

PUBLIC DISCLOSURE

May 10, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Buhl
Charter Number 11622

121 State Street
Buhl, Minnesota 55713

Office of the Comptroller of the Currency
Midwestern District
Minneapolis Field Office
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402-3393

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 Buhl** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of May 10, 1999. 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 Satisfactory.

The First National Bank of Buhl has a satisfactory record of meeting community credit needs. This assessment is based upon the following factors:

- < The bank's average loan-to-deposit ratio is reasonable at 49%.
- < A substantial majority of the bank's loans are extended to customers within its assessment area.
- < Credit activity is reasonably distributed to borrowers of different income levels and businesses of different sizes.
- < Loan activity also reflects a reasonable distribution to geographies with different income characteristics.

DESCRIPTION OF INSTITUTION:

The First National Bank of Buhl is a small community bank with assets of \$11 million located in northeastern Minnesota. The bank is owned by Buhl Bancorporation, Inc., a one-bank holding company. Outstanding loans as of December 31, 1998 totaled \$5 million. Loan products include 1 - 4 family residential (interim construction, permanent, and refinancing), consumer, commercial, and agricultural loans. The primary business focus consists of consumer, residential real estate, and commercial lending. Composition of the loan portfolio by type is as follows: commercial 38%; residential real estate 28%; consumer 28%; agricultural 4%; and miscellaneous 2%. There are no legal impediments which limit the bank's ability to meet the credit needs of the assessment area. The bank has only one office which is located at 121 State Street, Buhl, Minnesota. The bank was rated satisfactory during the previous CRA Examination conducted as of June 4, 1996.

DESCRIPTION OF ASSESSMENT AREA:

The Board designated eleven contiguous census tracts located in the west-central portion of St. Louis County as the bank's assessment area. The census tracts are also located within the Duluth/Superior Metropolitan Statistical Area (MSA). The assessment area includes census tract numbers 121.98, 122.00, 123.00, 124.00, 125.00, 126.00, 127.00, 128.00, 129.00, 134.00, and 151.00. Two of the census tracts (122.00 and 127.00) are moderate-income with the bank located within census tract 127.00. The remaining nine tracts are middle-income. Communities located within the assessment area are Alango, Balkan, Buhl, Cherry, Chisholm, Clinton, Fayal, Field, French, Great Scott, Hibbing, Iron Junction, Kinney, Leonidas, Mountain Iron, and Sand Lake. The population within this area totals 35,514 based on 1990 Census Bureau data. Approximately 20% of families located within the assessment area are low-income, 18% are moderate-income, 23% are middle-income, and 38% are upper-income. The 1998 Department of Housing and Urban Development (HUD) median family income for the MSA is \$42,600. Local employment opportunities are centered in mining and logging.

As part of our evaluation, we contacted a local government official to solicit feedback on the bank and determine community credit needs. The contacted official stated in his/her opinion, the primary credit need of the community was mortgage loans. The official indicated the bank was providing for that need and was also supportive through municipal bond investments and participation in community activities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN-TO-DEPOSIT RATIO:

The First National Bank of Buhl has a reasonable loan-to-deposit ratio given the size of the bank and community, the bank's financial condition, and the credit needs of the assessment area. The bank's quarterly loan-to-deposit ratio has averaged 49.00% since the prior CRA Examination dated June 4, 1996, and has ranged from a low of 45.04% to a high of 54.63%. In comparison, the average loan-to-deposit ratio for all other banks within the assessment area has been 67.05% for the same period. The average combined loan-to-deposit ratios for the other banks has ranged from a low of 58.23% to a high of 72.69%. Although the bank's average loan-to-deposit ratio is less than the other banks, the ratio is mitigated by the size of both the bank and the community. The First National Bank of Buhl is small compared to the other banks, as is the community of Buhl when compared to the other banks' communities.

LENDING IN ASSESSMENT AREA:

A substantial majority of the bank's lending activity is located within its assessment area. We reviewed a sample of all residential mortgage loans extended since the prior examination, totaling twelve loans. Additionally, we sampled twenty-five consumer loans and twenty-one commercial loans originated within the twelve months prior to this examination. Approximately 84% of the number and 80% of the dollar amount of sampled loans were extended to borrowers located within the bank's assessment area. This indicates a satisfactory level of lending within the bank's assessment area. The following table reflects the distribution of loans by loan type, number, and amount.

Lending Inside and Outside of the Assessment Area								
	Inside				Outside			
Loan Type:	#	%	\$ (000)	%	#	%	\$ (000)	%
Mortgage	11	92%	312	94%	1	8%	19	6%
Consumer	21	84%	96	85%	4	16%	17	15%
Commercial	17	81%	844	75%	4	19%	279	25%
Totals	49	84%	1,252	80%	9	16%	315	20%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES:

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. The bank's loan distribution approximates the income characteristics of the assessment area. Although the numbers of loans to low- and upper-income families are slightly less than the demographics, lending is focused toward moderate- and middle-income families. Additionally, the distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on our review, all of the sampled business loans originated within the bank's assessment area were to small businesses. The following table reflects the distribution of loans by numbers to families of different incomes and businesses of different sizes.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographic Characteristics	20%		18%		24%		38%		100%	
Loan Types:	#	%	#	%	#	%	#	%	#	%
Mortgage	1	9%	4	36%	4	36%	2	18%	11	100%
Consumer	3	14%	5	24%	9	43%	4	19%	21	100%
Revenue Ranges	Less than \$100,000		\$100,000-\$500,000		\$500,000-\$1,000,000		Over \$1,000,000			
Commercial	8	47%	6	35%	3	18%	0	0%	17	100%

GEOGRAPHIC DISTRIBUTION OF LOANS:

The geographic distribution of loan originations reflects a reasonable distribution throughout the census tracts within the assessment area. Based on borrower addresses, we were able to determine in which census tracts our sample of mortgage, consumer, and commercial loans were originated. The following table reflects the distribution by number of loans to the different income level tracts in the assessment area.

Geographic Distribution of Loans										
	Low Income Tracts		Moderate Income Tracts		Middle Income Tracts		Upper Income Tracts		Total	
Area Demographic Characteristics	0%		18%		82%		0%		100%	
Number of Families	0		808		9,316		0		10,124	
Loan Types	#	%	#	%	#	%	#	%	#	%
Mortgage	0	0%	2	18%	9	82%	0	0%	11	100%
Consumer	0	0%	5	24%	16	76%	0	0%	21	100%
Commercial	0	0%	4	24%	13	76%	0	0%	17	100%

RESPONSE TO COMPLAINTS:

Management has not received any written complaints related to CRA performance since the prior CRA Examination. A fair lending review was performed in conjunction with this examination. We compared loan outcomes for automobile loans based on gender during the last 12 months. From our sample, we noted no discriminatory practices. Further, we did not identify any substantive violations involving anti-discrimination laws or regulations.