



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 29, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank In Cannon Falls
Charter Number 13713**

**300 West Main Street
Cannon Falls, MN 55009**

**Comptroller of the Currency
Eau Claire Field Office
1310 West Clairemont Avenue, Suite 100
Eau Claire, WI 54702**

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.

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INSTITUTION'S CRA RATING

This institution is rated "Satisfactory."

- First National Bank meets the credit needs of the community, as demonstrated by its quarterly average loan-to-deposit ratio of 75.3 percent since the bank's prior CRA examination.
- A majority of loans by both number (82 percent) and by dollar volume (66 percent) are located within the bank's defined assessment areas.
- The bank's lending distribution to individuals of different income levels (including low- and moderate-income borrowers) and businesses of various sizes is reasonable.

DESCRIPTION OF INSTITUTION

First National Bank in Cannon Falls (FNB), Cannon Falls, MN, is a \$85 million commercial bank. The bank's main office is a full-service facility located in downtown Cannon Falls. FNB opened a new full-service branch in Red Wing, MN in February 2002. Both offices are located in Goodhue County. The bank has two deposit-taking automated teller machines (ATMs) located at the main branch and at a convenience store in Randolph, MN. Three cash-dispensing ATMs are located at a mall and a truck stop in Cannon Falls, and at a mall in Red Wing.

The bank offers telephone banking to its customers. The telephone banking service provides the customers with 24-hour access to deposit and loan account information. It also allows the customer to make transfers between accounts, including making loan payments. The bank also offers transactional Internet banking for both consumer and business customers.

FNB's business focus is commercial, agricultural, residential real estate, and consumer lending. According to its Report of Condition and Income, FNB has the following outstanding loans by dollar volume on March 31, 2002: commercial (50 percent), residential real estate (25 percent), agricultural (16 percent), and consumer (9 percent). Net loans total 69 percent of total assets.

FNB is 100 percent owned by Jerema, Inc., a one-bank holding company headquartered in Cannon Falls, MN. As of March 31, 2002, Jerema, Inc. had total assets of \$85 million. The bank does not have any affiliate relationships that impact the bank's CRA performance.

FNB received a "Satisfactory" rating at its November 26, 1997, CRA examination. This CRA Performance Evaluation assesses the bank's CRA activities from October 1, 1997, through March 31, 2002. There are no financial, legal, or other factors that impede the bank's ability to meet its CRA obligations.

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area consists of nine contiguous block numbering areas (BNAs) in Goodhue County, MN and two contiguous census tracts (CTs) in Dakota County, MN. Dakota County is located in the Minneapolis-St. Paul, MN-WI, Metropolitan Area (MA) #5120. The bank is near the Goodhue-Dakota County line so the two bordering census tracts were included as part of the assessment area. They do not substantially extend into the MA. The total population of the bank's assessment area is 50,365 people, according to the 1990 U.S. Census Data.

The assessment area complies with regulatory requirements. It includes all FNB branch locations and ATMs, as well as a majority of the bank's loans. The areas do not arbitrarily exclude any low- or moderate-income BNAs or CTs.

The 1990 U.S. Census median family income (MFI) for the non-MA portion of Minnesota is \$28,933 and for the Minneapolis-St. Paul, MN-WI MA #5120 is \$43,063. The U.S. Department of Housing and Urban Development's estimated 2002 MFI for the non-MA portion of Minnesota is \$48,500 and for the Minneapolis-St. Paul, MN-WI MA #5120 is \$76,700. The following table summarizes the income levels of individual BNAs or CTs and families located within the bank's assessment area:

Income Distribution of Geographies and Families								
Assessment Area	Number of BNAs/CTs				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Goodhue/Dakota Counties	0	0	6	5	13%	15%	24%	48%

Source: U.S. Census Data (1990)

The assessment area has six 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 affordable at \$68,143 and the average age of homes is 41 years. Nearly 75 percent of housing in the assessment area is owner-occupied. Rental units have an average gross rent of \$335 per month, which is also fairly low in relation to income levels.

Major employers in Cannon Falls include Midwest of Cannon Falls Inc. (375 employees), Cannon Equipment Co. (315), and Cannon Falls Public Schools (240). Unemployment in Goodhue and Dakota Counties is 4.6 percent and 3.7 percent, respectively, as of June 2002. This is consistent with the 4.3 percent unemployment rate for the state of Minnesota.

Competition from other financial institutions is strong. There are 50 financial institutions, excluding credit unions, with a presence in Goodhue and Dakota Counties. However, only 14 financial institutions have a presence in Goodhue County, where the bank's branches are located. These financial institutions are of varied sizes and offer a variety of banking products. According to June 30, 2001 deposit information from the Federal Deposit Insurance Corporation, Wells Fargo Bank dominates the market share in Goodhue County with 86 percent. FNB ranks fourth among the 14 institutions with only 1.7 percent of the market share.

