



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**March 27, 2012**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Cornerstone National Bank  
Charter Number 23870

1670 East Main Street  
Easley, SC 29642-0000

Office of the Comptroller of the Currency

ADC-CHARLOTTE (8116) Field Office  
212 South Tryon Suite 700  
Charlotte, NC28281

**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.**

Cornerstone National Bank's performance rating is supported by the following factors:

- The bank's quarterly average loan-to-deposit ratio is reasonable based on the bank's size, financial condition, and relevant competitive factors;
- A substantial majority of the bank's loans are made within its assessment area (AA);
- The distribution of loans to borrowers of different income levels and to businesses of different sizes reflects reasonable penetration;
- The bank's geographic distribution of loans within its AA reflects reasonable dispersion throughout the AA; and
- No complaints were received during this evaluation period.

**SCOPE OF EXAMINATION**

This Performance Evaluation assesses Cornerstone National Bank's (CNB) capacity to help meet the credit needs of the community in which it operates. The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area (AA) through its lending activities. We assessed the bank's performance by reviewing a sample of 53 commercial loans originated between January 1, 2009 and December 31, 2011. In addition, we reviewed home mortgages reported under the Home Mortgage Disclosure Act (HMDA) from January 1, 2009 through December 31, 2011. Consumer loans are not a primary product and were not reviewed during this evaluation period and there are no agricultural related loans. We used the 2000 United States (U.S.) Census demographic information that included the revised MSA boundaries and definitions established by the Office of Management Budget.

**DESCRIPTION OF INSTITUTION**

CNB is an intrastate institution headquartered in Easley, South Carolina (SC) with three full service-banking locations. The bank opened in 1999 and is wholly owned by a single bank holding company, Cornerstone Bancorp (CB), also located in Easley, SC. CNB's main office is located in the Easley, SC area of Pickens County. There is one branch office in the Berea, SC area of Greenville County. The third office is located in the Powdersville, SC area of Anderson County. In 2004, the bank established a wholly owned subsidiary, Crescent Financial Services, which is an insurance agency that engages in limited operations. CB reported total assets of \$164 million as of December 31, 2011 and \$174 million as of December 31, 2010.

CNB offers a variety of products and services, which include drive-up facilities and automated teller machine access at all of the branches, as well as telephone and internet-banking services with 24-hour access to customer account information. It provides internet-banking access at [www.cornerstonenationalbank.com](http://www.cornerstonenationalbank.com). On line banking services include account balance inquiries, funds transfer, and bill pay services.

CNB offers a variety of lending programs with a primary focus on commercial lending, and to a lesser extent, residential real estate lending. Commercial loans are available to finance working capital, business expansion, and purchase of equipment and machinery. Residential mortgage loans are available for terms less than 15 years. Up until November 2009, the bank had a mortgage loan brokerage department that accepted mortgage loans with terms greater than 15 years. The bank processed these applications and then sent them to third parties for underwriting. The third parties approved, funded, and closed the loans in their names. Due to the decline in residential mortgage lending, the bank suspended its mortgage brokerage activities.

Business lending represents 79 percent of the total loan portfolio with the remaining 21 percent in consumer lending. This is consistent with the institution's overall strategic goals and objectives.

The following table highlights the composition of the bank's loan portfolio:

<b>Distribution of Loan Portfolio</b>		
<b>Loan Type</b>	<b>Dollars of Loans (\$000s)</b>	<b>% by Dollars of Loans</b>
<i>Commercial Real Estate including Commercial &amp; Industrial</i>	\$73,101	79.09%
Non-farm Non-residential Properties	\$40,006	
Construction and Land Development	\$24,201	
Commercial and Industrial	\$ 8,894	
<i>Residential Real Estate, including Multifamily</i>	\$18,645	20.17%
Secured by 1-4 Family Residential by 1 <sup>st</sup> liens	\$ 8,250	
Secured by 1-4 Family Residential by junior liens	\$ 112	
Secured by 1-4 Family Residential, open-end	\$ 5,979	
Construction 1-4 Family	\$ 2,610	
Secured by Multifamily (5 or more) Residential	\$ 1,694	
<i>Consumer</i>	\$ 687	0.74%
<i>Total</i>	\$92,433	100%

Source: Consolidated Report of Condition & Income (December 31, 2011)

On May 12, 2010, CNB entered into a Formal Agreement with the Office of the Comptroller of the Currency (OCC). The Formal Agreement requires the Board to develop strategies to maintain sufficient capital amounts, to reduce the bank's high level of commercial real estate loans, and to reduce the bank's overall credit risk.

