



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 24, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Coastal Carolina National Bank
Charter Number 24861

2305 North Oak Street
Myrtle Beach, SC 29577-0000

Office of the Comptroller of the Currency

ADC-CHARLOTTE (8116) Field Office
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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 that support this rating include:

- The bank's quarterly average loan-to-deposit ratio is reasonable based on the bank's size, financial condition, area credit needs, and relevant competitive factors;
- A substantial majority of loans were originated within the bank's assessment area;
- Reasonable distribution of loans to borrowers of different income levels within the assessment area;
- Reasonable distribution of loans to businesses of different sizes, particularly to small businesses;
- Reasonable geographic dispersion of loans in the assessment area;
- The bank received no complaints about its performance in helping to meet the credit needs of its AA.

SCOPE OF EXAMINATION

We performed a full-scope evaluation of Coastal Carolina National Bank's (CCNB) performance using small bank Community Reinvestment Act examination procedures. Our review covered the bank's CRA performance from the date of its opening, June 8, 2009, through December 31, 2011. Based upon the bank's business strategy and the loans originated during the evaluation period, we determined that residential mortgage loans and business loans are the bank's primary loan products. We reviewed the bank's home mortgage loans reported under the Home Mortgage Disclosure Act (HMDA) for 2010 and 2011 (the bank was not subject to HMDA reporting requirements in 2009). In addition, we reviewed a sample of 34 business loans that the bank originated since its opening in June 8, 2009 through December 31, 2011. Business loans are not a primary product and were not reviewed during this evaluation period and there are no agricultural related loans.

DESCRIPTION OF INSTITUTION

CCNB is a \$93 million locally owned community bank headquartered in Myrtle Beach, South Carolina. The bank was established on June 8, 2009, as a full service, intrastate institution, offering a standard array of traditional loan and deposit products. Home mortgage loans are offered for the purchase, refinance, and construction of residential dwellings. In addition, business loans are available for various purposes including business acquisitions, lines of credit for inventories and receivables, real estate acquisitions, and purchase of equipment. The bank's website at www.myccnb.com provides a listing and description of all deposit and loan services. CCNB is a wholly owned subsidiary of Coastal Carolina Bancshares, a one-bank holding company established in February 2008 with total assets of \$14.1 million as of December 31,

2011. The holding company is also located in Myrtle Beach, South Carolina. Neither the bank nor the holding company has any other subsidiaries. There has been no merger or acquisition activity during the evaluation period.

Coastal Carolina has a single office located in the city of Myrtle Beach in an upper-income census tract in Horry County. The bank's office features a drive through banking facility. As a new bank, CCNB has faced staffing shortages which created challenges in generating home mortgage and business loans. During the review period, the bank had only one home mortgage lender who was also responsible for the administration of the bank's mortgage lending department. There was also turnover in business lending staff as well as in senior management. In late 2010, the bank hired two new business lenders and in 2011, the bank's president resigned. A new president was hired in March 2012.

As of December 31, 2011, CCNB reported \$93 million in assets, \$53 million in net loans (which is 56 percent of total assets), \$70 million in total deposits, and Tier One capital of \$14.14 million. The bank's loan portfolio consists of home mortgage loans (42 percent), commercial and commercial real estate loans and construction and development loans (54 percent). The following table highlights the composition of the bank's loan portfolio:

Distribution of Loan Portfolio		
Loan Type	Dollars of Loans (\$000s)	% by Dollars of Loans
Commercial Real Estate including Commercial & Industrial	\$28,969	54.33%
Non-farm Non-residential Properties	\$20,460	
Construction and Land Development	\$ 4,070	
Commercial and Industrial	\$ 4,439	
Residential Real Estate, including Multifamily	\$22,523	42.24%
Secured by 1-4 Family Residential by 1 st liens	\$20,057	
Secured by 1-4 Family Residential by junior liens	\$ 0	
Secured by 1-4 Family Residential, open-end	\$ 372	
Construction 1-4 Family	\$ 798	
Secured by Multifamily (5 or more) Residential	\$ 1,296	
Consumer	\$ 1,833	3.44%
Total	\$ 53,325	100%

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

As new bank, CCNB has struggled to achieve profitability. Since opening in June 2009, the bank has experienced cumulative net losses of \$7.2 million.

