



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 8, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Cornerstone National Bank & Trust Company
Charter Number: 24114

One West Northwest Highway
Palatine, IL 60067

Office of the Comptroller of the Currency
Central District
ADC-Chicago North
2 Century Centre
1700 E. Golf Road, Suite 800
Schaumburg, IL 60173

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 Cornerstone National Bank & Trust Company (CNB&T) rating includes:

- The loan-to-deposit ratio is excellent given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of the loans are in the bank's AA.
- A vast majority of loans to businesses are small loans and the bank's overall distribution of Home Mortgage Disclosure Act (HMDA) loans to low- and moderate-income borrowers is good.
- The bank has invested an adequate amount in qualified community development investments and loans.
- Retail services are readily accessible to individuals of various income levels within the bank's AA.

Scope of Examination

This Community Reinvestment Act (CRA) examination covers the bank's lending performance from January 2006 through August 2008. In addition the bank's community development activities from January 2006 through December 2008 were analyzed.

The bank's business strategy is focused on commercial lending. The scope of the CRA examination included an assessment of the bank's primary loan type which is small business lending. Also we analyzed the bank's real estate mortgage data captured on the Home Mortgage Disclosure Act Loan Application Register (HMDA LAR).

Our analysis included a sample of the bank's commercial loans originated during our evaluation period and 100% of the HMDA loans originated or purchased by CNB&T during the performance periods noted above.

We used deposit information, reported to the Federal Deposit Insurance Corporation, to determine the bank's deposit market share and market presence within its AA. The latest deposit information available for use was as of June 30, 2008.

Description of Institution

As of September 30, 2008, CNB&T is a \$353 Million intrastate financial institution located in Palatine, IL. Palatine is a suburb of Chicago, IL and is approximately 28 miles northwest of the city. The bank has one branch located in Crystal Lake, IL, a far northwest suburb of Chicago. CNB&T is 100% owned by Cornerstone Bancorp Inc., a one-bank holding company. CNB&T was founded in October 2000 with the business objective of providing high level of service to all and establishing long term relationships with individuals, families and small to medium-sized businesses. The bank does not have any affiliates.

CNB&T is a full service bank offering a variety of loan products. The bank's primary lending focus is commercial lending to small and mid-sized businesses. As of September 30, 2008 the loan portfolio totaled \$329 million and consisted of: 58% commercial and commercial real estate, 40% 1-4 family real estate, 1% multi-family loans, and 1% consumer loans.

CNB&T has the financial capacity to assist in meeting the credit needs of its AA. There are no legal or financial constraints that impede the bank's ability to help meet the credit needs in its AA.

CNB&T last performance evaluation under the Community Reinvestment Act was dated September 29, 2003 and performed under the small bank standards. The bank's overall level of performance was rated "Satisfactory". This performance evaluation is being conducted under the Intermediate Small Bank performance standards.

Description of Assessment Area(S)

CNB&T has delineated their AA as a portion of Lake County, Illinois, a Metropolitan Division (MD) of the Chicago Metropolitan Statistical Area (MSA) and contiguous portions of Cook, DuPage, Kane, and McHenry Counties, also part of the Chicago MSA. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The AA located in Lake County, Illinois consists of 42 census tracts. In the bank's Lake County Illinois MD AA there are no low-income census tracts and three moderate-income census tracts. Upper-income census tracts make up 64% of the bank's Lake County Illinois MD AA. 68% of the businesses have \$1 million or less in annual gross revenues and 60% have 1-4 employees. In the Lake County Illinois MD AA there are 11% low-income families and 13% moderate-income families, and 2% of the AA's families are below the poverty level.

The bank's delineated Chicago MSA AA consists of 197 census tracts. In the Chicago MSA AA there are no low-income census tracts and six moderate-income census tracts.

Upper-income census tracts make up 49% of the bank's Chicago MSA AA. 66% of the businesses have \$1 million or less in annual gross revenues and 58% have 1-4 employees. In the Chicago MSA AA there are 11% low-income families and 15% moderate-income families, and less than 3% of the AA's families are below the poverty level.