CNB's rating at the preceding CRA examination, dated October 26, 2006, was "Satisfactory."

## DESCRIPTION OF ASSESSMENT AREA(S)

CNB's assessment area (AA) meets the technical requirements of the CRA and does not arbitrarily exclude low- and moderate-income census tracts. The defined AA consists of Greenville, Pickens, and Anderson Counties for a total of 150 census tracts. Greenville and Pickens County are a part of the Greenville Metropolitan Statistical Area (GP-MSA #24860). Anderson County is part of the Anderson Metropolitan Statistical Area (A-MSA#11340). All three counties are a part of the Greenville-Anderson-Seneca Combined Statistical Area.

Competition in the AA is strong and includes many financial options. As of June 30, 2011, the Federal Deposit Insurance Corporation (FDIC) reported thirty-eight financial institutions, with two hundred and sixty-two offices, operate in the AA. The FDIC's deposit market share report, for the same time period, reflects 35 banks, with 190 total offices, operate in the Greenville MSA AA and 21 banks, with 63 offices, operating in the Anderson MSA AA. Such banks hold over \$14 billion in deposits. CNB's market share of this deposit base was less than 1 percent. Five regional banks held 64 percent of the market share in the Greenville MSA AA and 50 percent in the Anderson MSA AA. Non-bank institutions offer additional financial services. Major competitors also include offices/branches of large, regional and local community banks.

### *Greenville-Pickens MSA AA*

Greenville and Pickens Counties are located in the northwestern region of SC, with the city of Greenville as the county seat and the latest city in the county. These counties are part of the Greenville South Carolina Metropolitan Statistical Area. They were formerly a part of the Greenville-Spartanburg-Anderson MSA; however, metropolitan area designations changed as a result of the 2000 U.S. Census. The Greenville MSA also includes Laurens and Pickens County. Greenville County's population has grown moderately over the past decade. According to the 2000 U.S. Census, the population of Greenville County grew by 18.6 percent to 379,616. Pickens County's population grew by nearly 18 percent to 110,757. Manufacturing, government, and retail services primarily supports the local economy. The five largest employers in Greenville County are the School District of Greenville County, Greenville Hospital System, Bon Secours -Saint Francis Health System, GE Energy, and the South Carolina State Government. The five largest employers in Pickens County are the State of South Carolina, Clemson University, the School District of Pickens County, Aramark Services, and Pickens County Government.

The 2000 U.S. Census report shows Greenville County as being comprised of 5 low-, 24 moderate-, 38 middle-, and 23 upper-income census tracts. It shows Pickens County as having no low-income, 4 moderate-income, 19 middle-income, and 3 upper-income census tract. Of the two branches located in Greenville County, one is located in a middle- and the other is in a moderate-income census tract.

The following table highlights the demographic and economic composition of the bank's Greenville-Pickens MSA AA:

<b>Demographic and Economic Characteristics of Pickens-Greenville AA</b>	
<i>Population</i>	490,373
Number of Families	131,280
Number of Households	191,041
% Owner-Occupied	63%
% Occupied Rentals	28%
% Vacant	9%
<i>Geographies</i>	
Number of Census Tracts	116
% Low-Income Census Tracts	4.31%
% Moderate-Income Census Tracts	24.14%
% Middle-Income Census Tracts	49.14%
% Upper-Income Census Tracts	22.41%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$47,387
2011 HUD-Adjusted MFI	\$58,300
<i>Economic Indicators</i>	
Unemployment Rate*: Greenville MSA	7.7%
Unemployment Rate*: Greenville County	7.2%
Unemployment Rate*: Pickens County	8.6%
South Carolina Unemployment Rate*	10.0%
2000 Median Housing Value	\$103,316
% of Households Below Poverty Level	11%

*Source: 2000 U.S. Census Data; U.S. Department of Labor (February 2012)*

During this evaluation, we made a community contact to discuss the credit needs of the AA. According to this contact, Pickens County has recovered from the economic recession. However, there is a shortage in the skilled labor force for the manufacturing industry. In addition, there is an inadequate supply of existing buildings to meet future expansion needs of manufacturing companies.