One community contact was conducted with a community action group during the examination. Another community contact from a governmental organization was available from June 2001. The proximity of Cannon Falls to the Rochester and Minneapolis/St. Paul markets has resulted in higher housing values over the past decade. Both community contacts indicated that the area has a need for more affordable housing and first-time homebuyer programs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to deposit ratio averaged 75.3 percent over the 19 quarters from September 31, 1997, through March 31, 2002. FNB's net loan-to-deposit ratio trend is increasing and totaled 81 percent at March 31, 2002.

FNB's ratio compares favorably with other community banks of similar size (total assets \$40 million to \$100 million). FNB ranks fourth among a total of 9 similarly-situated banks chartered in the assessment area. The eight other banks had an average net loan-to-deposit ratios averaging 72 percent and ranging from 41 percent to 94 percent over the 19 quarters from September 31, 1997 through March 31, 2002.

Lending in Assessment Area

Based on a sample of 20 commercial, 20 residential real estate, and 20 consumer loans, FNB originates a majority of its loans to borrowers located within its defined assessment area. Of loans originated from September 31, 1997 to March 31, 2002, about 82 percent by number and 66 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				
Type of Loan	Number	Percent of Number	Dollars (000s)	Percent of Dollars
Commercial	14	70%	\$1,226,155	57%
Residential	15	75%	\$1,032,450	75%
Consumer	20	100%	\$188,901	100%
Totals	49	82%	\$2,447,506	66%

Source: Bank records (verified by examiners)

The bank purchases commercial loan participations to hold in its own portfolio. The volume of these purchases included in the sample significantly reduces the percentage of commercial loans by dollar volume originated inside the assessment area.

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 among individuals of different income levels.

Commercial lending activity in the assessment area (72 percent) reasonably approximates community demographics of 88 percent. FNB originated 619 commercial loans totaling \$70 million between September 30, 1997 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. Examiners sampled 60 loans to commercial and commercial real estate borrowers originated in the assessment area from January 1, 2000 through March 31, 2002. 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 Data
<\$50,000	17	28%	88%
\$50,000-\$100,000	11	18%	
\$100,000-\$250,000	7	12%	
\$250,000-\$500,000	1	2%	
\$500,000-\$1,000,000	7	12%	
>\$1,000,000	12	20%	7%
Not reported	5	8%	5%
Totals	60	100%	100%

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

Residential real estate lending activity in the assessment area is reasonable and approaches community demographics. FNB originated 825 residential real estate loans totaling \$69 million between September 30, 1997 and March 31, 2002. Examiners sampled 60 loans to residential real estate borrowers originated in the assessment area from January 1, 2000 through March 31, 2002. The following table compares the bank's residential real estate lending activity by borrower income level to community demographics:

Borrower Distribution of Residential Real Estate Loans by Income Level			
Borrower Income Level	Number	Percent of Number	Percent of Families
Low	4	7%	13%
Moderate	4	7%	15%
Middle	22	37%	24%
Upper	30	50%	48%
Totals	60	100%	100%

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

While the lending activity for low- and moderate-income borrowers appears low relative to demographics, our community contact indicated that it is difficult for low-income families to afford to purchase a house. The percent of families below the poverty level totals 6 percent. Taking this into consideration, the bank's penetration of lending to low-income families more closely approximates area demographics. In addition, both our community contact and bank personnel indicated that the bank continues to explore opportunities to assist with affordable housing needs, including first-time homebuyer programs.

Consumer lending activity in the assessment area meets community demographics. FNB substantially exceeds the demographics for low-income borrowers and meets them for moderate-income borrowers. FNB originated 1,604 consumer loans totaling \$12 million between September 30, 1997 and March 31, 2002. Examiners sampled 20 loans to consumers originated in the assessment area from January 1, 2000 through March 31, 2002. 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	8	40%	18%
Moderate	3	15%	13%
Middle	7	35%	19%
Upper	2	10%	50%
Totals	20	100%	100%

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

We did not perform a review of FNB's agricultural lending activity by borrower income as this is not a major product line for the bank. FNB originated 229 agricultural loans totaling \$13 million between September 30, 1997 and March 31, 2002.

Geographic Distribution of Loans

Analysis of lending by geographic distribution is not meaningful. The assessment area contains only middle- and upper-income geographies.

Responses to Complaints

FNB has not received any CRA-related complaints since the last CRA exam.

OTHER INFORMATION

Fair Lending Review

An analysis of 1998-2001 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.