CCNB's lending operations have been affected by local economic conditions as a result of the downturn in the real estate market which began in 2007. The deteriorated real estate market and economy has affected the bank's home mortgage lending and small business lending.

Numerous national, state, and savings banks, as well as branches of several regional institutions, provide major deposit and lending competition. According to the Federal Depository Institution Corporation's (FDIC) Market Share Report, as of June 30, 2011, CCNB ranked 16 out of 25 institutions in the Myrtle Beach-North Myrtle Beach-Conway SC MSA with 1.30 percent of total deposits. These 25 financial depository institutions operate 132 branch offices. The top five

competitors in the market holding 53 percent of total deposits are BB&T, Conway National Bank, Horry County State Bank, Wells Fargo Bank, and TD Bank.

There are no known legal, financial or other factors impeding CCNB's ability to help meet the needs of its community. This is CCNB's first CRA examination since its opening in June 2009.

DESCRIPTION OF ASSESSMENT AREA

CCNB'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 Myrtle Beach-North Myrtle Beach-Conway MSA #34820, which consists of the single county of Horry County, South Carolina.

Based on the 2000 U.S. Census data, it shows Horry County as being comprised of no low-, 7 moderate-, 27 middle-, and 9 upper-income census tracts. Four of the seven moderate-income census tracts are located in the northwestern and western portions of the county in the areas surrounding the cities of Loris and Conway. CCNB has one office in an upper-income census tract that is not near the 4 moderate-income tracts surrounding Loris and Conway. With the distance of the bank's office from these four moderate-income tracts, CNB's lending opportunities would be limited.

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

Demographic and Economic Characteristics of Myrtle Beach MSA AA	
Population	196,629
Number of Families	54,777
Number of Households	81,785
% Owner-Occupied	48%
% Occupied Rentals	18%
% Vacant	33%
<i>Geographies</i>	
Number of Census Tracts	43
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	16.28%
% Middle-Income Census Tracts	62.79%
% Upper-Income Census Tracts	20.93%
Median Family Income (MFI)	
2000 MFI for AA	\$43,192
2011 HUD-Adjusted MFI	\$54,300
Economic Indicators	
Unemployment Rate*: Myrtle Beach MSA	12.3%
South Carolina Unemployment Rate*	9.1%
2000 Median Housing Value	\$107,405
% of Households Below Poverty Level	11%

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

The economy in the AA is largely based upon tourism with retail services, accommodations, and food services being the primary industries. The five largest employers in Horry County are AVX Corporation, the City of Myrtle Beach, Coastal Carolina University, Conway Hospital, and Eastern Seaboard Manufacturing LLC. According to a community representative, while tourism increased by 23 percent in 2010, the tourism industry has not created any additional jobs. In addition, the housing and construction industries remain flat. Horry County is working to diversify the industry in Horry County (i.e. technology, marine, aviation, etc.)

Beginning in 2007 real estate values declined which resulted in a slow down in economic conditions within the AA. The slow economic conditions also impacted home mortgage activity. The following table reflects the decrease in peer HMDA reportable loan originations in the AA for the last five years.

Peer HMDA Data*	
Loan Originations Residential Mortgage Loans in Myrtle Beach-North Myrtle Beach-Conway, SC MSA	
Year	No. of Originations
2006	24,628
2007	18,031
2008	11,416
2009	12,154
2010	9,104

*Source: 2006 – 2010 Peer HMDA Data for all lenders subject to HMDA reporting requirements

Many businesses affected by the economic recession reduced staff or closed which increased unemployment rates in the AA. According to the South Carolina Department of Employment and Workforce, the unemployment rate in Horry County increased from 5 percent in 2007 to 11.9 percent in 2010. With poor economic conditions, the number of small business loan originations also decreased. Under the CRA, financial institutions meeting certain asset size requirements (currently institutions with assets greater than \$1.16 billion) are required to report certain information about small business and small farm loans. The following table reflects the decline in small business originations in the AA over the last five years:

Peer Business Lending Data	
Loan Originations in Myrtle Beach-North Myrtle Beach-Conway, SC MSA	
Year	No. of Originations
2006	15,091
2007	15,625
2008	12,004
2009	5,388
2010	4,065

Source: 2006-2010 Peer Business Data

During this evaluation, we conducted two community contacts to determine the credit and

community development needs within the AA. According to one community contact, the high cost of housing and the shortage of affordable housing are significant barriers for low- and moderate-income persons to obtain mortgage loans. With the lack of affordable housing in the Myrtle Beach area, many individuals live in outlying areas of Horry County or other adjoining counties and commute long distances to work in service-based jobs in Myrtle Beach. There also is a need for affordable rental housing in Myrtle Beach. Both community contacts stated that Myrtle Beach has a significant homeless population.