Competition among financial institutions in the AA is strong. CNB&T competes with several large national and regional banks that are well established in their delineated community. According to the Federal Deposit Insurance Corporation's June 30, 2008 deposit market share report, CNB&T ranks 91st out of 238 financial institutions with offices in the counties that CNB&T have included in their delineation. Trends in the local economic arena are deteriorating and following the national recession climate.

During this evaluation we conducted one community contact and reviewed two other community contacts that were recently done in the bank's delineated area. The following credit programs were identified as being needed in the local communities served by CNB&T: small business lending, affordable housing loans, and homeownership and financial education seminars covering basic banking products and services. The community contacts stated that the financial institutions in the area have done an adequate job in getting involved with and supporting local charities and other community service organizations.

Conclusions with Respect to Performance Tests

LENDING TEST

The lending test is rated: Satisfactory.

Loan-to-Deposit Ratio

CNB&T's quarterly average loan to deposit ratio is excellent given the bank's size, financial condition, and AA credit needs. CNB&T's quarterly average loan-to-deposit ratio for the evaluation period from September 2003 through September 2008 was 98.39%. The quarterly loan-to-deposit ratio for other local financial institutions averaged at 83.56% for the period from September 2003 through September 2008.

Lending in Assessment Area

CNB&T's record of lending within its AA is reasonable as a majority of the bank's loans assessed during our examination were originated within the delineated AA. See the breakdown by loan type, number, and amount of loans in Table 1.

Table 1 - Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000s)
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
HMDA	44	51.16	42	48.84	86	14,687	52.60	13,236	47.40	27,923
Small Business	51	68.00	24	32.00	75	16,018	68.10	7,502	31.90	23,520
Totals	95	59.00	66	41.00	161	30,705	59.69	20,738	40.31	51,443

Source: HMDA Loans reported for 2006, 2007 and YTD 2008; Small Business a sample taken from commercial loans made in 2006, 2007 and YTD 2008.

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

Overall, the bank’s level of lending to small businesses within its AA is good. The bank’s lending performance to businesses of different sizes was assessed using loan size as a proxy as actual business revenue data was not readily available. In both the Lake County Illinois MD AA and the Chicago MSA AA, 80% or more of the loans originated from our sample were for \$500,000 or less. In the Lake County Illinois MD AA, a majority of the business loans from our sample in that AA were under \$100,000. In the Chicago MSA AA a majority of the loans from our sample in that AA were under \$250,000. See Tables 2 and 3 below.

Table 2 - Borrower Distribution of Loans to Businesses by Loan Size in Lake County Metropolitan Division AA			
Loan Size (000’s)	Number of Loans	Percent of Number	Cumulative Percentage
\$0 - \$100,000	6	60.00	60.00
\$100,001 - \$250,000	1	10.00	70.00
\$250,001 - \$500,000	1	10.00	80.00
\$500,001 - \$1,000,000	0	0.00	80.00
Over \$1,000,000	2	20.00	100.00

Source: Loan sample.

Table 3 - Borrower Distribution of Loans to Businesses by Loan Size in Chicago MSA AA			
Loan Size (000's)	Number of Loans	Percent of Number	Cumulative Percentage
\$0 - \$100,000	17	41.46	41.46
\$100,001 - \$250,000	10	24.39	65.85
\$250,001 - \$500,000	7	17.07	82.92
\$500,001 - \$1,000,000	5	12.20	95.12
Over \$1,000,000	2	4.88	100.00

Source: Loan sample.

Overall the bank's record of HMDA lending to low- and moderate-income borrowers in their AA is good. In the Lake County Illinois MD the bank's HMDA lending performance to low- income borrowers is poor as the bank did not make any loans to low-income applicants. However, the bank's HMDA lending performance to moderate-income borrowers is excellent as the percentage of loans made to moderate-income borrowers exceeded the percentage of moderate-income families in the AA. See Table 4 below. In the Chicago MSA AA the bank's HMDA lending performance to low-income borrowers is poor as the bank did not make any loans to low-income applicants. However, the bank's HMDA lending performance to moderate-income borrowers is excellent as the percentage of loans made to moderate-income borrowers exceeded the percentage of moderate-income families in the AA. See Table 5 below.

Table 4 - Borrower Distribution of Residential Real Estate Loans Lake County Metropolitan Division AA								
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
HMDA	10.57	0.00	13.37	16.67	21.39	33.33	54.67	50.00

Source: HMDA Data, 6 originated loans had income reported.

