



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 29, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Cokato
Charter Number 12395**

**365 Broadway Avenue South
Cokato, MN 55321**

**Comptroller of the Currency
Minneapolis Field Office
920 Second Avenue South, Suite 800
Minneapolis, MN 55402**

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.

TABLE OF CONTENTS

<u>INSTITUTION'S CRA RATING</u>	2
<u>DESCRIPTION OF INSTITUTION</u>	2
<u>DESCRIPTION OF ASSESSMENT AREA</u>	3
<u>CONCLUSIONS ABOUT PERFORMANCE CRITERIA</u>	4

INSTITUTION'S CRA RATING

This institution is rated "Satisfactory."

- The First National Bank of Cokato meets the credit needs of the community, as demonstrated by its quarterly average loan-to-deposit ratio of 54 percent since the bank's prior CRA examination.
- A majority of loans by both number (62 percent) and by dollar volume (52 percent) are located within the bank's defined assessment area.
- The bank actively lends to individuals of different income levels (including low- and moderate-income borrowers), and meets community demographics for lending to businesses of different sizes.

DESCRIPTION OF INSTITUTION

First National Bank of Cokato, Cokato, MN (FNB) is a \$24 million commercial bank. The bank's only office is a full service facility located in downtown Cokato. This office also has a drive-up window and a cash-dispensing ATM.

FNB's business focus is primarily in commercial and consumer lending, with agricultural and real estate lending a secondary focus. According to its Report of Condition and Income, the bank had the following outstanding loans by dollar volume on March 31, 2002: commercial (28 percent), consumer (24 percent), residential real estate (24 percent), and agricultural (24 percent). Net loans represent 47 percent of total assets.

The bank is 100% owned by Knoff Bancshares, Inc., a \$24 million one-bank holding company also headquartered in Cokato, Minnesota. There are no affiliated banks or other related organizations.

FNB received a "Satisfactory" rating at its February 10, 1997 CRA examination. This Performance Evaluation assesses the bank's CRA activities from January 1, 1997 through March 31, 2002. There are no financial, legal, or other factors which impede the bank's ability to meet the credit needs in its assessment area.

DESCRIPTION OF FNB'S ASSESSMENT AREA

FNB identifies its assessment area as census tracts 1005 and 1013, located in extreme western Wright County, Minnesota. These two tracts are part of the Minneapolis-St. Paul, MN-WI Metropolitan Area (MA) #5120 and have a total population of approximately 7,500 persons.

The assessment area complies with regulatory requirements. It includes FNB's main office and ATM, as well as a majority of the bank's loans. The area does not arbitrarily exclude any low- or moderate-income census tracts.

The 1990 U.S. Census median family income (MFI) for the MA is \$43,063. The U.S. Department of Housing and Urban Development's 2002 updated MFI estimate for the MA is \$76,700. The following table summarizes the income levels of the individual census tracts and families located within the bank's assessment area:

INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES								
Assessment Area	Percent of Census Tracts				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
CTs 1005 and 1013	0%	100%	0%	0%	25%	28%	27%	20%

Source: U.S. Census Data (1990)

The assessment area has only nine percent of families with incomes below the poverty level (less than 30 percent of MFI).

According to 1990 U.S. Census Data, the median housing value is \$65,512 and the average age of homes is 42 years. Nearly 60 percent of housing in the assessment area is owner-occupied. Rental units have an average gross rent of \$333 per month, which is fairly low in relation to income levels.

Major employers in Cokato are mainly service industries and include the local school district (275), Cokato Manor, Inc. (100), CTS Corporation (100) and Market Place (90). Unemployment in Wright County is relatively low at 6.2 percent as of March 2002. However, this is slightly above the 4.4 percent unemployment rate for the state of Minnesota.

Competition from other financial institutions is strong. Including FNB, there are 12 financial institutions chartered in Wright County. FNB is the smallest based on asset size and ranks sixteenth among 21 banks with offices in Wright County with deposit share of only two percent.

We did not identify any unmet credit needs in FNB's assessment area through our contact with a local government official. Because of the shifting demographic from agriculture to urban, our contact identified lending to both large and small businesses as an important part of keeping the overall economy strong. Our contact indicated that all area banks have expressed a willingness to provide financing, including funding for local government projects.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's net loan-to-deposit ratio is reasonable. The bank's quarterly net loan-to-deposit ratio averaged 54.2 percent over 22 quarters from December 31, 1996 to March 31, 2001.

