



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 11, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**THE FIRST NATIONAL BANK OF COLD SPRING
Charter Number 8051**

**301 Main Street
Cold Spring, Minnesota 56320**

**Office of the Comptroller of the Currency
Alexandria Duty Station
1309 Highway 29 North, P. O. Box 849
Alexandria, Minnesota 56308**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The First National Bank of Cold Spring** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of December 11, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Outstanding**.

The First National Bank of Cold Spring's rating is based on the following factors:

- ◆ The bank's volume of residential real estate mortgage lending is extensive and supports the identified credit needs of the community.
- ◆ The bank has a strong record of extending credit to businesses of different sizes and to individuals of different income levels.
- ◆ The bank maintains a high loan-to-deposit ratio.
- ◆ A majority of the bank's loans are extended within the bank's assessment area.

The following table indicates the performance level of *The First National Bank of Cold Spring* with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	THE FIRST NATIONAL BANK OF COLD SPRING PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	x		
Lending in Assessment Area		x	
Lending to Borrowers of Different Incomes and to businesses of Different sizes	x		
Geographic Distribution of Loans		x	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The First National Bank of Cold Spring (FNB) is a \$45 million institution located in Stearns County in south central Minnesota, approximately 18 miles southwest of St. Cloud, Minnesota. FNB has one branch in the neighboring town of Rockville and a residential real estate loan production office in St. Cloud. FNB owns two automated teller machines, one located in Rockville and one in St. Cloud. The bank is owned by First Bancshares, Inc. of Cold Spring, a one bank holding company.

FNB defines itself as a full service community bank offering a wide variety of deposit and loan products. According to September 30, 1996 financial data, gross loans amount to \$24,588,639 or 55% of total assets. The primary lending focus is residential real estate mortgages, consumer loans, and small agriculture/business loans. The loan portfolio by dollar volume percentages consists of residential real estate (28%), commercial and industrial (25%), consumer instalment (22%), commercial real estate (15%) and agriculture loans (9%).

The bank was rated "Satisfactory Record of Meeting Community Credit Needs" at the last CRA examination, May 19, 1993. There are no legal or financial impediments limiting FNB's ability to help meet the credit needs of the community.

DESCRIPTION OF THE FIRST NATIONAL BANK OF COLD SPRING'S ASSESSMENT AREA

FNB's assessment area (AA) includes portions of Stearns, Benton, Sherburne, and Meeker Counties. Population within the AA is 129,420. The area includes twenty-nine contiguous Census Tracts (CT's) which are part of two Metropolitan Statistical Areas (MSA's), the St. Cloud and Minneapolis/St. Paul MSA's. Twenty-six of the CT's are in the St. Cloud MSA. Cities within the AA include but are not limited to Cold Spring, St. Cloud, Paynesville, and Waite Park. (Please refer to the map of the AA area in the bank's public file.) The AA complies with the requirements of the CRA and does not arbitrarily exclude low- and moderate-income areas.

According to 1990 U.S. census data, 30,317 families reside in the AA with a updated 1996 median family income of \$42,672. Family incomes within the AA are: 16% low income; 18% moderate income; 27% middle income, and 39% upper income. The AA consists of one low-income tract, twenty-two middle-income tracts, five upper-income tracts, and one undefined-income CT. The low-income tract includes the downtown St. Cloud business center which is sparsely populated. The undefined tract consists wholly of a state prison.

The local economy is in a period of expansion. Employment and population figures over the last five years indicate steady growth. Major employers located in Cold Spring include the Cold Spring Granite Company, Golden-N-Plump poultry processing, the local school district, Assumption Nursing Home and Cold Spring Bakery. Major employers in St. Cloud include Fingerhut Corporation, Coborn's Grocery Distributor, St. Cloud State University, and the St. Cloud school district.

Competition within the AA is strong and includes fifteen banks or bank branches, five savings and loans, seven finance companies, twelve mortgage brokers and three credit unions. Included in the competition numbers are two regional bank branches and a branch of a large thrift.

Major credit needs include single- and multi-family housing and small business loans. We identified the credit needs by interviewing a Cold Spring government official and the Cold Spring Chamber of Commerce Director. Also, we reviewed a housing needs analysis prepared by the St. Cloud Housing and Redevelopment Authority (HRA) which depicted a need for additional single family and rental housing. The median house value in the assessment area is \$65,000 with a median age of 23 years.

The individuals we contacted said housing costs continue to rise and the number of lower cost houses on the market is low. The contacts also said the city has no more available lots for multi-family housing projects. City and county officials are working together to annex additional land which could be developed into multi-family housing projects.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio

FNB maintains a high loan-to-deposit (LTD) ratio. The LTD ratio has averaged 66% since the last CRA examination dated May 1, 1993. FNB's ratio ranks third out of ten area banks of similar asset size, \$20 million to \$60 million. The LTD ratios for area banks range from 50% to 71%.

