



## **PUBLIC DISCLOSURE**

October 24, 2022

### **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

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, and should not 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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## Overall CRA Rating

**Institution's CRA Rating:** This institution is rated **Satisfactory**.

**The Lending Test is rated: Satisfactory.**

The major factors that support this rating include:

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A majority of the bank's loans are inside the assessment area (AA).
- The bank exhibits excellent distribution of loans to businesses of different sizes.
- The bank did not receive any CRA related complaints.
- The distribution of loans by income level of the geography is not meaningful. The AA includes no low- or moderate-income (LMI) census tracts (CT).

### Loan-to-Deposit Ratio

Considering the bank's size, financial condition, and credit needs of the AA, the bank's LTD ratio is reasonable.

The bank's LTD ratio averaged 67.9 percent over the prior 16 quarters since the previous CRA examination. The LTD ratio during the review period ranged from a low of 51.9 percent on September 30, 2021, to a high of 79.0 percent on June 30, 2020. The bank's LTD ratio ranked second among four similarly situated banks. Similarly situated banks are defined as banks operating within Wright County with total assets between \$107.2 million and \$218.0 million, as of December 31, 2021. Net LTD ratios for these banks during the same time ranged from an average of 55.2 percent to 71.2 percent.

Loan-to-Deposit Ratios for Similarly Situated Banks		
Bank	Total Assets as of 12/31/2021 \$(000s)	Average LTD Ratio (%)
Minnesota Lakes Bank	153,435	71.2
First National Bank of Cokato	107,231	67.9
Citizens State Bank of Waverly	122,016	64.9
Lake Central Bank	217,958	55.2

*Source: Call Report Data from quarters ending 03/31/2018 to 12/31/2021.*

### Lending in Assessment Area

A majority of the bank's loans are inside the AA.

The bank originated and purchased 50.0 percent by number, or 24.4 percent by dollar value, of its loans inside the AA during the evaluation period. To evaluate the bank's lending inside and outside the AA, we selected a sample of 20 business loans. Business loans are the primary product in the bank's sole AA.

The bank originated PPP loans outside its AA in an effort to serve businesses affected by the pandemic that were not being served by other banks. Four of the loans within our business loan sample were PPP loans originated outside of the AA. After removing the PPP loans originated outside of the AA, the adjusted ratio reflects 62.5 percent of lending inside the AA by number and 25.6 percent by dollar.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business	10	50.0	10	50.0	20	428	24.4	1,327	75.6	1,756

**Description of Institution**

The First National Bank of Cokato (FNB Cokato) is a single-state institution headquartered in Cokato, Minnesota (MN). The bank had \$107.2 million in total assets, as of December 31, 2021. FNB Cokato is owned by Knoff Bancshares, Inc., a single bank holding company with total assets of \$7.0 million as of December 31, 2021. The bank does not have any affiliates or subsidiaries.

The bank serves the southwest portion of Wright County and the nearby town of Dassel in Meeker County. The bank is a full-service community bank offering traditional products and services, such as various checking and savings accounts and retail and commercial lending products. As of December 31, 2021, FNB Cokato had \$60.3 million in total loans, \$100.2 million in deposits, and \$7.3 million in tier one capital. Total loans represented 56.3 percent of total assets. Business loans comprised 43.7 percent, home mortgages totaled 34.6 percent, farm loans totaled 18.1 percent, and consumer loans totaled 3.6 percent of the loan portfolio by dollar value.

The bank’s AA includes three middle-income CTs in the southwest portion of Wright County, MN. Wright County is within the Minneapolis-Saint Paul-Bloomington MN-WI multistate metropolitan statistical area (MMSA). The bank also considers CT 5601 in Meeker County containing the town of Dassel to be part of its AA. Meeker County is located outside the MMSA. The CRA regulatory requirements for AA delineation in effect during this evaluation period prohibit an AA to extend substantially beyond an MMSA boundary. We determined the inclusion of the Dassel CT in the AA is a substantial extension beyond the MMSA boundary given the size and population of the Dassel CT in comparison to the remaining portion of the bank’s delineated AA. We revised the AA to include only the three CTs in Wright County. The revised AA, referred to as the Cokato AA, was used to determine the bank’s performance in this evaluation.

The last CRA examination was dated May 7, 2018 and resulted in a Satisfactory rating. There are no legal, financial, or other factors impeding the bank’s ability to help meet the credit needs in the AA.

## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

We evaluated FNB Cokato's CRA performance using small bank performance standards, which consists of the Lending Test. The evaluation period for the LTD ratio analysis covered March 31, 2018 to December 31, 2021. The complaints analysis period was May 8, 2018 to October 24, 2022, which coincides with the time period since the last CRA evaluation. The evaluation period for the remaining portions of the Lending Test covered January 1, 2019 to December 31, 2021.

We selected the primary loan product based on the number and dollar volume of loan originations during the evaluation period. We determined FNB Cokato's primary product to be business loans. Business loans represented 56.6 percent by number and 51.2 percent by dollar of the bank's total loan originations and purchases from 2019 to 2021. We selected a random sample of 20 business loans from the evaluation period to complete the Lending Test analysis. We used information provided in bank loan files to complete our review.

### **Selection of Areas for Full-Scope Review**

The Cokato AA was selected for a full-scope review since it is the bank's only AA.

### **Ratings**

The bank's overall rating is based on the lending performance in the state of Minnesota rating area. The Minnesota rating area performance is based on the performance in the Cokato AA. We evaluated lending performance using four performance criteria: the LTD ratio, lending in the AA, lending to borrowers of different sizes, and responses to CRA-related complaints. We did not assess the distribution of loans to geographies of different income levels. The AA is comprised entirely of middle-income geographies and the geographical distribution would not provide a meaningful analysis.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c) in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

# State Rating

## State of Minnesota

### CRA rating for the State of Minnesota: Satisfactory

#### The Lending Test is rated: Satisfactory

The major factors that support this rating include:

- The bank exhibits excellent distribution of loans to businesses of different sizes.
- FNB Cokato did not receive any CRA related complaints during the review period.
- The distribution of loans by income level of the geography is not meaningful because the AA contains no LMI CTs.

### Description of Institution's Operations in Minnesota

The bank has its main office and one ATM in Cokato, MN. The bank does not own or operate any deposit-taking ATMs. The Cokato AA contains three CTs located in Wright County, MN, within the Minneapolis-Saint Paul-Bloomington MN-WI MMSA. FNB Cokato markets to the Dassel community, which is located outside the MMSA and not included within the legal AA used for this evaluation.

As of June 30, 2021, FNB Cokato had \$88.4 million in deposits, which represents a 3.2 percent share of the deposit market in the Wright County. Competition is strong within the bank's market. The Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, as of June 30, 2021, states there are 24 deposit-taking institutions within Wright County. Of those 24 institutions, FNB Cokato is ranked eleventh. The top five deposit market share competitors are larger by total asset size and deposit volume than FNB Cokato. The top five largest deposit shares in the market are held by Wells Fargo with 19.1 percent, Old National Bank with 8.0 percent, Bankwest with 7.7 percent, Cortrust Bank with 7.6 percent, and Lake Central Bank with 6.5 percent.

We contacted a government official in the city of Cokato, MN. The community contact stated the city of Cokato is primarily residential with a slightly older population. Many people live in Cokato and choose to commute to the Twin Cities for employment. During the pandemic, the community continued to operate, but the economy slowed down. The economy has since returned to pre-pandemic levels. New development within the city is challenging due to high market prices and the difficulties of acquiring land. Affordable housing is needed in the area, but growth of affordable housing has been challenging for the community due to limited space. The contact mentioned FNB Cokato as being active in the community and willing to assist with community development. The contact did not identify any areas of additional financial support that are needed from the banking industry.

The table on the following page provides information on the demographic composition of the Cokato AA.

Table A – Demographic Information of the Assessment Area						
Assessment Area: Cokato AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	3	0.0	0.0	100.0	0.0	0.0
Population by Geography	13,974	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	6,181	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	4,030	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	940	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	1,211	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	1,166	0.0	0.0	100.0	0.0	0.0
Farms by Geography	169	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	3,696	22.9	24.8	24.8	27.4	0.0
Household Distribution by Income Level	4,970	24.7	17.4	23.2	34.7	0.0
Median Family Income MSA - 33460 Minneapolis-St. Paul-Bloomington, MN- WI MSA		\$84,589	Median Housing Value			\$197,788
			Median Gross Rent			\$821
			Families Below Poverty Level			6.1%
<i>Source: 2015 ACS and 2021 D&amp;B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

## Scope of Evaluation in Minnesota

The Minnesota state rating is based solely on the results of the Cokato AA given it is the bank's only AA in the state. The Cokato AA received a full-scope review. Refer to Appendix A for additional information on the AA under review.

## LENDING TEST

The bank's performance under the Lending Test in Minnesota is rated Satisfactory.

