



PUBLIC DISCLOSURE

June 09, 2015

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

1700 East 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 Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors that support the rating include:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- The bank originates a majority of its loans within its AA.
- Lending to small businesses reflects reasonable penetration.
- The geographic distribution of small business loans reflects excellent dispersion throughout the AA.
- The bank's community development (CD) performance through CD loans, qualified investments, and services demonstrates good responsiveness to CD needs in the bank's AA.

Scope of Examination

Cornerstone National Bank & Trust Company (CNBT) was evaluated under the Intermediate Small Bank Community Reinvestment Act (CRA) examination procedures, which include a lending test and a CD test, to assess performance under the CRA. The lending test evaluated whether or not the bank's primary loan products, consisting of small business loans and home mortgage loans including home purchases and refinances, are helping to meet the credit needs of the AA. To evaluate the bank's loan volume we calculated an average quarterly loan and deposit ratio from September 30, 2012 through March 31, 2015.

The lending test evaluated the bank's primary loan types, small business and home mortgage loans, originated or purchased from January 2013 through December 2014. We reviewed a sample of 120 HMDA loans and 40 small business loans originated during 2013 and 2014. As the bank's strategic focus is more centered with commercial lending, more weight on the bank's small business lending performance was given throughout our lending test analysis.

We reviewed CD loans, investments, and services since the last CRA evaluation dated July 16, 2012 through June 9, 2015. All activities meeting the definition of CD per the CRA are included in this evaluation. Data used in our analysis was tested for validity prior to the evaluation and all data was found to be reliable.

CNBT's AA is located within the Chicago-Joliet-Naperville IL-IN-WI MSA, and includes parts of the Chicago metropolitan division (MD), Lake County MD, and (as of 2014) the

Elgin MD. Effective in 2014, Kane County and DeKalb County are no longer included in the Chicago MD, and now compose the Elgin MD. Due to these changes, this report contains separate analyses of 2013 and 2014 data where appropriate. We performed a full scope review of the Chicago MD, as 86 percent of deposits and the majority of lending activity occurs in this market area. We performed a minimum scope review of the bank's CRA performance in Lake County and Elgin MDs.

Description of Institution

CNBT is an intrastate financial institution headquartered in Palatine, Illinois, with \$465 million in assets as of March 31, 2015. The parent company is Cornerstone Bancorp, Inc., a one-bank holding company located in Palatine, Illinois. CNBT does not have any other affiliates. The bank operates two branches in addition to the main office that are located in Lake Zurich, Illinois and Crystal Lake, Illinois. The hours of operation as well as products and services offered at the branches are all similar. All three locations have 24-hour Automated Teller Machine (ATM) and Night Depository services.

The bank offers many traditional community banking products and services. As of March 31, 2015, the loan portfolio represented 66 percent of total assets. The bank is primarily a commercial lender (commercial real estate and commercial & industrial), and strategically focuses on small family-owned businesses.

As of March 31, 2015, the bank's loan portfolio totals \$300 million and consists of commercial real estate (49 percent), residential real estate (27 percent), commercial & industrial (20 percent), construction & development (2 percent), and consumer loans (1 percent) as of March 31, 2015. Tier 1 capital totaled \$53 million at March 31, 2015.

There are no legal or financial impediments limiting the bank's ability to help meet community credit needs. The last CRA evaluation dated July 16, 2012, rated the bank "Satisfactory".

Description of Assessment Area(s)

2013:

The bank has one AA located within the Chicago-Naperville-Joliet MSA, and consists of the Chicago and Lake County MDs. The counties included in the AA are portions of Cook, DuPage, Kane, Lake, and McHenry. The AA consists of 355 census tracts and is consistent with the regulation requirements.

As of December 31, 2013, the average unemployment level for the AA was 3.6 percent, and is significantly below the statewide average of 8.5 percent.

Table 1a - Assessment Area Demographic Info - 2013								
MD	Distribution of Census Tracts					Economic Data		Families Below Poverty Level
	Low	Moderate	Middle	Upper	Total	Median Income	Unemployment Level	
Chicago	3	44	128	138	313	\$73,400	3.76%	5%
Lake County	0	4	12	26	42	\$86,400	3.44%	2.2%

2014:

The bank has one AA located within the Chicago-Naperville-Elgin MSA, and consists of the Chicago, Lake County, and Elgin MDs. The counties included in the AA are portions of Cook, DuPage, Kane, Lake, and McHenry. The AA consists of 355 census tracts and is consistent with the regulation requirements.

As of December 31, 2014, the average unemployment level for the Chicago MD AA was 3.75 percent, and is below the statewide average of 5.8 percent.

