



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 14, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Cold Spring
Charter Number 8051

301 Main Street
Cold Spring, MN 56320-0000

Office of the Comptroller of the Currency

Minneapolis Field Office
222 South Ninth Street, 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 First National Bank of Cold Spring's lending performance reflects a satisfactory response to community credit needs. Factors contributing to this rating include the following:

- The bank's quarterly average loan-to-deposit ratio is reasonable.
- The bank originates and purchases a majority of loans in the Assessment Area.
- The bank has a satisfactory record of lending to businesses of different sizes and consumers of different income levels.
- The geographic distribution of commercial and consumer loans is reasonable.

SCOPE OF EXAMINATION

We evaluated the bank using Small Bank Community Reinvestment Act examination procedures. The evaluation period is January 22, 2003 through October 14, 2009. We evaluated the bank's loan data for the time period beginning January 1, 2007 through June 30, 2009. The following table depicts the number and dollar volume of loans originated and purchased.

Loan Type	\$	#
Commercial	46.48%	15.12%
Consumer	21.89%	76.13%
Residential Real Estate	30.14%	8.16%
Agricultural	1.49%	0.59%

The bank's primary products are commercial loans, which constitute 46% of the dollar volume of originations, and consumer loans which total 76% by number of originations. We used a sample of 20 for each primary product to complete our analysis.

DESCRIPTION OF INSTITUTION

The First National Bank of Cold Spring (FNB) is a \$90 million bank headquartered in Cold Spring, Minnesota, a city of approximately 3,800 people. Cold Spring is located 14 miles southwest of St. Cloud, the largest community in Stearns County. The bank has one branch located in Rockville, MN, approximately 4 miles northeast of FNB.

FNB is 100% owned by First BancShares, Inc., a one-bank holding company headquartered in Cold Spring, MN. As of June 30, 2009 the holding company had total assets of \$91 million. The bank has two affiliate businesses, First National Insurance Agency and Granite Realty, also located in Cold Spring, MN.

FNB offers a range of loan and deposit products with an emphasis on business lending. As of June 30, 2009 the bank's \$68 million loan portfolio was comprised of the following loan types by

outstanding dollar volume: commercial and commercial real estate (50%), residential real estate (27%), consumer (12%), construction and development (5%), leases/other (3%), and agriculture (3%). Net loans total 76% of assets. Other products and services include internet banking, online bill pay, photo debit cards, and merchant services. The bank has two non-deposit taking automated teller machines with one at the main office and one located in the Rockville Gas and Bait.

There are no financial, legal or other factors that impede the bank's ability to meet the credit needs of its community. FNB received an Outstanding rating as of its January 21, 2003 CRA evaluation.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB's Assessment Area (AA) is comprised of a portion of the St. Cloud, MN Metropolitan Statistical Area (MSA) and two Census Tracts (CTs) located in the Minneapolis-St. Paul-Bloomington, MN-WI MSA. For analysis purposes we relied on information using only the St. Cloud MSA demographic information. The CTs located in the Minneapolis MSA do not extend substantially beyond the St. Cloud MSA as both contain less than 4% of the entire AA population.

The St. Cloud MSA includes all of Stearns County and Benton County. FNB's AA incorporates thirty-one CTs which cover all of Stearns County and three CTs in Benton County. Based on 2000 US Census data, one CT is low-income, four are moderate-income, twenty-two are middle-income and the remaining four CTs are upper-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income geographies.

The 2000 US Census data shows a total AA population of 150,345 and households of 54,719. The same source indicates 21% of households are low-income, 18% moderate-income, 22% middle-income and 39% of households are upper income. Data also indicates 9% of households in the AA are below poverty level. The 2000 US Census Data shows a weighted average of Median Household Income of \$42,857. Based on the Department of Housing and Urban Development 2009 estimate, the median family income for the MSA is \$67,000.

The United States Department of Labor shows annual unemployment in 2007 and 2008 of 4.7% and 5.7% respectively. As of July 2009 the unemployment rate had risen to 7.6%. Statewide unemployment levels increased from 4.8% in 2007 to 8.1% as of July 2009. Stearns County offers several employment opportunities and employs more than 79,000 people. Major employers in Cold Spring include Cold Spring Granite, Gold'n Plump Poultry, Gluek Brewing Company and Cold Spring Independent School District.

Bank competition in the AA is strong. According to the June 30, 2008 Deposit Market Share data provided from the Federal Deposit Insurance Corporation (FDIC), there are thirty-one banks in Stearns County. FNB ranks in the middle of the group with 2.34% of the market share. Four banks hold nearly half of the market share. The FDIC report does not include credit unions which is also compete in the market.

