



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 16, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Cornerstone National Bank & Trust Company
Charter Number 24114

140 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 more than 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 loans reflects excellent dispersion throughout the AA.
- The bank's community development performance through community development loans, qualified investments, and services demonstrates adequate responsiveness to community development needs in its assessment area.

Scope of Examination

Cornerstone National Bank & Trust Company's (CNBT) Community Reinvestment Act (CRA) performance was evaluated under the Intermediate Small Bank Lending and Community Development Tests. For the Lending Test, the bank's primary loan products, small business loans and home mortgage loans (purchases and refinances) were chosen for evaluation.

CNBT's assessment area (AA) includes portions of both the metropolitan divisions (MD) within the Chicago-Joliet-Naperville IL-IN-WI MSA; the Lake County MD and the Chicago MD. We performed a full-scope review on both MDs in the bank's AA. The Lake County MD AA was given more weight as CNBT has a higher volume of deposits activity in that MD. CNBT does not hold a significant deposit market share in either one of the MDs within the MSA as there are a number of large, regional and other community banks in both markets.

The evaluation covers the period since the date of the previous CRA examination, January 8, 2009. The Lending Test evaluated small business and home mortgage loans originated or purchased from January 2009 through December 2011. The Community Development Test covered the community development loans, investments, and services from January 2009 through December 2011. The bank's community development loans, investments, and services were reviewed based on information provided by the bank. Only those items that met the regulatory definition of community development were considered in the Community Development Test.

A data integrity examination of the bank's 2009-2011 Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR) was performed in May 2012 and the data was found to be reliable. All loans included in the bank's HMDA reports for 2009 through 2011 were analyzed during this evaluation. A sample of 30 small business loans from each of the bank's MDs was used to evaluate the bank's small business lending performance. The data used in the analysis was generated by a review of the bank's small business loan files.

Description of Institution

CNBT is a \$426 million intrastate financial institution with its main office located in Palatine, Illinois. The institution's primary owner 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. The branches are located in Lake Zurich, Illinois and Crystal Lake, Illinois. The bank opened the Lake Zurich branch on March 2, 2009, during this examination's evaluation period. The hours of operation as well as products and services offered at the branches are all similar. All locations have 24-hour Automated Teller Machines (ATMs) and Night Depository services.

The bank offers an array of traditional community banking products and services. As of December 31, 2011, the loan portfolio represented 75.2% of total assets. The bank is primarily a commercial lender (commercial real estate and commercial & industrial), but started growing its residential real estate portfolio in 2011 when CNBT purchased Barrington Mortgage Company and created a mortgage division within the bank. The mortgage division originates 1-4 family mortgages and sells the majority of them on the secondary market. As a result of the creation of CNBT's mortgage division, the bank's HMDA loans significantly increased in 2011 compared to 2009 and 2010. By dollar volume, the loan portfolio consists of commercial real estate (41.7%), residential real estate (31.6%), commercial & industrial (18.0%), construction & development (6.5%), consumer (1.4%), and agriculture loans (0.8%) as of December 31, 2011. Tier 1 capital totaled \$42.5 million at December 31, 2011.

There are no legal or financial impediments limiting the bank's ability to help meet community credit needs. CNBT's last CRA evaluation was January 8, 2009, using the "Intermediate-Small Bank Lending and Community Development Test" procedures. The bank received a "Satisfactory" rating.

Description of Assessment Area(S)

The bank has one delineated AA which includes parts of two MDs: the Lake County MD and the Chicago MD. The Chicago MD AA contains portions of Cook, DuPage, McHenry, and Kane Counties. Both the Lake County and Chicago MD AAs do not reflect any illegal discrimination or arbitrarily exclude any low- or moderate-income areas. Given the bank's size, branch locations and overall financial condition CNBT's delineated AA is reasonable and meets the regulatory requirements of the CRA.

The Lake County MD AA contains 42 census tracts (CT). In this AA 67% of the businesses have \$1 million or less in annual revenue and 59.9% have 1-4 employees. In the Lake County MD AA 2.8% of the AA's households live below the poverty level. Additional demographic data for the Lake County MD AA is provided in Table 1 below.

Table 1 – Lake County MD AA Demographic Information								
Income Category	%Family Distribution	Census Tract Data Distributions						
		# Tracts	% Housing Units	% Owner Occupied Units	% Rental Occupied Units	% Single Family Units	Median Housing Value	Median Housing Age
Low	10.29	0	NA	NA	NA	NA	NA	NA
Moderate	12.99	3	7.89	5.79	21.46	6.18	131,754	15
Middle	21.06	11	31.01	28.22	47.01	27.81	173,944	13
Upper	55.66	28	61.10	65.99	31.53	66.01	307,389	10
Total # or \$	100.00	42	100.00	100.00	100.00	100.00	252,162	12

The Chicago MD AA contains 197 CTs. Fifty-four percent (54%) of the businesses in this AA have \$1 million or less in annual revenue and 58.5% have 1-4 employees. In the Chicago MD AA 3.7% of the AA households live below the poverty level. Additional demographic data for the Chicago MD AA is provided in Table 2 below.