Table 1b - Assessment Area Demographic Info - 2014								
MD	Number of Census Tracts					Economic Data		Families Below Poverty Level
	Low	Moderate	Middle	Upper	Total	Median Income	Unemployment Level	
Chicago	1	29	120	132	282	\$76,300	3.75%	5%
Lake County	0	4	12	26	42	\$84,200	3.44%	2.2%
Elgin	2	11	11	7	31	\$76,300	3.86%	7%

There is a significant amount of competition for deposits in the Chicago MD (Cook, DuPage, and McHenry counties) as it includes larger institutions such as JP Morgan Chase, BMO Harris, and Bank of America. These institutions have the highest deposit market share as they hold 26, 12, and 9 percent, respectively. CNBT ranks 66th out of 178 banks in total deposit market share at 0.11 percent. The local economy has remained relatively stable over the previous two years.

We conducted two community contacts within the bank’s AA during this evaluation. The contacts stated that the local banks are adequately catering to the credit needs of the community. Neither contact noted any significant weaknesses in the local economy. One contact stated that the community is in need of more affordable housing.

Conclusions with Respect to Performance Tests

CNBT’s overall performance under the lending test is satisfactory.

More weight was given to small business lending than home mortgage lending when evaluating lending performance as the bank’s primary strategic focus is more centered in commercial lending.

LENDING TEST

The lending test is rated Satisfactory. The bank's loan to deposit ratio is reasonable. Lending within the AA is reasonable. The bank's small business and geographic distribution is reasonable.

Loan-to-Deposit Ratio

The bank's quarterly average loan-to-deposit (LTD) ratio is reasonable given the credit needs of the AA, market conditions, and the bank's size and financial condition. The bank had a quarterly average loan-to-deposit ratio of 77.07 percent over the time period September 2012 through March 2015. The bank's peer group consisted of 23 institutions with total assets ranging from \$275 million to \$614 million with offices in the bank's delineated AA. The average LTD for the peer group is 74.77 percent, and ranges from 58.83 percent to 105.21 percent during the same period.

Lending in Assessment Area

The majority of HMDA and small business loans that CNBT originates are within their AA. Of the 359 HMDA loans originated, 184 (or 51.25 percent) were within the bank's AA. We also reviewed a sample of 40 small business loans, 100 percent of our sample were located within the bank's AA. In total, 56 percent of loans originated between 2013-2014 were within the bank's AA. Refer to Table 2 below for details.

	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$
Home Purchase	54	43.5%	70	56.5%	124	\$ 11,735	33.1%	\$ 23,751	66.9%	\$ 35,486
Home Refinance	128	55.4%	103	44.6%	231	\$ 33,339	53.7%	\$ 28,757	46.3%	\$ 62,096
Home Improvement	2	50.0%	2	50.0%	4	\$ 917	74.7%	\$ 310	25.3%	\$ 1,227
Small Business	40	100.0%	0	0.0%	40	\$24,495	100.0%	\$ -	0.0%	\$ 24,495
Small Farm	0	0	0	0	0	\$ -	0	0	0	0
Totals	224	56%	175	44%	399	\$ 70,486	57%	\$ 52,818	43%	\$ 123,304

Source: HMDA loans reported for 2013-2014, small business loan sample taken from commercial loans made in 2013-2014.

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

Overall, the distribution of lending to borrowers of different income levels and businesses of different sizes is reasonable.

Small Business Loans

The distribution of loans to small business of different revenue sizes in the Chicago MD AA reflects excellent performance. During the data integrity examination, we noted that the annual revenue for each business in our sample of 40 loans was less than \$1

million. Business demographic data shows that approximately 72 percent of all businesses in the bank’s AA have revenues of less than \$1 million.

Home Mortgage Loans

The distribution of home mortgages to borrowers of various income levels in 2013 reflects poor penetration to low- and moderate-income borrowers within the AA, as the bank made no loans to low-income applicants, and originated significantly fewer loans to moderate- income applicants. See Table 3a below for details.

Table 3a - Borrower Distribution of Residential Real Estate Loans in Chicago MD AA - 2013								
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	15.38%	-	16.12%	9.8%	20.88%	17.65%	47.62%	72.55%

Source: Loan sample and US Census data.

The distribution of home mortgages to borrowers of various income levels in 2014 reflects poor penetration to low- and moderate- income borrowers within the AA, as the bank originated significantly fewer loans to low- income applicants, and no loans to moderate-income applicants. See Table 3b below for details. .

Table 3b - Borrower Distribution of Residential Real Estate Loans in Chicago MD AA - 2014								
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	14.79%	4%	15.64%	-	20.61%	24%	48.96%	72%

Source: Loan sample and US Census data.

Geographic Distribution of Loans

Overall, the bank’s geographic distribution has reasonable dispersion.

Small Business Loans

2013

The geographic distribution of small business loans across the Chicago MD AA in 2013 reflects excellent dispersion. While the bank did not make any loans in low-income tracts, lending opportunities within those tracts are extremely limited as only 0.76 percent of the AA’s businesses are located within these tracts. Lending within moderate-income tracts during 2013 was excellent, as the bank made 30 percent of small business loans within moderate-income tracts significantly exceeding the

percentage of 13.89 of AA businesses located in moderate- income tracts. See Table 4a below for details.

