



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 21, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Cold Spring
Charter Number 8051**

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

**Office of the Comptroller of the Currency
North Dakota & NW Minnesota
P.O. Box 849
Alexandria, MN 56308**

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.

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Institution's CRA Rating

This institution is rated Outstanding. The bank's performance in the St. Cloud, Minnesota MSA is not inconsistent with the bank's overall performance.

An institution in this group has an outstanding record of helping to meet the credit needs of the assessment area in a manner that is consistent with its resources and capabilities.

- The First National Bank of Cold Spring's average net loan-to-deposit ratio since the last examination of 73% demonstrates a strong willingness to lend given the bank's financial condition, size, and comparison with other lenders within the assessment area. Over the past nine quarters, the bank's average loan-to-deposit ratio exceeded 82%, and would have averaged nearly 90% if nonlocal brokered deposits were excluded from the bank's deposit structure.
- The bank has an excellent record of lending to small businesses, as well as to individuals of different income levels.
- A majority of the bank's loans were made within the assessment area.
- The bank's geographic distribution of loans throughout the AA is reasonable when considering demographic information, the location of the bank's offices, and competition from other lenders.

Description of Institution

The First National Bank of Cold Spring (FNB) is located in Stearns County in Cold Spring, Minnesota. It is an intrastate bank with one branch located in Rockville, Minnesota, approximately 5 miles east of Cold Spring. The bank does not have any deposit taking automated teller machines.

FNB's assets total \$76 million as of September 30, 2002. First Bancshares, Inc., a one-bank holding company owns 100% of the bank. The holding company is located in Cold Spring, Minnesota and has \$75 million in total assets as of June 30, 2002. There have been no acquisitions or mergers since the previous CRA evaluation.

The bank's loan portfolio is diverse. As of September 30, 2002, the composition of the portfolio is as follows:

Loan Portfolio Composition	\$ (000)	%
Commercial (including Real Estate)	\$21,202	44.13%
Residential Real Estate	\$14,092	29.33%
Agricultural (including Real Estate)	\$1,572	3.27%
Individual	\$9,616	20.02%
Construction	\$658	1.37%
All Other Loans	\$183	.38%
Obligations of State & Political Subdivisions	\$6	.01%

Lease Financing Receivables	\$714	1.49%
Total	\$48,043	100.00%

*Source: September 30, 2002 Call Report

The bank offers a wide variety of financial products and services and focuses its lending on commercial, loans to individuals, and residential real estate. Net loans represent 63% of total assets. Tier One Leverage Capital for the bank is 7.67% of average assets, or \$5.6 million.

There are no legal impediments that would restrict the bank's ability to meet the credit needs of the community. The bank's structure has not changed since the previous examination.

FNB was rated "Outstanding" at the last CRA evaluation dated December 11, 1996.

Description of The First National Bank of Cold Spring's Assessment Area

FNB's assessment area (AA) is comprised of Stearns County as well as portions of Benton County and Sherburne County in south central Minnesota. The AA includes census tracts (CTs) 313 and 314 in Sherburne County, CTs 202.01, 211, and 212 in Benton County, and CTs 001 through 010.01 and CTs 101 through 114 in Stearns County. The CTs in Sherburne County are a small portion of the Minneapolis/St. Paul Metropolitan Statistical Area (MSA) and the CTs in Benton and Stearns Counties are part of the St. Cloud MSA.

One of the CTs in Sherburne County is designated a middle-income area and the other CT in the county is not defined as it consists wholly of a state prison. All of the CTs in Benton County are designated middle-income areas. CT 001 in Stearns County is designated a low-income area, CT 109 is designated a moderate-income area, CTs 002 through 003, 005 through 010.01, 102 through 108, and 111 through 113.02 are designated middle-income areas, and CTs 002, 004, 101, 113.03, and 114 are designated as upper-income areas. The low-income tract, CT 001, includes the downtown St. Cloud business center, which is sparsely populated and only contains 313 housing units.

The AA includes only whole CTs that are contiguous. The AA meets the requirements of the regulation. The AA does not arbitrarily exclude low- or moderate-income geographies. Cities included in the AA include, but are not limited to, Cold Spring, St. Cloud, Sauk Centre, Paynesville, and Sauk Rapids.

The local economy is strong and continues to grow despite an overall downturn in the national economy. The Bureau of Labor Statistics' November 2002 unemployment for the St. Cloud MSA is 3.6%, which compares favorably to the national average of 6.0%. Major employers in the Cold Spring area include Cold Spring Granite Company, Gold-N-Plump poultry processing, the local school district, and Cold Spring Bakery. Major employers in St. Cloud include Coborn's Grocery Distributor, St. Cloud State University, St. Cloud Hospital, the State of Minnesota, Frigidaire, and the St. Cloud school district.