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

CNNB's average loan-to-deposit ratio (LTD) is reasonable considering the bank’s lending capacity, local economic conditions, and competition in the AA. We determined the bank’s quarterly average LTD ratio for the 23 quarters beginning June 30, 2009 through December 31, 2011. The bank's average quarterly loan-to-deposit ratio during this period was 40.90 percent. This ratio is well below the average quarterly loan-to-deposit among the bank’s peer group at 75.99 percent. The peer group includes national banks of similar asset size in South Carolina. During the 23-quarter period, the bank’s LTD ratio ranged from a low of 14.96 percent to a high of 64.54 percent. The peer quarterly average was 75.99 percent, with peer ratios ranging from a low of 44.49 percent to a high of 99.50 percent.

CCNB’s low loan-to-deposit ratio is a result of a number of factors. At the time the bank opened in June 2009, demand for lending significantly decreased because of the decline in real estate values and slowing economic conditions. Management noted that while the bank was successful in achieving deposit growth, the declining real estate market and the increase in problem real estate loans it was difficult to obtain safe and sound lending opportunities. In addition, the challenges of establishing a new bank in a very competitive market further impacted the bank’s lending opportunities.

Lending in Assessment Area

CCNB’s lending in its AA is reasonable. A substantial majority of CCNB’s primary loan products were originated within the bank’s AA. Our sample of business loans and review of HMDA loans revealed that 84.78 percent in number and 82.99 percent in dollar volume are made in CNNB’s AA. Performance for each category reviewed is detailed in the following table:

Assessment Area Lending										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage Loans*	95	81.90%	21	18.10%	116	\$18,222	68.99%	\$8,192	31.01%	\$26,414

Business Loans	25	73.53%	9	26.47%	34	\$5,434	62.26%	\$ 3,294	37.74%	\$8,728
Totals	120	84.78%	30	15.22%	150	\$21,851	82.99%	\$11,486	17.01%	\$35,142

Source: *HMDA Data- 2010 and 2011; Commercial Loan Sampling

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

Overall, CCNB's lending reflected reasonable penetration of borrowers of different incomes and businesses of different sizes. CCNB's distribution of small business loans carried the most weight in determining the bank's lending performance because the majority of the bank's home mortgage loans were secured by non-owner occupied dwellings rather than owner occupied dwellings. Approximately 74 percent of the bank's 2010 and 2011 HMDA-reportable loans were secured by non-owner occupied properties. In addition, no borrower income was reported for 25 percent of the HMDA-reportable loans. Our review included a sample of 25 business loans from the AA and all HMDA-reportable loans secured by properties located in the AA.

Business Lending

CCNB's distribution of loans sampled reflects a reasonable penetration of businesses of different sized. Our sample of 25 loans revealed 48 of the number and 44 percent of the dollar volume of small business loans were made to businesses with revenues of \$1 million or less. CCNB's distribution of loans to small businesses was slightly below the demographic ratios. We also analyzed loan amounts as a proxy for lending to small businesses. Based upon our sample, 80 percent of the total loans were for original amounts of less than \$250 thousand. Please refer to Table 1 and Table 2 below.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	69%	3%	27%	100%
% of Bank Loans in AA by #	48%	35%	11%	100%
% of Bank Loans in AA by \$	44%	62%	3%	100%

Source: Sample of loans & Dunn and Bradstreet data

Loan Size (000's)	# of Loans	% of Number	\$ Volume of Loans (000)	% of \$ Volume
\$0 - \$100,000	13	52%	\$ 844	15%
\$100,001 - \$250,000	17	28%	\$ 1,367	25%
\$250,001 - \$500,000	2	8%	\$ 567	10%
\$500,001 - \$1,000,000	2	8%	\$ 1,350	24%
Over \$1,000,000	1	4.00%	\$ 1,306	24.03%
Total	25	100%	\$ 3,629	100%

Source: Sample of loans

Other Secured Loans for Purposes of Small Businesses

CCNB originated a participation loan with the Myrtle Beach Downtown Redevelopment Corporation (MBDRC). The MBDRC works with local banks to offer low-interest rates to businesses adjacent to the downtown Myrtle Beach redevelopment area. Through this lending arrangement, CCNB originated a \$29,300 loan to a local business and the MRDRC purchased a \$14,650 participation in this loan.