### ***Anderson MSA AA***

Anderson County is located approximately half way between Atlanta, Georgia, and Charlotte, North Carolina, along U.S. Interstate 85 in the Piedmont Plateau section of Northwestern South Carolina. Anderson County is approximately 220 miles inland in the foothills of the Blue Ridge Mountains. Anderson County's population has grown moderately over the past decade. County population increased by 14.2 percent to 165,740. Anderson County is part of the Anderson MSA, formerly a part of the Greenville-Spartanburg-Anderson MSA. The change in metropolitan area designation occurred as a result of the 2000 Census. The City of Anderson, and county seat, is the largest township in the county.

Anderson’s economy revolves around manufacturing. The top major industries in Anderson include manufacturers of automotive products, metal products, industrial machinery, plastics, publishing and textiles. The five largest employers in the county by facility are Anderson County School District, AnMed Health, Electrolux Home Products, State of SC Budget and Control, and Robert Bosch Corporation. The major manufacturing employers are Electrolux, Robert Bosch Corporation, and Michelin North America Incorporated.

According to the 2000 U.S. Census, Anderson County is comprised of no low-income, 6 moderate-income, 23 middle-income, 4 upper-income census tracts, and 1 tract is not classified. CNB’s office in Powdersville is located in the northwestern portion of Anderson County, in an upper-income census tract. This upper-income census tract is not near moderate-income tracts. With the distance of the branch office from the five moderate-income tracts, CNB’s lending opportunity within these moderate-income geographies would be somewhat limited.

The following table highlights the demographic and economic composition of the bank’s Anderson MSA AA:

<b>Demographic and Economic Characteristics of Anderson SC MSA</b>	
<i>Population</i>	165,740
Number of Families	47,518
Number of Households	65,690
% Owner-Occupied	68%
% Occupied Rentals	21%
% Vacant	10%
<i>Geographies</i>	
Number of Census Tracts	34
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	17.65%
% Middle-Income Census Tracts	67.65%
% Upper-Income Census Tracts	11.76%
% Unclassified Census Tracts	2.94%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$44,322
2011 HUD-Adjusted MFI	\$55,300
<i>Economic Indicators</i>	
Unemployment Rate*: Anderson MSA	9.8%
South Carolina Unemployment Rate*	10.0%
2000 Median Housing Value	\$82,839
% of Households Below Poverty Level	13%

*Source: 2000 U.S. Census Data; U.S. Department of Labor (February 2012)*

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's overall lending performance is "Satisfactory." This conclusion is based on the results of the following specific lending tests used to determine if the bank is meeting the credit needs of the AA. All criteria of the specific lending tests are documented below.

### Loan-to-Deposit Ratio

CNB's average loan-to-deposit ratio is reasonable considering the size of the bank and the competition in the AA. We reviewed the quarterly average LTD ratio for the 23 quarters beginning June 30, 2006 through December 31, 2012. Since our last examination in October 2006, the bank's average quarterly LTD ratio is 88.06 percent, which compares favorably to the average quarterly LTD among banks of similar size in South Carolina, which was 75.10 percent.

### Lending in Assessment Area

CNB's lending levels reflect a satisfactory responsiveness to community credit needs. Our analysis revealed a substantial majority of the number and dollar amount of residential mortgage loans and business loans evaluated were originated within the bank's AA. Our review of 53 commercial real estate and commercial loans and HMDA loans revealed that 91.25 percent in number and 86.15 percent in dollar volume are made in CNB's AA. Performance for each category reviewed is detailed in the following table:

Assessment Area Lending (Evaluation Period January 2009 to December 2011)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage Loans	41	91.11%	4	8.89%	45	\$5,174	80.15%	\$1,281	19.85%	\$ 6,455
Commercial Loans	53	91.38%	5	8.62%	58	\$10,138	89.57%	\$1,181	10.47%	\$11,319
<b>Totals</b>	<b>94</b>	<b>91.25%</b>	<b>9</b>	<b>8.74%</b>	<b>103</b>	<b>\$15,312</b>	<b>86.15%</b>	<b>\$2,462</b>	<b>13.85%</b>	<b>\$17,774</b>

Source: HMDA Data and Loan Sampling

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

The distribution of loans to borrowers of different incomes and to businesses of different sizes reflects reasonable penetration, given the demographics of the AA. Due to the small number (a total of four loans) of residential mortgage loans in the Anderson AA, no meaningful analysis was possible.