Table 4a - Geographic Distribution of Loans to Businesses in Chicago MD AA - 2013								
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	0.76%	-	13.89%	30%	36.05%	15%	49.30%	55%

Source: Loan sample and US Census data.

2014

The geographic distribution of small business loans across the Chicago MD AA in 2014 reflects reasonable dispersion. While the bank did not make any loans in low-income tracts, again lending opportunities within those tracts are extremely limited as only 0.28 percent of the AA’s businesses are located within low- income tracts. Lending within moderate- income tracts during 2014 reflects adequate lending performance. The bank’s lending performance of 10 percent of small business loans within moderate-income tracts, is near to the 12.69 percent of AA businesses located in moderate-income census tracts. See Table 4b below for details.

Table 4b - Geographic Distribution of Loans to Businesses in Chicago MD AA - 2014								
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	0.28%	-	12.69%	10%	35.89%	30%	51.13%	60%

Source: Loan sample and US Census data.

Home Mortgage Loans

The geographic distribution of home mortgage loans is poor. The percentage of bank home mortgage loans originated in both low- and moderate-income census tracts is significantly below the percentage of owner occupied housing units located in the AA’s low- and moderate-income geographies.

2013

The bank’s distribution of home mortgage loans to low- and moderate-income geographies in 2013 reflects poor dispersion throughout the AA. While the bank did not make any home mortgage loans in low-income tracts, lending opportunities within those tracts are extremely limited as only 0.33 percent of owner occupied housing within the AA is in low-income census tracts. The bank also originated significantly fewer home mortgage loans to moderate- income applicants

Table 5a - Geographic Distribution of Residential Real Estate Loans in Chicago MD AA - 2013								
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	0.33%	-	10.53%	3.57%	38.54%	12.5%	50.6%	83.93%

Source: Loan sample and US Census data.

2014

The bank’s distribution of HMDA loans to low- and moderate-income geographies in 2014 reflects poor dispersion in the AA. While the bank did not make any loans in low-income tracts, lending opportunities within those tracts are extremely limited as only 0.26 percent of owner occupied housing within the AA is in low-income census tracts. The bank also did not originate any home mortgage loans in the AA’s moderate- income census tracts. See Table 5b below for details.

Table 5b - Geographic Distribution of Residential Real Estate Loans in Chicago MD AA - 2014								
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	0.26%	-	6.99%	-	39.75%	22.22%	53%	77.78%

Source: Loan sample and US Census data.

Conclusions for Areas Receiving Limited-Scope Reviews:

Based on a limited-scope review, CNBT’s lending performance in the Lake County and Elgin MDs is not inconsistent with the overall Satisfactory rating for the lending test for CNBT.

There were no significant or unexplained lending gaps noted throughout the bank’s AA. Most census tracts in CNBT’s AA had either small business or residential mortgage loans originated during the evaluation period.

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

CNBT's performance under the community development test is rated Satisfactory. CNBT's CD performance represents reasonable volume to the most noted CD needs within its AA.

Number and Amount of Community Development Loans

The bank's volume of CD loans in the AA is adequate. During the evaluation period, the bank extended/refinanced three loans totaling \$1.5 million to an organization that focuses on creating affordable housing within the AA.

Number and Amount of Qualified Investments

Despite the limited availability of qualified community development investments in the designated AA CNBT's level of qualified investments is adequate.

Qualified investments totaled \$3 million, which consisted of \$2.9 million in qualified mortgage backed securities (GNMA MBS pools that are collateralized by mortgages within the AA originated to low- and moderate-income individuals) and \$46 thousand in 35 donations to qualified CD organizations and causes that provide services to low- and moderate-income individuals.

Extent to Which the Bank Provides Community Development Services

The level of community development services the bank provides demonstrates overall adequate responsiveness to the AA's most critical CD needs. Bank personnel are involved in significant leadership rolls across a variety of organizations that work primarily with low- and moderate-income individuals and families.

All bank locations have reasonable hours and accessible ATM facilities. The bank offers additional services such as internet and telephone banking. While the bank does not have any branches located in low- or moderate-income tracts, office locations are considered to have reasonable accessibility to the entire AA.

Responsiveness to Community Development Needs

Overall, the bank's CD performance reflects an adequate response to the CD needs of the AA. The CD services provided during the evaluation period included a range of organizations that address AA needs such as small business development, economic development, and social services targeting low- and moderate-income individuals. The qualified MBS pools the bank has invested in target and serve low- and moderate-income individuals, and the majority of the mortgages securing those funds are located within the bank's AA.

Conclusions for Areas Receiving Limited-Scope Reviews:

Based on a limited-scope review, the extent and responsiveness of CNBT's community development in the Lake County and Elgin MDs is not inconsistent with the overall satisfactory rating for the CD test for CNBT.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's (bank) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

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