Table 5 - Borrower Distribution of Residential Real Estate Loans Chicago MSA AA								
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
HMDA	10.66	0.00	14.61	20.00	24.26	10.00	50.47	70.00

Source: HMDA Data, 20 originated loans had income reported.

Geographic Distribution of Loans

The bank’s overall geographic distribution of loans to moderate-income geographies in their AAs is poor. However, it should be noted that the bank’s opportunities to lend in these geographies is limited as the bank’s AAs are predominately middle- and upper-income areas. From the sample of small business loans reviewed during this evaluation, the bank did not make any loans in the moderate-income areas for either the Lake County Metropolitan Division AA or the Chicago MSA AA. In reviewing the complete commercial loan origination report for the evaluation period, we noted the bank did make three small business loans in the moderate-income census tracts in the Lake County Metropolitan Division AA for a total of \$1.6 million. In addition, we noted the bank did originate 13 small business loans in the moderate-income census tracts in the Chicago MSA AA for a total of \$1.9 million. Tables 6 and 7 below show the bank’s distribution of commercial loans from our sample.

Table 6 - Geographic Distribution of Loans to Businesses in Lake County Metropolitan Division AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Small Business	NA	NA	7.39	0.00	31.09	19.51	60.70	80.49

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

Table 7 - Geographic Distribution of Loans to Businesses in Chicago MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Small Business	NA	NA	3.74	0.00	45.20	20.00	51.06	80.00

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

While the bank’s geographic distribution of HMDA loans in the Lake County Metropolitan Division AA is poor with no loans having been originated in the moderate-income census tracts, the bank’s geographic distribution of HMDA loan in the Chicago MSA AA is excellent. The bank originated a greater percentage of loans in the Chicago MSA AAs moderate-income census tracts than the percentage of the AAs owner occupied units located in the moderate-income tracts. See Tables 8 and 9 below.

Table 8 - Geographic Distribution of Residential Real Estate Loans Lake County Metropolitan Division AA								
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
HMDA	NA	NA	6.23	0.00	30.34	25.00	63.44	75.00

Source: HMDA Data.

Table 9 - Geographic Distribution of Residential Real Estate Loans Chicago MSA AA								
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
HMDA	NA	NA	1.89	3.13	45.13	28.13	52.98	68.75

Source: HMDA Data.

COMMUNITY DEVELOPMENT TEST

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

Number and Amount of Community Development Loans and Investments

The bank’s level of qualified loans and investments made during the review period is adequate considering the limited opportunities for qualified community development activities in the bank’s AAs. The bank made two community development loans totaling \$250,000 during the evaluation period. In addition, the bank made 32 qualified investments, including donations totaling \$528,000 during the evaluation period.

Extent to Which the Bank Provides Community Development Services

During this evaluation period the bank opened a new full service branch. This new branch provided the bank the opportunity to expand their AA and reach out to new markets. The bank’s retail services are reasonably accessible to all individuals with the

delineated AAs. Both locations have drive up facilities, reasonable hours of operation and at least one 24 hour accessible ATM. In addition to traditional avenues of delivery, the bank also offers 24/7 access to accounts via the internet as well as offering bank-by-mail.

Bank employees participate in numerous local charitable organizations. During the evaluation period seven bank employees provided community development services to six non-profit organizations by providing financial expertise to the organizations in a variety of positions, including treasurer of a board, assisting the preparation of income tax returns for clients, and by chairing several fund raising committees.

Responsiveness to Community Development Needs

The level of community development initiatives undertaken by the bank demonstrates an adequate responsiveness to the community development needs of its AA.

Although a significant majority of the geographies within the AAs are middle- and upper-income, the bank seeks community development opportunities through their participation in civic, non-profit, and charitable organizations through-out the AAs. Services provided during the review period included a range of organizations that address community development needs including affordable housing, small business development, and social services to low- and moderate-income individuals.

Responses to Complaints

CNB&T has not received any written comments or complaints regarding its performance in its efforts to help meet the credit needs of their delineated AAs during the evaluation period. The OCC has not received any written comments, complaints, or inquiries concerning CNB&T and its effort to comply with the spirit and intent of the CRA.

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.