

SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 19, 2001

COMMUNITY REINVESTMENT ACT

PERFORMANCE EVALUATION

**Cornerstone National Bank
Charter Number 23870**

**1670 East Main Street
Easley, SC 29642**

**Comptroller of the Currency
Assistant Deputy Comptroller - Jewell D. Hoover - Carolinas Field Office
6100 Fairview Road, Suite 1154
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NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of Cornerstone National Bank, Easley, SC as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of March 19, 2001. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

- ♀ The institution exhibits a satisfactory loan-to-deposit ratio.
- ♀ The institution's record of lending to borrowers within its assessment area is satisfactory.
- ♀ The distribution of loans to businesses of different sizes among various geographies is satisfactory.

DESCRIPTION OF INSTITUTION

Cornerstone National Bank is a one branch institution located in Easley, South Carolina. The bank opened for business on September 15, 1999. The main office is located in a middle-income census tract and the bank has no branches or non-proprietary ATM's. The bank is wholly owned by Cornerstone Bancorp, a one bank holding company, with total assets of \$35 million as of December 31, 2000.

Cornerstone National Bank had average assets of \$27 million with gross loans representing 67% of average assets as of December 31, 2000. Net loans as a percent of total assets totaled 52% as of year-end. The loan portfolio is comprised of the following loan types:

59% Commercial, Industrial and Non-farm, Non-residential Real Estate Loans,
Construction
28% 1-4 Family Residential, Home Equity
13% Consumer Loans

As illustrated above, the bank's lending is more heavily concentrated among commercial loan categories, consistent with the institution's overall strategic goals and objectives. We determined the volume of home mortgage related credits originated during the assessment period was not sufficient to provide for an analysis of home mortgage loans. The bank originated eleven residential mortgage loans since opening. Given the bank has primarily been a commercial lender and has had a limited number of home mortgage originations, our evaluation is based solely on analysis of a sample of commercial loans.

This review disclosed no financial or legal impediments restricting the bank's lending activities. The bank's volume of originations during our assessment period, from September 15, 1999 through December 31, 2000, included 493 loans totaling \$31million. This is the bank's first CRA examination.

DESCRIPTION OF PICKENS COUNTY

The bank's assessment area meets the legal requirements of the regulation. It consists of the entire Pickens County geographical area. The assessment area does not arbitrarily exclude any low- or moderate-income geographies. The county is comprised of 27 census tracts, of which none are low-income, three are moderate-income (11% of the total number of census tracts), 19 are middle-income (70% of the total number of census tracts), and 4 are upper-income geographies (15% of the total number of census tracts). There is one census tract listed as N/A within this county (4% of the total number of census tracts). There are no housing, businesses, or families reported in this geography. The 2000 census reported the population of Pickens County at 93,984.

Within Pickens County, the majority of commercial businesses are located in middle-income census tracts. There are no low-income census tracts, however, 8% of the businesses are located in moderate-income census tracts. Businesses located in middle- and upper-income census tracts represent 79% and 13%, respectively.

The city of Easley is geographically located in the center of the "upstate" region of South Carolina. Although a growing area in its own right, Easley also functions as a "bedroom" community for Greenville, South Carolina, which is approximately 10 miles from the city of Easley. The bank's assessment area is comprised primarily of service related businesses and industries. The major employer in the surrounding area is Clemson University. The unemployment rate for Pickens County is 2.5% as of December 31, 2000.

Competition in the bank's assessment area includes other community banks, branches of regional institutions, credit unions, and finance companies. The bank's main competitors are branches of regional banks as well as other local community banks. Based on the bank's size and operating history, there are no similarly situated institutions in the assessment area at this time.

As part of our review we also incorporated information obtained from two local community contacts. The contacts included a local real estate broker and a local planning and development office. These contacts indicate a need for the development of all types of affordable housing and more flexible loan products specifically tailored to meet the needs of low- and moderate-income borrowers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The quarterly average loan-to-deposit ratio since the bank opened for business in September 1999 is satisfactory at 56%. Although this level of performance is below the 75% average loan-to-deposit ratio for national banks in South Carolina, the average is considered reasonable based on the bank's limited operating history. Due to the bank's status as a new bank, there are no other similarly situated banks in the assessment area that can be used for comparison purposes.

Lending in the Assessment Area

The bank extends a substantial majority of its commercial loans within the assessment area. Based on a random sample of 31 business loans originated during September 1999 through December 31, 2000, the bank extended 84% of the number of loans (26 loans) and 70% of the dollar volume to businesses (\$2.5 million) within the bank's assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Small Business Lending

We found the institution's distribution of lending among businesses of different sizes reflects satisfactory penetration.

Based on a random sample of 26 commercial loans originated during the evaluation period, the bank originated 17 loans totaling \$1,613,659 to small businesses, representing 65% of number of loans and 64% of the dollar volume of the sample. Small businesses are defined as companies with gross annual revenues of \$1 million or less.

Although this volume is below the demographics for the assessment area, at 89%, there are mitigating circumstances which have resulted in this below average level of performance. The bank has only been operating approximately 18 months and is rapidly expanding its customer base and market niche. Small business customer development efforts are expected to increase as the bank grows. The Board recently hired President Garvin, as an additional member of senior management whose initial role will be to promote business development.

In addition, small business loans of \$100,000 or less make up a substantial portion of the bank's commercial loan portfolio. Of the 26 commercial loan originations, 19 of these loans were originated at or below \$100,000, which represents 73% of the business originations.

Borrower Distribution of Small Loans to Businesses		
Number of Businesses with Revenues of \$1 Million or Less		Number of Loans by Original Amount Regardless of Business Size
% of Businesses in the Assessment Area*	% Bank Loans	\$100,000 or Less
88.9%	65%	73%

* Businesses with revenues of \$1 Million or less as a percentage of all businesses within the bank's assessment area.

Small Farm Lending

The bank has originated no farm loans during this assessment period; therefore, no analysis of agricultural loans was performed.

Geographic Distribution of Commercial Loans

The geographic distribution of business loans within the bank's assessment area is satisfactory. The following table summarizes the bank's penetration within the assessment area. No lending gaps were noted. The bank's performance compares favorably to business demographics for the assessment area, which indicates that 8% of businesses are located in moderate-income census tracts. Of the remaining businesses in the assessment area, 79% are located in middle-income census tracts and 13% are located in upper-income census tracts. Loan originations to businesses located in moderate-income census tracts exceed the assessment area demographics based on the

number of loan originations in our sample. The dollar volume of those originations was only slightly below the assessment area demographics.

1999 / 2000 Sample Commercial Originations* - by Geography					
Census Tract	# of Loans Orig by Bank	% of Originations	\$ of Loans Orig by Bank	% of Originations	Assessment Area Demographics
<i>Low</i>	0	0%	\$0	0%	0%
<i>Moderate</i>	3	12%	\$159,721	6%	8%
<i>Middle</i>	20	77%	\$1,580,252	63%	79%
<i>Upper</i>	3	12%	\$775,000	31%	13%
<i>NA</i>	0	0%	\$0	0%	0%

* Based on a random sample of 26 commercial loans

Review of Complaints

The bank has received no complaints during the assessment period.

Institution's Record of Complying with the Anti-discrimination Laws

An analysis of 1999 and 2000 year public comments and consumer compliant information was performed according to the OCC's risk based fair lending approach. Based on its analysis of information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. Due to the bank's status as a new bank, we have not yet completed a comprehensive fair lending examination.