## Conclusions for Area Receiving a Full-Scope Review

Based on a full-scope review, the bank's performance in the Cokato AA is reasonable.

## Distribution of Loans by Income Level of the Geography

Refer to Table Q in Appendix D for the facts and data used to evaluate the geographic distribution of the bank's originations and purchases of small loans to businesses.

The distribution of loans by income level of the geography is not meaningful due to the AA not containing LMI CTs. The AA consists exclusively of middle-income level geographies.

## **Distribution of Loans by Income Level of the Borrower**

The bank exhibits excellent distribution of loans to businesses of different sizes.

### ***Small Loans to Businesses***

Refer to Table R in the state of Minnesota section of Appendix D for the facts and data used to evaluate the borrower distribution of the bank's originations and purchases of business loans.

The distribution of loans to businesses of different sizes in the Cokato AA is excellent. The bank's percentage of loans to small businesses significantly exceeds aggregate lending performance and is near the percentage of small businesses with the AA.

### **Responses to Complaints**

FNB Cokato did not receive any CRA related complaints during the review period.



## Appendix A: Scope of Examination

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The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the MSAs and non-MSAs that received comprehensive examination review, designated by the term “full-scope,” and those that received a less comprehensive review, designated by the term “limited-scope”.

<b>Time Period Reviewed:</b>	01/01/2019 to 12/31/2021	
<b>Bank Products Reviewed:</b>	Business loans	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
None.		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Rating and Assessment Areas</b>	<b>Type of Exam</b>	<b>Other Information</b>
<b>Minnesota</b>		
Cokato AA	Full-Scope	Wright County (partial) Includes CTs: 1005, 1012, and 1013.

# Appendix B: Summary of MMSA and State Ratings

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<b>RATINGS</b>	
<b>Overall Bank:</b>	<b>Lending Test Rating</b>
The First National Bank of Cokato	Satisfactory
<b>State:</b>	
Minnesota	Satisfactory

## Appendix C: Definitions and Common Abbreviations

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The following terms and abbreviations are used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending (Aggt.):** The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

**Census Tract (CT):** A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

**Combined Statistical Area (CSA):** A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

**Community Development (CD):** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

**Community Reinvestment Act (CRA):** The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder’ and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

**Full-Scope Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

**Home Mortgage Loans:** A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-Scope Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income Individual:** Individual income that is less than 50 percent of the area median income.

**Low Income Geography:** A census tract with a median family income that is less than 50 percent.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above, and half below, a range of incomes.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rating Area:** A rated area is a state or multi-state metropolitan statistical area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan statistical area, the institution will receive a rating for the multi-state metropolitan statistical area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or are classified as loans to finance agricultural production and other loans to farmers.

**Tier 1 Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## Appendix D: Tables of Performance Data

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### Content of Standardized Tables

A separate set of tables is provided for each state. All multistate metropolitan statistical areas, if applicable, are presented in one set of tables. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to Appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the MMSA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30<sup>th</sup> of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the table included in this PE:

**Table Q. Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses that were originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) in those geographies. Because aggregate small business data are not available for geographic areas smaller than counties, it may be necessary to compare bank loan data to aggregate data from geographic areas larger than the bank’s assessment area.

**Table R. Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenue** - Compares the percentage distribution of the number of small loans (loans less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to: 1) the percentage distribution of businesses with revenues of greater than \$1 million; and 2) the percentage distribution of businesses for which revenues are not available. The table also presents aggregate peer small business data for the years the data is available.

Table Q: Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography																			2019-21
Assessment Area:	Total Loans to Small Businesses				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts		
	#	\$	% of Total	Overall Market	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate
Cokato	20	835	100.0	156	0.0	0.0	0.0	0.0	0.0	0.0	100.0	100.0	100.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Source: 2021 D&amp;B Data; 01/01/2019 - 12/31/2021 Bank Data; 2020 CRA Aggregate Data, "--" data not available.                      Due to rounding, totals may not equal 100.0%</i>																			

Table R: Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenues												2019-21
Assessment Area:	Total Loans to Small Businesses				Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available		
	#	\$ (000s)	% of Total	Overall Market	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	% Businesses	% Bank Loans	
Cokato	20	835	100.0	156	88.1	80.0	48.7	3.7	10.0	8.2	10.0	
<i>Source: 2021 D&amp;B Data; 01/01/2019 - 12/31/2021 Bank Data; 2020 CRA Aggregate Data, "--" data not available.                      Due to rounding, totals may not equal 100.0%</i>												