income families earning from \$26,650 to \$42,639. Also, 13.15 percent of households are below the poverty level. These factors limit the opportunities for home loans to low- and moderate-income borrowers. A community contact stated that the financial institutions serving the area are satisfying the credit needs of the qualified home purchasers. Also, 27.07 percent of the total housing units in the AA are rental units with an average monthly gross rent of \$439, making renting versus buying in the AA an

attractive choice.

The following table 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.

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	15.99%	6.13%	15.75%	1.53%	24.53%	19.27%	43.73%	73.07%

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

Business Loans

The distribution of loans to businesses of different sizes reflects reasonable penetration. In terms of the number of loans originated, the percentage of loans CornerStone made to businesses with gross annual revenues less than or equal to \$1 million is not significantly lower than the percentage of businesses within the assessment area with gross annual revenues less than or equal to \$1 million.

The following table details the bank’s performance in lending to businesses of different sizes for the evaluation period.

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	72.57%	2.20%	25.23%	100.00%
% of Bank Loans in AA by #	65.00%	35.00%	0.00%	100.00%
% of Bank Loans in AA by \$	41.32%	58.68%	0.00%	100.00%

Source: Loan Sample; Dun and Bradstreet Data

Geographic Distribution of Loans

This criterion is not applicable. The assessment area is devoid of low and moderate income areas. The income distribution of geographies in the assessment area is not sufficient for a meaningful analysis of the geographic distribution of the bank's loans in its assessment area.

Responses to Complaints

CornerStone received no complaints regarding 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

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