In 2011 CCNB entered into a participation with the South Carolina Bank and Trust’s loan to the South Carolina Business Development Corporation of South Carolina. The South Carolina Business Development Corporation provides financing to “marginal small businesses” located throughout the state of South Carolina at reasonable costs. The bank’s participation totaled \$125,436.

CCNB originated a \$450,000 bridge loan to the Cherry Hill Missionary Baptist Church located in Conway South Carolina. This loan financed the church’s construction of a “charities building.” This building will serve as a distribution facility for free clothing, food and other sundries to low-income and needy persons in the community.

Home Mortgage Lending

Overall CCNB’s distribution of 1-to-4 family residential loans reflects a reasonable distribution of loans to borrowers of different income levels. While CCNB’s level of lending to low- and moderate-income families was below demographic comparators, we gave consideration to several factors impacting the AA. The 11 percent household poverty rate could limit the percentage of low-income families that could obtain a home mortgage loan. In addition, the high cost of housing and the shortage of affordable housing in the AA further impacted lending opportunities among low- and moderate-income individuals. The HUD 2011 adjusted median family income for the Myrtle Beach was \$54,300. Low-income borrowers are those with incomes of \$27,150 and below. Moderate-income borrowers are those with incomes of \$43,440 and below. During the review period, the bank’s ability to originate home mortgage loans was also impacted by slow economic conditions, limited resources as a new bank, and competition from numerous lenders in the AA. Please refer to Table 3 below.

Table 3 Borrower Distribution of Residential Real Estate Loans in Myrtle Beach 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
Home Purchase	18%	0%	20%	5%	23%	7%	39%	87%
Home Improvement	18%	0%	20%	0%	23%	0%	39%	0%
Home Refinance	18%	0%	20%	6%	23%	11%	39%	83%
Total	18%	0%	20%	5%	23%	8%	39%	86%

Source: 2010 and 2011 HMDA data and 2000 Census Data

Geographic Distribution of Loans

CCNB’s geographic distribution of business and residential mortgage loans reflects reasonable dispersion.

Business Loans

The bank’s distribution of business loans reflects reasonable dispersion in the AA. While CCNB’s percentage of lending in moderate-income census tracts was below area demographic characteristics, it was not considered unreasonable for a number of reasons. The bank office in Myrtle Beach is a significant distance from the four of the seven moderate-income census tracts located in the outlying. This distance tended to limit the bank’s ability to effectively serve credit needs in the outlying moderate-income census tracts. In addition, the bank’s limited resources as a new bank, competition from numerous lenders, and slow economic conditions the impacted CCNB’s ability to originate business loans. Please refer to Table 4 below.

Table 4 - Geographic Distribution of Loans to Businesses in Myrtle Beach-North Myrtle Beach-Conway, SC MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
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
Commercial Loan Sample	0%	0%	13%	4%	65%	48%	21%	48%

Source: Loan sample and Dunn and Bradstreet data.

Home Mortgage Lending

The bank’s geographic distribution of home loans reflects reasonable dispersion in the AA. The bank’s penetration of moderate-income census tracts nearly equaled the percentage of owner occupied housing units in the moderate-income geographies. Please refer to Table 5 below.

Table 5 Geographic Distribution of Residential Real Estate Loans in Myrtle Beach 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
Residential RE	0%	0%	9%	8%	58%	66%	22%	25%

Source: 2010 -2011 HMDA and 2000 Census Data

Community Development Loan

CCNB granted a \$400,000 to bridge loan to Home Alliance Inc. to construct a new 11-unit

apartment building for homeless women and homeless women with children in a moderate-income census tract. Home Alliance Inc., a non-profit, 501c(3) entity, develops affordable housing for low-income and homeless persons and families in Myrtle Beach and adjoining Georgetown County. Permanent financing for this \$1.7 million project will come from Community Development Block Grants from the City of Myrtle Beach, a grant from the Department of Housing and Urban Development's Neighborhood Stabilization Program, and the Waccamaw Regional Council of Governments.

Responses to Complaints

Management has not received any CRA related complaints. However, a formal 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.”