Table 2 – Chicago MD AA Demographic Information								
Income Category	%Family Distribution	Census Tract Data Distributions						
		# Tracts	% Housing Units	% Owner Occupied Units	% Rental Occupied Units	% Single Family Units	Median Housing Value	Median Housing Age
Low		0	NA	NA	NA	NA	NA	NA
Moderate		6	2.88	1.89	6.39	1.54	110,765	18
Middle		94	48.43	45.13	59.63	45.68	154,554	18
Upper		97	48.69	52.98	33.98	52.78	220,856	13
Total # or \$		197	100.00	100.00	100.00	100.00	185,576	15

Competition among financial institutions in the AA is strong. CNBT competes with several large and regional banks that are well-established throughout their community. According to the June 30, 2011 FDIC deposit market share report, CNBT ranks 72nd out of 197 financial institutions with offices in the counties that CNBT includes in the Chicago MD AA. The FDIC's deposit market share report for Lake County, Illinois ranks CNBT 34th out of 43 financial institutions. During this evaluation we conducted two community contacts. The community contacts stated that the financial institutions in the area are doing an adequate job getting involved with local charities and community service organizations. The community contacts indicated that local economic conditions have been weak throughout the evaluation period due to the recession that has resulted in a historical deterioration in the housing market. Both community contacts indicated that there are limited community development and financing opportunities due to the number of large and regional financial institutions that dominate the community

development market in each of the AAs. No specific credit needs were given as being unique to these communities.

Conclusions with Respect to Performance Tests

CNBT performed a good job of helping meet the lending needs of its AA. More weight was given to small business lending than home mortgage lending when evaluating lending performance because this was the bank’s primary loan type.

LENDING TEST

The lending test is rated Satisfactory.

The bank’s loan to deposit ratio (LDR) is more than reasonable. Lending within the AA is reasonable. The bank’s borrower distribution is reasonable and geographic distribution is more than reasonable.

Loan-to-Deposit Ratio

CNBT’s quarterly average loan-to-deposit (LTD) ratio is more than reasonable as the bank’s quarterly average exceeded the bank’s peer group quarterly average. CNBT’s quarterly average LTD ratio for the evaluation period was 88.3%. The quarterly average LTD ratio for other local financial institutions averaged 78.4% for the same time period.

Lending in Assessment Area

The bank originates a majority of its loans inside of its AA. We reviewed 30 business loans originated during the evaluation period. The analysis also included an evaluation of 257 reported HMDA loans. There were 10 loans totaling \$3.4 million or 33% out of the original business loan sample originated outside of the bank’s AA. There were 118 HMDA loans out of the 257 loan sample originated outside of the bank’s AA. This accounts for 45.9% or \$39.9 million out of the sample. Please refer to Table 3 below for details on the bank’s lending inside its AA.

Table 3 – Lending in the Assessment Area										
	Number of Loans					Dollar of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000s)
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
HMDA	139	54.1	118	45.9	257	37,194	48.2	\$39,897	51.8	\$77,091
Small Business	20	66.7	10	33.3	30	13,601	79.7	3,474	20.3	17,075
Total	159	55.4	128	44.6	287	\$50,795	53.9	\$43,371	46.1	\$94,166

Source: HMDA Loans reported for 2009-2011; Small Business loan sample taken from commercial loans made in 2009-2011.

For the small business lending evaluation we replaced loans outside of the designated AAs with loans inside each MD AA until we had a total of 20 small business loans to evaluate for each MD AA. For the HMDA lending performance evaluation we analyzed only those HMDA reported loans inside each of the bank’s AAs.

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

Overall the distribution of lending to borrowers of different income levels reflects reasonable penetration.

The distribution of loans to small businesses of different revenue sizes in both the Lake County MD AA and Chicago MD AA reflect reasonable penetration. We assessed the bank’s lending performance to small businesses of different sizes using loan size as a proxy as business revenue data was not readily available. In both the Chicago MD AA and Lake County MD AA, a majority of the business loans from our sample were under \$500 thousand reflecting a reasonable level of originated loans as small business loans. Refer to Tables 4 and 5 below.

Table 4 – Borrower Distribution of Loans to Businesses by Loan Size in Lake County Metropolitan Division AA			
Loan Size (000s)	Number of Loans	Percent of Number	Cumulative Percentage
\$0-\$100,000	6	30.0	30.0
\$100,001-\$250,000	5	25.0	55.0
\$250,001-\$500,000	2	10.0	65.0
\$500,001-\$1,000,000	7	35.0	100.0

Source: Loan Sample.