FNB's net loan-to-deposit ratio is slightly below five other community banks of similar size (total assets between \$20 and \$90 million) located in the assessment area. FNB ranked sixth among the six similarly situated banks chartered in the assessment area. The other five banks had quarterly net loan-to-deposit ratios averaging 70.4 percent and ranging from 60.7 percent to 80.3 percent over the 22 quarters from December 31, 1996 to March 31, 2002.

Although FNB's loan-to-deposit ratio is below those of other similarly situated banks in the assessment area, it is reasonable. FNB is the smallest bank by total assets in the assessment area and faces heavy competition from an aggressive state bank in Cokato that is twice its size. FNB's loan-to-deposit ratio has remained fairly stable over the past decade, consistent with its more conservative business strategy.

Lending in Assessment Area

FNB originates a majority of its loans to borrowers located within its defined assessment area. We sampled 40 commercial and 29 consumer loans originated between April 1, 2000 and March 31, 2002. About 62 percent by number and 52 percent by dollar volume were made to businesses and individuals located within the bank's assessment area. The following table shows loans originated inside the assessment area by number and dollar volume:

LENDING IN ASSESSMENT AREA BY NUMBER AND DOLLAR AMOUNT (000S)				
Type of Loan	Number	Percent of Number	Dollars	Percent of Dollars
Commercial	25	63%	\$532	50%
Consumer	18	62%	\$95	67%
Total	43	62%	\$627	52%

Source: Bank records (verified by examiners)

The assessment area consists of only two census tracts, and there is significant lending activity in adjacent areas. Specifically, the towns of Dassel, Annandale, and Howard Lake, Minnesota are all within five miles of the assessment area border. Both Annandale and Howard Lake are within the MA and are located in moderate-income census tracts. Dassel is not in the MA, and is in a middle-income geography. The bank has not included these geographies in its assessment area as other banks serve these communities. Including immediately adjacent lending activity increases loans originated in the assessment area to 83 percent by both number and dollar volume.

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

Overall, the distribution of borrowers reflects reasonable penetration among businesses of different sizes and individuals of different income levels. Lending to businesses meets community demographics; lending to low-income individuals exceeds community demographics.

Commercial lending activity in the assessment area (80 percent) approximates community demographics of 93 percent. FNB originated 174 commercial loans totaling \$16.2 million between April 1, 2000 and March 31, 2002. The largest number of loans in the assessment area was originated to small businesses with less than \$250,000 in annual revenues. The bank's commercial lending directly addresses community credit needs identified by our community contact. Examiners sampled 22 commercial and commercial real estate borrowers representing nearly 13 percent of originations. The following table compares the bank's commercial lending activity by revenue size to community demographics:

BORROWER DISTRIBUTION OF COMMERCIAL LOANS BY REVENUE SIZE			
Annual Gross Revenue	Number	Percent of Number	Business Demographic Data
<\$50,000	5	25%	93%
\$ 50,000-\$100,000	2	10%	
\$100,000-\$250,000	5	25%	
\$250,000-\$500,000	2	10%	
\$500,000-\$1,000,000	2	10%	
>\$1,000,000	4	20%	7%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

Consumer lending activity in the assessment area substantially exceeds the community demographics for low-income borrowers and meets the community demographics for moderate-income borrowers. FNB originated 829 consumer loans totaling \$5.3 million between April 1, 2000 and March 31, 2002. The average consumer loan size is \$6,404. We noted a large volume of personal loans with origination amounts of less than \$2,000, which are affordable for low- and moderate-income individuals. Examiners sampled 20 consumer loans representing 2.4 percent of originations. The following table compares the bank's consumer lending activity by borrower income level to community demographics:

BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL			
Borrower Income Level	Number	Percent of Number	Percent of Households
Low	9	43%	30%
Moderate	4	19%	21%
Middle	5	24%	26%
Upper	3	14%	23%
Totals	21	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

We did not perform a review of the FNB's residential real estate or agricultural lending activity by borrower income, as these are not major product lines for the bank. FNB originated 72 home purchase, refinance, and home improvement loans totaling \$4.8 million and originated 137 agricultural loans totaling \$3.0 million between April 1, 2000 and March 31, 2002.

Geographic Distribution of Loans

Analysis of lending by geographic distribution is not meaningful. The assessment area contains only moderate-income census tracts.

Responses to Complaints

The bank has not received any CRA-related complaints since the last CRA examination.

OTHER INFORMATION

Fair Lending Review

An analysis of 1998, 1999, 2000, and 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1997.