



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

November 26, 2007

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The First National Bank of Cokato  
Charter Number: 12395

365 Broadway Avenue South  
Cokato, MN 55321

Office of the Comptroller of the Currency

Minneapolis North  
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.

## **INSTITUTION'S CRA RATING:**

**This institution is rated Satisfactory.**

The following summarizes the major factors in the rating:

- The bank's average loan-to-deposit ratio is reasonable.
- The bank originates a majority of its loans by number and dollar within its assessment area.
- The bank has a reasonable distribution of credit to businesses of different sizes and an excellent distribution of credit among consumers of different income levels.

## **SCOPE OF EXAMINATION**

We evaluated First National Bank of Cokato's Community Reinvestment Act performance for the period beginning July 29, 2002 through September 30, 2007. In order to determine the bank's lending performance, we first selected primary products based on dollar and number volume of originations for the period beginning January 1, 2005 and ending September 30, 2007. We determined the bank's primary products to be commercial and consumer installment loans. We selected a random sample of 20 loans from each of these product types in order to evaluate the bank's lending within the assessment area and borrower's income distribution. We used 2000 census information for demographic comparison purposes.

## **DESCRIPTION OF INSTITUTION**

First National Bank of Cokato (FNB Cokato) is a \$26 million commercial bank located in Wright County, Minnesota. The bank has one full service facility located in downtown Cokato, MN. This office includes a drive-up teller window and a cash dispensing ATM. The bank maintains an additional cash dispensing ATM at the local grocery store.

FNB Cokato's primary lending products consist of business and consumer loans. As of September 30, 2007, the bank's loan portfolio totaled \$11.4 million and composition was as follows: 35.97% business, 27.30% agriculture, 17.44% residential real estate, and 19.29% consumer. Total loans represent 43% of total assets.

The bank is owned 100% by Knoff Bancshares, Inc., a single bank holding company also located in Cokato, Minnesota. FNB Cokato does not have any affiliated banks or other related organizations.

FNB Cokato received a Satisfactory rating at its July 29, 2002 CRA examination. There are no financial, legal, or other factors which impede the bank's ability to meet credit needs in its assessment area.

## DESCRIPTION OF ASSESSMENT AREA

FNB Cokato identifies its assessment area as census tracts 1005 and 1013, located in western Wright County within the Minneapolis-St. Paul, MN-WI Metropolitan Statistical Area. The assessment area complies with regulatory requirements. It includes the bank's main office and both ATM's, as well as a majority of all loans. The assessment area does not arbitrarily exclude any low- or moderate-income census tracts.

The HUD estimated 2007 median family income for the Minneapolis/St. Paul MSA is \$77,600. Both census tracts in the bank's assessment area are middle income. The following table summarizes the income levels of families located within the bank's assessment area:

Family Income Level	Percent of Families
Low-Income	18.73%
Moderate-Income	25.19%
Middle-Income	32.17%
Upper-Income	23.91%

US census data indicates the assessment area has 4.48% of families with income below the poverty level (less than 30% of median family income).

The median housing value in the assessment area according to 2000 census data is \$129,691 and the average age of homes is 41 years. Nearly 65% of housing in the assessment area is owner occupied. Rental properties have an average monthly gross rent of \$433.

Major employers in the assessment area are primarily service oriented and include the local school district (275 employees), Cokato Manor, Inc. (100), CTS Corp. (100), and Paisley Consulting (100). Unemployment in Wright County is 4.3% as of October 2007. This compares favorably to nationwide unemployment rates of 4.4% but is higher than the State of Minnesota average of 4.1% according to the Minnesota Department of Employment and Economic Development.

Competition in the assessment area is strong. There are a total of 25 financial institutions located within Wright County (20 community banks, 3 large national banks, and 2 regional banks). FNB Cokato is the smallest of all banks within Wright County based on asset size and maintains less than 2% of deposit market share. The bank's primary competition within the assessment area is the local state bank.

Community contact stated that small business lending continues to be a credit need of the community. The community is looking to revitalize its downtown area and expand its industrial park. The community contact we talked to stated that local financial institutions have done a good job of meeting credit needs and expects that this will continue going forward.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB Cokato's loan-to-deposit ratio is reasonable. The bank's quarterly net loan-to-deposit ratio averaged 51.18% over 22 quarters from June 30, 2002 to September 30, 2007.

FNB Cokato's average quarterly loan-to-deposit ratio is reasonable despite being below that of five other similarly situated banks. Similarly situated banks are defined as those with operations in Wright County and asset size ranging from \$26-85 million. The other five banks had quarterly net loan-to-deposit ratios ranging from 78.53% to 93.56% over the same time period. FNB Cokato is the smallest of the six similarly situated banks. FNB Cokato's loan-to-deposit ratio has remained relatively consistent throughout the assessment period and is reflective of its conservative lending strategy.

### Lending in Assessment Area

FNB Cokato originates a majority of its loans within its defined assessment area. We selected a random sample of 20 business loans and 20 consumer loans that were originated between January 1, 2005 and September 30, 2007 in order to assess the bank's lending performance within its defined assessment area. The bank originated 65% by number and 68% by dollar volume of loans within the assessment area.

<b>In/Out Lending Analysis</b>	<b>In Assessment Area By Number %</b>	<b>In Assessment Area by Dollar %</b>
Business Loans	70%	70.77%
Consumer	60%	52.11%
<b>Aggregate Results</b>	<b>65%</b>	<b>67.76%</b>

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

FNB Cokato's distribution of loans to businesses of different sizes is reasonable. While FNB Cokato's distribution of loans to businesses with annual revenues of less than \$1 million is less than the demographics of the assessment area, bank management and the community contact estimated that about 80-90% of businesses in the assessment area had revenues <\$1 million and 10-20% of businesses had revenues greater than \$1 million. Based on that information, we determined that FNB Cokato's distribution of loans to businesses is reasonable.

<b>Revenue Size of Business</b>	<b>Bank Loans By Number %</b>	<b>Demographic for Assessment Area</b>
Less Than \$1 Million	70%	64.62%
Greater Than \$1 Million	30%	3.64%
Revenue Not Reported		31.74%

\*Per 2006 Business Geodemographic data

FNB Cokato's distribution of loans to consumers of different income levels is excellent. The bank's distribution of loans originated to low- and moderate-income exceeds the assessment area demographic.

Income Level of Households	Bank Loans By Number %	Bank Loans By Dollar %	Demographic for Assessment Area
Low	50%	44.55%	23.20%
Moderate	15%	18.45%	19.32%
Middle	25%	20.09%	24.78%
Upper	10%	16.91%	32.70%

\*Per 2000 U.S. census data

### Geographic Distribution of Loans

The geographic distribution of loans does not provide a meaningful analysis as neither of the census tracts in the assessment area are defined as low- or moderate-income.

### Responses to Complaints

FNB Cokato has not received any CRA related complaints since its last CRA examination dated July 29, 2002.

### Fair Lending or Other Illegal Credit Practices Review

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