Major credit needs include single- and multi-family housing and small business loans. We identified the credit needs by interviewing the president of the Cold Spring Economic

Development Authority and by reviewing several recent community contacts on file. The community contact said the area has a good stock of moderate priced houses, but few lower cost houses. In addition, the community contact stated that the area banks are doing an excellent job and there are no unmet credit needs in the community.

The demographics of the AA are illustrated in the table below. The information is based on 1990 census data unless otherwise noted. This is the most recent information available during our evaluation.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Population	145,206
Number of Families	34,378
Number of Households	49,427
Number of Low-Income Families	5,897
% of Low-Income Families	17.15%
Number of Moderate-Income Families	6,409
% of Moderate-Income Families	18.64%
Number of Middle-Income Families	9,285
% of Middle-Income Families	27.01%
Number of Upper-Income Families	12,787
% of Upper-Income Families	37.20%
% Minority Population	1.83%
<i>Geographies</i>	
Number of Census Tracts/BNA	35
% Low-Income Census Tracts/BNA	2.86%
% Moderate-Income Census Tracts/BNA	2.86%
% Middle-Income Census Tracts/BNA	77.14%
% Upper-Income Census Tracts/BNA	14.29%
Not Defined	2.86%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$33,285
2002 HUD-Adjusted MFI	\$56,300
<i>Economic Indicators</i>	
Unemployment Rate	2.71%
Owner-Occupied Housing	63.13%
Median Housing Value	\$61,419
% of Households Below Poverty Level	12.95%

Loan Sampling

The bank's primary loan types were determined by taking all loans originated and purchased with an outstanding balance for the period since January 1, 2000.

For the purpose of this evaluation, the primary loan types were business and consumer loans. Business loans account for approximately 55% of the volume of loans originated with

outstanding balances and consumer loans represent 29% of the volume of originations with outstanding balances. Residential real estate loans were selected because of the importance of this product type to the entire assessment area.

To conduct our analysis, we performed statistically valid sampling techniques selecting a sample of 26 business and 30 consumer loans. Information for residential real estate loans was obtained using data reported by the bank under the Home Mortgage Disclosure Act (HMDA). After initial sampling to determine the bank's lending within the AA, additional files were selected so that all loans in the sample were made within the AA.

Conclusions about Performance Criteria

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio exceeds the standards for satisfactory performance given the size, financial condition, assessment area needs, and local economic conditions. The bank's loan-to-deposit ratio as of September 30, 2002 was 82% and would have been even higher if nonlocal broker deposits were excluded from the bank's deposit structure. Exclusive of brokered deposits, the bank's loan-to-deposit ratio as of September 30, 2002 would have been 90%. Since the last CRA evaluation, the bank's average quarterly loan-to-deposit ratio is 73%.

FNB's trend in lending is increasing as can be seen by the increase in the loan-to-deposit ratio since the last examination. The bank's loan-to-deposit ratio as of December 31, 1996 was 59% compared to a loan-to-deposit ratio of 82% as of September 30, 2002. Over the past nine quarters, the bank's average loan-to-deposit ratio exceeded 82% and would have been nearly 90% without the use of brokered deposits.

When compared to ten other similarly situated banks in the AA, FNB ranked fourth out of the eleven banks. All of these financial institutions are of a similar size, located in close proximity to one another, and offer similar loan products. The quarterly ratios range from 60% to 89%. The following table depicts the comparison of these banks.

Institution	Assets 9/30/02	Average Quarterly LTD Ratio
State Bank of Kimball	\$46 Million	89%
Freeport State Bank	\$54 Million	79%
North American State Bank	\$84 Million	78%
<i>The First National Bank of Cold Spring</i>	<i>\$76 Million</i>	<i>73%</i>
State Bank of Cold Spring	\$35 Million	72%
Avon State Bank	\$91 Million	69%
First State Bank of St. Joseph	\$61 Million	69%
First National Bank of Sauk Centre	\$87 Million	68%
Stearns Bank Holdingford, NA	\$53 Million	66%
State Bank of Richmond	\$54 Million	61%
First State Bank of Sauk Centre	\$83 Million	60%

Lending in Assessment Area

Lending within the AA meets the standard for satisfactory performance. A majority of the loans are originated within the AA with 82% of the number and 83% of the dollar of all sampled loans originating in the AA. We used both our sample of commercial and consumer loans and data reported by the bank under the HMDA. The following table illustrates lending activity within the AA during the evaluation period.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial Sample	23	88	2,955	91	3	12	303	9
Consumer Sample	20	67	146	65	10	13	80	35
Residential Real Estate (HMDA data)	208	83	16,701	83	43	17	3,536	17
Total	251	82	19,802	83	56	18	3,919	17

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

Lending to borrowers of different incomes and to businesses of different sizes exceeds the standard for satisfactory performance.