Commercial lending, particularly small business lending, is the bank’s primary business line. The distribution of small business loans carried the most weight in determining lending performance. Residential mortgage loans were given less weight as the majority of loans originated were non-owner occupied and it is not a significant activity for the bank. Our review included a sample of 30 business loans from the Greenville-Pickens MSA AA and 23 business loans from the Anderson MSA AA. In addition, our review included all residential mortgage loans reported under HMDA. The following details the bank’s lending by MSA AA.

Small Business Lending in the Greenville-Pickens MSA AA

Loans to businesses with revenues of one million or less represented 70 percent of reportable small business loans in the Greenville MSA AA, which exceeds the 66.19 percent of area businesses that reported revenues of less than one million. In addition, 73 percent were for original amounts of less than \$250 thousand.

The following tables indicate the bank’s responsiveness to providing small business lending:

<b>Borrower Distribution of Loans to Businesses/Farms in Pickens-Greenville MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66.19%	3.17%	30.64%	100%
% of Bank Loans in AA by #	70.00%	23.33%	6.67%	100%
% of Bank Loans in AA by \$	72.91%	22.42%	4.67%	100%

*Source: Sample of loans & Dunn and Bradstreet data*

<b>Borrower Distribution of Loans to Businesses by Loan Size in Pickens-Greenville MSA AA</b>				
Loan Size (000's)	# of Loans	% of Number	\$ Volume of Loans (000)	% of \$ Volume
\$0 - \$100,000	19	63.33%	\$ 1,026	14%
\$100,001 - \$250,000	3	10.00%	\$ 585	7%
\$250,001 - \$500,000	4	13.33%	\$ 1,355	18%
\$500,001 - \$1,000,000	3	10.00%	\$ 2,311	31%
Over \$1,000,000	1	3.33%	\$ 2,260	30%
<b>Total</b>	<b>30</b>	<b>100%</b>	<b>\$ 7,537</b>	<b>100%</b>

*Source: Sample of loans*

Small Business Lending in the Anderson MSA AA

Loans to businesses with revenues of one million or less represented 78 percent of reportable small business loans in the Anderson MSA AA, which exceeds the 67.28 percent of area businesses that reported revenues of less than one million. In addition, 91 percent were for original amounts of less than \$250 thousand.

The following tables indicate the bank’s responsiveness to providing small business lending:

<b>Borrower Distribution of Loans to Businesses/Farms in Anderson MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67.28%	2.53%	30.19%	100%
% of Bank Loans in AA by #	78.26%	13.04%	08.70%	100%
% of Bank Loans in AA by \$	85.27%	8.08%	06.65%	100%

*Source: Sample of loans & Dunn and Bradstreet data*

<b>Borrower Distribution of Loans to Businesses by Loan Size in Anderson MSA AA</b>				
Loan Size (000's)	# of Loans	% of Number	\$ Volume of Loans (000)	% of \$ Volume
\$0 - \$100,000	14	60.87%	\$ 504	19%
\$100,001 - \$250,000	7	30.43%	\$ 1,094	42%
\$250,001 - \$500,000	1	4.35%	\$ 260	10%
\$500,001 - \$1,000,000	1	4.35%	\$ 743	29%
Over \$1,000,000	0	0.00%	\$ 0	0%
<b>Total</b>	<b>23</b>	<b>100%</b>	<b>\$2,601</b>	<b>100%</b>

*Source: Sample of loans*

Residential Mortgage Lending in the Greenville-Pickens MSA

The borrower distribution of residential mortgage loans reflects reasonable dispersion considering AA characteristics. The percentage of residential mortgage loans to low-income borrowers is significantly lower than the percentage of low-income families in the Greenville-Pickens MSA AA. This low level of penetration is reasonable considering that 11 percent of families are below the poverty level, which impedes their ability to qualify for a residential mortgage loan.

The borrower income distribution of residential mortgage loans to moderate-income borrowers is reasonable compared to the percentage of moderate-income families residing in the Greenville Pickens MSA AA.