We contacted a city official to assess the lending needs in the community and the ability of local

financial institutions to meet these needs. The primary need identified was small business development. The individual felt that the local banks were above average in understanding and meeting the needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's quarterly average loan-to-deposit (LTD) ratio is satisfactory in relation to its financial capacity and lending opportunities. Since the last CRA evaluation, the bank's quarterly LTD ratio have averaged 86% with the June 30, 2009 ratio at 94%.

A review of five other similarly situated banking institutions ranks FNB third out of six. All of these financial institutions are similarly sized and located in close proximity to one another. The average ratio for all six banks is 79%.

Institution	Assets (as of 6/30/09)	Quarterly Average LTD Ratio
First State Bank of Sauk Centre	\$91 million	57.57%
State Bank of Richmond	\$75 million	66.09%
Avon State Bank	\$102 million	72.90%
The First National Bank of Cold Spring	\$90 million	86.36%
Freeport State Bank	\$74 million	87.22%
Bankvista	\$96 million	103.14%

Lending in Assessment Area

FNB's lending in the AA is satisfactory. The bank originates a majority of its loans to borrowers within their AA. Lending within the AA was determined by a random sample of 20 commercial and 20 consumer loans.

Lending in St Cloud MSA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	20	100%	0	0%	20	3,697,076	100%	0	0%	100%
Consumer	12	60%	8	40%	20	134,981	42%	186,974	58%	100%
Totals	32	80%	8	20%	40	3,832,057	95%	186,974	5%	100%

Source: Sample of loans

Lending to Businesses of Different Sizes and Borrowers of Different Incomes

The bank's lending to businesses of different sizes and to borrowers of different income levels

meets the standards for satisfactory performance.

Borrower Distribution of Business Loans

FNB has a satisfactory record of lending to businesses of different sizes. Lending to businesses with revenues less than \$1 million exceeds the demographics of the AA. We did note there are nearly 18% of businesses that do not report their income. In discussion with bank management there is a mix of small and larger businesses as the Cold Spring area is mostly small business; however, St. Cloud has a number of businesses that would exceed the \$1,000,000 revenue threshold.

Borrower Distribution of Loans to Businesses in St Cloud MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	77.37%	5.12%	17.51%	100%
% of Bank Loans in AA by #	80%	20%	0%	100%
% of Bank Loans in AA by \$	69%	31%	0%	100%

Source: Loan data and 2009 Business Geodemographic Data

Borrower Distribution of Consumer Loans

The bank has a satisfactory record of lending to borrowers of different incomes. While the bank falls below the demographics for lending to households of low-income levels, the bank significantly exceeds demographics for lending to moderate-income households and overall meets demographics. In addition, nearly 9% of low income households are below the poverty level. These borrowers have a higher degree of difficulty qualifying for credit.

Borrower Distribution of Consumer Loans in St Cloud MSA								
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	21.43%	10%	17.62%	30%	21.60%	25%	39.35%	35%

Source: Loan data and 2000 US Census

Geographic Distribution of Loans

FNB’s geographic distribution of loans throughout the AA meets the standard for satisfactory performance.

Business Loans

The bank has a reasonable record of lending to businesses in different income level tracts. FNB’s lending to businesses in low-income CTs is excellent considering there is only one low-income tract. The loan sample did not contain any loans made in moderate-income tracts. This is impacted by the high level of competition and the FNB’s relatively low market share at 2.34%. The excellent record in the low-income tract also mitigates this anomaly. As noted in the following table, the vast majority of AA businesses are located in the middle-income CTs.

Geographic Distribution of Loans to Businesses in St. Cloud MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	3.86%	10%	10.71%	0%	67.03%	75%	18.4%	15%

Source: Loan Sample and 2009 Business Geodemographic Data

Consumer Loans

The bank has a reasonable record of lending to consumer borrowers located in low- and moderate-income tracts. While bank’s performance is below demographics in both the low- and moderate-income CTs, it is mitigated by a number of factors:

- Over 88% of all households are located outside of the low- or moderate-income tracts.
- Forty seven percent of households in the low-income tract and fourteen percent of households in the moderate-income tracts are below poverty level.
- Higher unemployment rates in these tracts with 6.84% in the low-income tract and 4.73% in the moderate-income tracts based on 2009 census information.
- FNBs relatively low market share of 2.34%.

Geographic Distribution of Consumer Loans in St Cloud MSA								
Census Tract 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	0.5%	0%	11.41%	5%	69.53%	75%	18.56%	20%

Source: Loan Sample and 2000 US Census

Responses to Complaints

The bank has not had any CRA related complaints since the prior CRA evaluation.

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.