FNB's lending focus includes originating and selling residential real estate mortgages on the secondary market. FNB's LTD ratio does not include the large volume of residential real estate mortgages sold on the secondary market. The following table illustrates residential real estate loans sold on the secondary market:

Table One

Year	Number	Dollar Amount
1994	68	\$4,328,944
1995	78	\$5,440,477
Thru 10/31/96	96	\$7,328,196
Totals	242	\$17,097,617

Lending in the Assessment Area

FNB originates the majority of its loans within its assessment area. A bank-prepared analysis of all loan originations from 1/1/96 through 10/28/96 indicates 77.5% of loan originations and 80% of the dollar volume of the originations were extended within the bank's assessment area. Our loan samples for lending to borrowers of different income levels and to businesses of different sizes confirmed the bank's analysis.

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

FNB has a good record of lending to individuals of different income levels and to business of different sizes. The loan portfolio is well balanced and reflects the bank's efforts of meeting the identified housing and small business needs of its assessment area. The following text and related charts illustrate lending within the residential real estate, consumer instalment, and business loan portfolios.

Residential Real Estate

A review of the bank's 1996 Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR) reveals the bank originates a large volume of residential mortgages to borrowers of all income levels. Residential lending practices are consistent with the income demographics of the assessment area.

The HMDA-LAR data reveals FNB originated 117 home purchase, refinance, and improvement loans totaling \$6,813,000 within its assessment area from January 1, 1996 through October 31, 1996. Table Two illustrates the percentage of originations and percentage of dollar volume of residential real estate loans by borrower income levels.

Table Two

Family Income Level	% of Population	Number of Home Loans	Home Loans	
			% Number	% Dollar
Low	16.21%	9	8%*	5%
Moderate	17.81%	26	22%	19%
Middle	26.79%	47	40%	39%
Upper	39.18%	35	30%	37%

* Although the bank actively lends to low-income borrowers, local demographics may cause the bank's home lending to consist of more middle- or upper-income borrowers. The income tracts within the assessment area are predominately middle- and upper-income tracts (94%). Also, community contacts indicated local housing costs have escalated the last several years and may unfortunately be unaffordable to low-income borrowers.

To enhance residential real estate lending to low- and moderate-income borrowers, FNB participates in the Minnesota Housing Finance Agency (MHFA) loan programs. The MHFA loan programs assist low- and moderate-income individuals purchasing or improving their homes by providing down payment assistance, no points, and favorable interest rates. Over the last two years, FNB has extended thirteen MHFA First Time Home Buyer loans totaling \$567,633 and fourteen MHFA Home Improvement loans totaling \$86,923.

Consumer Lending

FNB has a strong record of extending consumer instalment loans to borrowers of all income levels as demonstrated in Table Three. The table represents a random sample of 50 consumer instalment loans totaling \$384,519 secured by automobiles. The sample represents 25% of consumer automobile loans originated through October 1996.

Table Three

Family Income Level	% of Population	Number of Loans	Consumer loans:	
			% Number	% Dollar
Low	16.21%	14	28%	18.09%
Moderate	17.81%	14	28%	28.13%
Middle	26.79%	8	16%	14.60%
Upper	39.18%	14	28%	39.18%

Small Business Lending

FNB has a good record of lending to businesses and farms of different sizes. Table Four represents a sample of 26 commercial and agriculture loans originated year-to-date through October 31, 1996 totaling \$1,657,168. The sample represents 25% of all business and agriculture loan originations during this time period.

Table Four

Annual Gross Sales	% of Number of Loans	% of Dollar Volume
<\$100,000	38.46%	23.77%
\$100,000-\$250,000	11.54%	6.90%
\$250,000-\$500,000	11.54%	4.04%
\$500,000-\$1,000,000	19.23%	23.63%
>\$1,000,000	19.23%	41.66%

Geographic Distribution of Loans

The distribution of loans reflects reasonable dispersion throughout the bank’s assessment area. We completed an analysis of the distribution of loans using our residential real estate loan sample and found the lending patterns to be consistent with the income characteristics of the tracts within the assessment area. There are 29 census tracts in the bank’s assessment area, 22 middle-income tracts (79%), five upper-income tracts (18%), and one low-income tract (3.5%). The remaining tract is undefined. An analysis of the distribution of the residential real estate loan sample revealed 90% of the

number of loans and 92% of the dollar volume of loans were originated in middle-income tracts, the remaining 10% of the number of loans and 8% of the dollar volume of loans were originated in upper-income tracts. While no home loans were originated in the sole low-income tract, the bank is not excluding the tract. The low-income tract represents the business district of downtown St. Cloud. The tract is sparsely populated, the furthest distance from the bank of all tracts, and the credit needs of the tract are met by financial institutions centered in the downtown area.

Record of Compliance with Anti-discrimination Laws

Based on our review, the bank is complying with anti-discrimination laws. No violations of the substantive provisions of the anti-discrimination laws and regulations were identified.

Services

FNB's record of providing services and delivery systems that enhance credit availability in its assessment area is good. Alternate delivery systems which promote credit availability include a residential real estate loan production office in St. Cloud and advertising credit products on the Internet. Credit products offered which are non-traditional for a bank of this size include: credit cards, merchant processing, leases and home equity loans.