Table 5- Borrower Distribution of Loans to Businesses by Loan Size in Chicago Metropolitan Division AA			
Loan Size (000s)	Number of Loans	Percent of Number	Cumulative Percentage
\$0-\$100,000	5	25.0	25.0
\$100,001-\$250,000	5	25.0	50.0
\$250,001-\$500,000	6	30.0	80.0
\$500,001-\$1,000,000	4	20.0	100.0

Source: Loan Sample.

The distribution of home mortgages to borrowers of various income levels reflects poor penetration to low- income borrowers within the bank’s AA as the bank made a limited

number of loans to low- income applicants. The bank’s HMDA lending performance to moderate- income borrowers in the Chicago MD AA is also poor as the percentage of loans made to moderate-income borrowers is lower than the percentage of moderate-income families in the AA. However, the bank’s HMDA lending performance to moderate- income borrowers in the Lake County MD AA is reasonable as the percentage of loans made to moderate-income borrowers is near to the percentage of moderate- income families in the Lake County MD AA. Refer to Tables 6 and 7 below.

Table 6- Borrower Distribution of Residential Real Estate Loans Chicago 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	10.7	0.9	14.6	9.1	24.3	14.0	50.5	76.0

Source: HMDA Data.

Table 7- 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	10.3	2.5	13.0	12.4	21.1	13.2	55.7	71.9

Source: HMDA Data.

Geographic Distribution of Loans

The bank’s geographic distribution of loans to moderate-income geographies reflects excellent dispersion throughout the AA. From the sample of small business loans taken during this evaluation, the bank either met or exceeded the demographic ratios. Refer to Tables 8 and 9 below.

Table 8- Geographic Distribution of Loans to Businesses in Chicago MD AA								
Loan Type	Low		Moderate		Middle		Upper	
	% 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	N/A	N/A	3.1	3.0	44.1	47.8	52.8	49.2

Source: Loan Sample; U.S. Census Data.

Table 9- Geographic Distribution of Loans to Businesses in Lake County MD AA								
	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	N/A	N/A	5.3	7.1	28.2	26.2	66.5	66.7

Source: Loan Sample; U.S. Census Data.

The geographic distribution of HMDA loans in both the Chicago MD AA and Lake County MD AA reflects excellent dispersion. The bank originated a greater percentage of loans in moderate-income tracts than the percentage of the AA's owner-occupied units located in moderate-income tracts. Refer to Tables 10 and 11 below.

Table 8- Geographic Distribution of Residential Real Estate Loans Chicago MD AA								
	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	N/A	N/A	1.9	9.4	45.1	16.7	53.0	73.9

Source: HMDA Data.

Table 9- Geographic Distribution of Residential Real Estate Loans Lake County MD AA								
	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	N/A	N/A	5.8	7.1	28.2	7.2	66.0	85.7

Source: HMDA Data.

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

The community development test is rated: Satisfactory

Number and Amount of Community Development Loans

The bank did not originate any qualifying community development loans during the evaluation period.

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 reasonable. Community development opportunities are considered limited due to the level of competition in the AA from large and regional financial institutions that have more resources and expertise to meet these needs. Qualified investments totaled \$2.8 million or 6.5% of Tier 1 Capital. The bank a total of 29 qualified investments during the evaluation period including a \$2.3 million investment into a GNMA MBS pool which is collateralized by mortgages within the AA originated to low- and moderate-income (LMI) individuals. The bank donated another \$31 thousand to 15 different qualified community development organizations during the evaluation period. The primary purpose of these organizations is community development services to LMI individuals within the bank's AA.

Extent to Which the Bank Provides Community Development Services

During this evaluation period the bank opened a new full-service branch in Lake Zurich, IL. This new branch provided the bank with an opportunity to expand their AA and reach out to new markets. Retail services are very accessible to individuals of all income levels. All locations have ATM facilities (including access to over 300 different STAR network ATMs) and reasonable hours of operations. Additional services include Internet and telephone banking.

Seven bank employees serve on boards and in other capacities for organizations that target LMI individuals and/or promote economic development in the local community. They provide technical assistance or financial expertise to community development organizations for AA needs such as social services, tax preparation, foreclosure assistance, financial literacy, and economic development.

The bank also participates in government-guaranteed loan programs such as the Small Business Administration for businesses that do not qualify for conventional loan terms, and Veteran's Administration.

Responsiveness to Community Development Needs

The bank's community development activities reflect adequate responsiveness to community development needs of its AA in relation to the bank's capacity and AA opportunities. The community development 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 LMI individuals. The two government MBS funds the bank invested in target and serve LMI individuals, and the majority of the mortgages securing those funds are located within the bank's AA.

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.