Loans to Small Businesses

FNB's lending to businesses of different sizes is excellent. Lending to businesses with revenues under \$1 million exceeds the demographics of the AA. The following table illustrates that 87% of the number of loans and 84% of the dollar volume of loans were originated to businesses with revenues less than \$1,000,000. Based on business survey information, 78% of the businesses within the assessment area had gross annual revenues of less than \$1,000,000.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	< \$1,000,000	>\$1,000,000
% of AA Businesses	78%	12%
% of Business Loans in AA #	87%	13%
% of Business Loans in AA \$	84%	16%

Consumer Loans

The Bank's level of consumer lending to low- and moderate-income borrowers exceeds the demographics of the assessment area. This lending performance demonstrates FNB's responsiveness to the credit needs of all borrowers in the assessment area, especially those with lower incomes.

CONSUMER LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	23%		16%		22%		39%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer	25	25	30	26	30	27	15	22

Residential Real Estate Loans

FNB's residential real estate lending to borrowers of different income levels is good when considering performance context issues of the assessment area.

The bank's level of residential real estate lending to low-income borrowers is below assessment area demographics. However, FNB's low penetration to low-income residential real estate borrowers is mitigated by several factors; including the high and increasing median price of homes, the high level of households at the poverty level, and the lack of low-priced homes. The median price of homes in the bank's trade area for the 12 month period ending 12/31/ 2002 was approximately \$141,000. The poverty level, as a percent of households, is nearly 13%, leaving a small portion of low-income borrowers who would be able to qualify for a home purchase. In addition, the stock of low priced homes is low, leaving few alternatives for low-income borrowers to purchase.

RESIDENTIAL REAL ESTATE LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	17%		19%		27%		37%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Residential Real Estate	4	3	19	13	45	41	32	43

Geographic Distribution of Loans

FNB's geographic distribution of loans throughout its AA meets the standard for satisfactory performance when considering performance context issues of the assessment area.

The bank's lending in the low- and moderate-income tracts does not meet the demographics of the assessment area. FNB has only one low-income tract and one moderate-income tract. The low- and moderate-income tracts are not in close proximity to FNB's branches and are served by other financial institutions that are more conveniently located to these tracts.

The low-income tract is located in the downtown St. Cloud business district that is served by

several St. Cloud financial institutions. The moderate-income tract is located in a predominantly agricultural area with limited demand for residential real estate, small business, and consumer loans. Combined, the low- and moderate-income tracts contain only 3% of owner occupied housing, 3.5% of the households, and 7% of businesses.

Geographic Distribution of Residential Real Estate Loans						
Census Tract Income Level	Number of Loans		Dollar Volume of Loans		Percent of Assessment Area Owner Occupied	Percent of Assessment Area Census Tracts
	#	%	\$ (000)	%		
Low	0	0	0	0	0%	3%
Moderate	0	0	0	0	3%	3%
Middle	192	92.3%	\$15,249	91.3%	83%	77%
Upper	16	7.7%	\$1,452	8.7%	14%	14%
NA*	NA	NA	NA	NA	0%	3%
Totals	208	100%	\$16,701	100%	100%	100%

*Undefined tract that consists wholly of a state prison

Geographic Distribution of Business Loans						
Census Tract Income Level	Number of Loans		Dollar Volume of Loans		Percent of Assessment Area Businesses	Percent of Assessment Area Census Tracts
	#	%	\$ (000)	%		
Low	0	0	0	0	5%	3%
Moderate	0	0	0	0	2%	3%
Middle	20	87%	\$1,948	66%	79%	77%
Upper	3	13%	\$1,007	34%	14%	14%
NA*	NA	NA	NA	NA	0%	3%
Totals	23	100%	\$2,955	100%	100%	100%

*Undefined tract that consists wholly of a state prison

Geographic Distribution of Consumer Loans						
Census Tract Income Level	Number of Loans		Dollar Volume of Loans		Percent of Assessment Area Households	Percent of Assessment Area Census Tracts
	#	%	\$	%		
Low	0	0	0	0	.5%	3%
Moderate	0	0	0	0	3%	3%
Middle	17	85%	\$110,562	76%	84%	77%
Upper	3	15%	\$35,341	24%	12.5%	14%
NA*	NA	NA	NA	NA	0%	3%
Totals	20	100%	\$145,903	100%	100%	100%

*Undefined tract that consists wholly of a state prison

Responses to Complaints

The First National Bank of Cold Spring has not received any complaints about its performance in helping to meet assessment area credit needs during this evaluation period.

Fair Lending Review

An analysis of public comments, consumer complaint information, and HMDA data was performed according to the OCC's risk based fair lending approach. Based on analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.