



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 28, 2013

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

Campbell Mithun Tower
222 South Ninth Street, Suite 800
Minneapolis, MN 55402-3393

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 major factors supporting First National Bank of Cokato's (FNB Cokato) rating are:

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- The bank originates a majority of loans in the assessment area.
- The bank has excellent penetration to borrowers of different incomes levels and reasonable penetration to businesses of different sizes.

SCOPE OF EXAMINATION

We evaluated FNB Cokato's Community Reinvestment Act (CRA) performance from October 1, 2007, to December 31, 2011. We reviewed loans originated from January 1, 2010, to December 31, 2011, to determine the bank's primary products. Based on dollar amount and volume, we determined that the bank's primary products were commercial and consumer loans. We chose a random sample of 20 loans from each primary product type. We expanded our sample in order to meet the 20 loan minimum in the bank's assessment area for testing borrower distribution. We did not test geographic distribution because the bank's assessment area does not include any low- or moderate-income tracts.

DESCRIPTION OF INSTITUTION

FNB Cokato is a \$41.5 million bank located in Wright County, MN. The bank has one full-service location with a drive-up window and two ATMs. One ATM is located in the main office in downtown Cokato, the other ATM is in the local grocery store, The Marketplace. Neither ATM is deposit-taking.

The holding company, Knoff Bancshares, Inc., is a one-bank holding company that owns 100% of FNB Cokato. FNB Cokato has no affiliates or related entities.

The previous CRA examination conducted as of November 26, 2007, resulted in a satisfactory rating. There are no legal or financial circumstances that affect the bank's ability to meet credit needs of its community.

As of September 30, 2012, the bank's loan portfolio totaled \$21.1 million or 50% of total assets, and was comprised of \$14.6 million in real estate loans; \$3 million in commercial loans; \$1.2 million in consumer loans; and \$2.3 million in agriculture loans. The investment portfolio plus interest-bearing bank balances totaled \$18.1 million or 43% of total assets at that time.

DESCRIPTION OF ASSESSMENT AREA

FNB Cokato's assessment area includes two census tracts on the western border of Wright County, MN. Wright County is the western-most county in the Minneapolis-St. Paul Metropolitan Statistical Area (MSA). Cokato is the largest town in its assessment area. The assessment area meets all regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

The 2000 census designated both of these tracts as middle-income. There are 2,322 families in this assessment area with 18.73% low-income; 25.19% moderate-income; 32.17% middle-income; and 23.90% upper-income. Of these families, 4.48% are below the poverty level.

Competition in Wright County is strong. Wright County has 25 financial institutions as of June 30, 2012. Five banks account for 49.74% of the deposit market share. These include Wells Fargo, NA (16.47%); KleinBank (10.76%); The First National Bank of Elk River (8.40%); Annandale State Bank (7.38%); and BANKWEST (6.73%). FNB Cokato is ranked 16th with 2.41% of the deposit market share. Within FNB Cokato's assessment area, there is one other financial institution, Kensington Bank. FNB Cokato holds 39.98% of the assessment area deposit market share while Kensington Bank holds 60.02%.

The community contact advised us that the local economy is still experiencing limited growth from the recent economic downturn. The contact believes area financial institutions are willing to lend, but given the current low loan demand in the community, opportunities are limited. Per the contact, economic strengths in the area include a lower cost of living and lower housing prices when compared to the Minneapolis metropolitan area. According to the contact, the local housing market is starting to improve. However, he indicated there have not been many opportunities for bank involvement in local projects or financing programs.

According to the Bureau of Labor Statistics, the unemployment rate in Wright County was 6.2% in December 2012, higher than the Minnesota rate of 5.4% but lower than the national unemployment rate of 7.8%.

The largest industry type in the assessment area is Services at 38% followed by Construction at 13%, according to the 2011 Business Geodemographic Data. The major employers in Cokato are Dassel-Cokato School District, Ame Community Service Inc., Cokato Charitable Trust, The Market Place, Faribault Foods, Advance Process Technologies (APT), and Tylohelco, Inc (Saunatec).

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB Cokato's loan-to-deposit (LTD) ratio is reasonable. The LTD ratio averaged 50.9% for the 20-quarter period from December 31, 2007 to September 31, 2012. In Wright County, there are five banks that are similarly situated to FNB Cokato due to their asset size, which ranged from \$54 million to \$85 million. The 20-quarter average LTD ratios for these banks ranged from 49.76% to 101.10%. Although FNB Cokato's LTD ratio is the second from the last, loan demand in the Cokato area is low and competition in the AA and surrounding communities is strong. The lower quarterly LTD average is also reflective of the bank's conservative credit underwriting culture and the impact of large deposits received from local businesses. Despite these factors, FNB Cokato's LTD ratio has been increasing steadily over the past 18 months and was 55.24% as of September 30, 2012.

Institution	Asset Size 09/30/2012	Average LTD Ratio
Financial Security Bank	\$54 million	101.10%
Citizens State Bank of Waverly, Inc.	\$61 million	82.90%
Great Northern Bank	\$73 million	76.26%
State Bank of Delano	\$75 million	73.99%
The First National Bank of Cokato	\$42 million	50.91%
Crow River State Bank	\$80 million	49.76%

Source: Call report data.

Lending in Assessment Area

FNB Cokato originates a majority of loans inside the assessment area. The number of loans in the assessment area was 80%, which accounted for 94.64% of the total dollar amount.

Lending in FNB Cokato Assessment Area (\$ in 000s)										
Loan Type	Number of Loans				Dollars of Loans				Total	
	Inside		Outside		Inside		Outside			
	#	%	#	%	\$	%	\$	%		
Commercial	18	90%	2	10%	20	\$ 880	97.78%	\$ 20	2.22%	\$ 900
Consumer	14	70%	6	30%	20	\$ 55	62.50%	\$ 33	37.50%	\$ 88
Totals	32	80%	8	20%	40	\$ 935	94.64%	\$ 53	5.36%	\$ 988

Source: Loan sample

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

FNB Cokato has excellent penetration to borrowers of different incomes levels. Lending to low- and moderate-income level borrowers substantially exceeds the percentage of households in these income levels for the assessment area.

Borrower Distribution of Consumer Loans in FNB Cokato Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	23.20%	35.00%	19.32%	30.00%	24.78%	20.00%	32.70%	15.00%

Source: *Loan sample and 2000 U.S. Census data.*

FNB Cokato has reasonable penetration of lending to businesses of different sizes. Although the bank's lending to businesses with annual revenues less than or equal to \$1 million exceeds the percentage of assessment area businesses with revenues less than or equal to \$1 million, revenue information for 21.21% of businesses is unknown.

Borrower Distribution of Loans to Businesses in FNB Cokato Assessment Area				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	76.30%	2.50%	21.21%	100%
% of Bank Loans in AA by #	85.00%	15.00%	0.00%	100%
% of Bank Loans in AA by \$	87.24%	12.76%	0.00%	100%

Source: *Loan sample and 2011 Business Geodemographic Data*

Geographic Distribution of Loans

We did not conduct a geographic distribution test. FNB Cokato's assessment area does not include any low- or moderate-income tracts. Therefore, the analysis would not be meaningful.

Responses to Complaints

FNB Cokato has not received any CRA-related complaints since its last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's 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.