The following tables show the percentage of residential mortgage loans in the AA compared to the percentage of families by income level residing in the Greenville-Pickens and MSA AA:

<b>Borrower Distribution of Residential Real Estate Loans in Greenville &amp; Pickens MSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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 Mortgage	19.07%	7.14%	17.88%	14.29%	21.74%	14.29%	41.32%	64.29%

*Source: HMDA Data & 2000 U.S. Census data*

## Geographic Distribution of Loans

The distribution of business loans and residential real estate loans by income of the geography reflects reasonable dispersion. Due to the small number of residential mortgage loans originated (a total of four loans) within the Anderson MSA AA, no meaningful geographic distribution analysis was possible. The distribution of small business loans received the most weight in evaluating the bank’s geographic distribution of loans because business lending represents the majority of the bank’s lending activity. Our review included HMDA-reportable loans and 30 business loans from the Greenville-Pickens MSA AA and 23 business loans from the Anderson MSA AA. Due to the small number of residential mortgage loans originated (a total of four loans) within the Anderson MSA AA, no meaningful geographic distribution analysis was possible. The following details the bank’s performance in the AA.

### Small Business Lending in the Greenville-Pickens MSA AA

CNB’s geographic distribution of loans to small businesses of various sizes reflects a reasonable dispersion throughout the bank’s Greenville-Pickens MSA AA with 16.67 percent of the number of loans in low- and moderate-income tracts compared to the percent of AA businesses in low- and moderate-income census tracts of 17.28 percent.

The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level:

<b>Geographic Distribution of Loans to Businesses/Farms in Greenville-Pickens MSA AA</b>										
Census Tract Income Level	Low		Moderate		Middle		Upper		Not Applicable	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans
Commercial	2.95%	6.67%	14.33%	10.00%	50.59%	63.33%	32.13%	20.00%	0.00%	0.00%

*Source: Sample of loans & Dunn and Bradstreet data*

### Small Business Lending in the Anderson MSA AA

CNB’s geographic distribution of loans to small businesses of various sizes reflects a reasonable dispersion throughout the Anderson MSA AA. The bank’s penetration of loans in moderate-income census tracts was below the percentage of businesses located in moderate-income geographies at 4.35 percent. This percentage was low compared to the percentage of AA businesses in moderate-income census tracts of 12.90 percent. Several factors impact the bank’s ability to effectively penetrate moderate-income geographies. The bank’s office in the Powdersville area of Anderson County is not close to the moderate-income census tracts. The moderate-income geographies are located in and around the city of Anderson, SC. CNB also faces significant competition for commercial loans in the Anderson MSA AA from a number of financial institutions located in the Anderson area. According to information derived from the FDIC, there are 20 other banks operating 62 branch offices in the Anderson AA. Further, the slow down in economy conditions combined with management’s efforts to comply with the commercial lending requirements in the Formal Agreement with the OCC affected the bank’s

efforts to aggressively pursue lending commercial lending opportunities in Anderson County.

The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level:

<b>Geographic Distribution of Loans to Businesses/Farms in Anderson MSA AA</b>										
Census Tract Income Level	Low		Moderate		Middle		Upper		Not Applicable	
Loan Type	% of AA Business/Farms	% of Number of Loans	% of AA Business/Farms	% of Number of Loans	% of AA Business/Farms	% of Number of Loans	% of AA Business/Farms	% of Number of Loans	% of AA Business/Farms	% of Number of Loans
Commercial	0.00%	0.00%	12.72%	4.35%	63.43%	60.87%	22.42%	34.78%	1.43%	0.00%

Source: Loan sample & Dunn and Bradstreet data

Residential Mortgage Lending in the Greenville-Pickens MSA

The bank’s geographic distribution of residential mortgage loans in the Greenville-Pickens MSA AA was reasonable. The distribution of residential mortgage loans in low- income geographies in the Greenville-Pickens MSA AA is poor compared to the percentage of owner occupied housing in low-income geographies. The bank’s ability to originate loans within the low-income census tracts may be impacted by the bank’s lack of offices in low-income census tracts. The five low-income census tracts that surround the city of Greenville are not close to the bank’s office located in the Berea area of Greenville County. Further, competition from numerous financial institutions and the small percentage of owner-occupied housing units may impact the bank’s lending opportunities in the low-income geographies. The bank’s distribution of residential loans in moderate-income census tracts is reasonable compared to the percentage of owner occupied housing units in moderate-income census tracts.

The following tables reflect the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level:

<b>Geographic Distribution of Residential Real Estate Loans in Greenville-Pickens MSA AA</b>								
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
Residential RE	1.25%	0.00%	15.78%	13.51%	53.67%	70.27%	29.30%	16.22%

Source: HMDA Data & 2000 U.S. Census data

### **Responses to Complaints**

Management has not received any CRA related complaints since the last examination. However, an informal response process is in place to address such complaints when they are received.

### **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.