



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

**November 18, 2008**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The First National Bank of Buhl  
Charter Number 11622

121 State Street  
Buhl, MN 55713

Office of the Comptroller of the Currency

MINNEAPOLIS NORTH  
302 West Superior Street, The Lonsdale Building, Suite 307  
Duluth, MN 55802-1802

**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 Outstanding.**

The major factors supporting this rating include:

- An excellent net loan-to-deposit ratio and strong majority of local originations;
- Excellent penetration among individuals of different income levels and excellent penetration among businesses of different sizes; and
- Adequate geographic distribution of residential and commercial loans in the assessment area.

**SCOPE OF EXAMINATION**

This examination entailed a full scope review of The First National Bank of Buhl's (FNB's) sole assessment area. We assessed performance over an evaluation period of December 31, 2003 through September 30, 2008. We focused our assessment upon FNB's primary lending products, business loans and residential real estate loans. Our loan samples of these products included a judgmental selection of 28 commercial loans and 30 residential real estate loans originated throughout the evaluation period. We used applicable information directly from these files for our assessments. Given the bank's size, it is exempt from filing the Home Mortgage Disclosure Act's Loan/Application Register.

**DESCRIPTION OF INSTITUTION**

Name and Location of Institution	The First National Bank of Buhl, Buhl, Minnesota.
Total Assets of Bank	\$26 million as of September 30, 2008.
Number of Branches and Locations	Three locations with two in Buhl and one in Mountain Iron, MN. The Mountain Iron branch was opened in December 2004 and permanently relocated to its current location in February 2006.
Name, Location, and Size of Holding Company	Timberland Bancorp, Inc., Baxter, MN purchased the bank in October 2004 and reports \$26 million in total assets. FNB has no other affiliates.
Loan Portfolio Summary	Commercial (56%), residential real estate (35%), and consumer (9%); from the September 30, 2008 Call Report.
Net Loans/Total Assets	85.24% as of September 30, 2008.
Primary Products	Commercial loans and residential real estate loans.

Date and Rating of Last CRA Examination	December 3, 2003 "Satisfactory".
---	----------------------------------

There are no financial, legal, or other factors that negatively impact the bank's ability to meet its CRA obligations.

## DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area (AA) consists of 26 contiguous census tracts in northern St. Louis County, Minnesota. Census tracts of this AA include 113, 114, 121-136, 138-141, and 151-155. This AA includes the primary population centers and the cities of Hibbing to the west, Chisholm, Buhl, Virginia, Eveleth, Gilbert, Biwabik and Aurora to the east. The AA also includes rural areas immediately to the south and again north to the Canadian border. There are no designated low-income tracts within this AA, six are designated as moderate-income, and the remaining 20 are designated as middle-income tracts. This AA is legal and does not arbitrarily exclude any low- or moderate-income areas.

The 2000 U.S. Census data provides further details of this AA:

- Total population of 78,819 persons.
- Weighted average of median housing is \$66,813.
- 62% of housing is owner occupied, 15% is rented, and the remaining 23% is vacant or seasonal.
- 12% of households reported income levels below the poverty level.
- 24% of households are retired.
- Non-farm businesses totaled 7,416 and farms totaled only 158.
- The 2007 updated median family income is \$58,900.

Economic conditions of the AA are fair and have been for an extended period. Major industries include mining and related support industries, logging, healthcare, gaming, and tourism. September 2008 St. Louis County seasonally adjusted unemployment levels are in line with both State and National figures at 6.2%.

Competition from other financial institutions is strong. Including FNB, there are 33 financial institutions serving the Duluth, Minnesota metropolitan area. FNB reports a deposit market share in line with its small size of .65%, ranking 25<sup>th</sup> among these institutions.

We made two community contacts during this assessment. These contacts confirmed that credit needs of this AA are typical and include small business, residential real estate and general retail credit needs.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB's net loan-to-deposit ratio (LTD) is excellent, far exceeds other banks of similar size, and demonstrates an excellent commitment to meeting the credit needs of the assessment area. From December 31, 2003 to September 30, 2008, the bank's quarterly LTD ratio averaged 81%. The trend in the LTD is also strong throughout the evaluation period and has steadily increased from the 55% noted in the last evaluation. Since the bank was purchased by current ownership in October 2004, the LTD has steadily increased and ended at 98% on September 30, 2008.

FNB's LTD is strong compared to other national banks of similar size in Minnesota. FNB ranks first among a total of eight similarly situated banks with total assets of \$19 million to \$44 million. Average LTDs ranged from a low of 49% to FNB's high of 81% and the average of the group was 60%. Please see the table below for further details:

<b>Institution</b>	<b>Assets (000s) (As of 9/31/08)</b>	<b>Average Loan-to-Deposit Ratio (4Q03 – 3Q08)</b>
First National Bank of Buhl	\$26,073	81%
First National Bank of Gilbert	\$23,528	64%
First National Bank of Proctor	\$23,510	63%
First National Bank of Cass Lake	\$33,661	62%
Miners National Bank of Eveleth	\$44,213	53%
First National Bank of McIntosh	\$24,390	49%
First National Bank of Herman	\$19,982	48%

Source: Call Report Data

### **Lending in Assessment Area**

FNB originates a strong majority of its loans to borrowers located within its assessment area. Our sample of primary products, commercial and residential real estate loans, originated throughout the evaluation period identified that 95%, by number, and 84%, by dollar, were originated to businesses and individuals within the assessment area. The following table provides further details:

<b>Lending in Assessment Area by Number and Dollar Amount</b>				
Type of Loan	Number	Percent of Number	Dollar of Loans (000s)	Percent of Dollars
Residential Real Estate	29 of 30	97%	\$2,029 of \$2,073	98%
Commercial	26 of 28	93%	\$2,664 of \$3,524	76%
Total	55 of 58	95%	\$4,693 of \$5,597	84%

Source: Bank Files

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

Overall, the distribution of borrowers reflects excellent penetration among individuals of different income levels and excellent penetration among businesses of different sizes.

Residential lending to borrowers of varying income levels is very good. FNB's lending to low-income borrowers at 14 percent is near the assessment area's demographics of 20 percent. FNB's lending to moderate-income borrowers at 34 percent substantially exceeds the community demographics of 20 percent and demonstrates excellent performance.

The following table compares the bank's residential lending activity by borrower income level to community demographics:

<b>BORROWER DISTRIBUTION OF RESIDENTIAL LOANS BY INCOME LEVEL</b>			
Borrower Income Level	Originations Dated December 31, 2003 through September 30, 2008		
	Number	% of Number	% of Families in AA
Low	4	14%	20%
Moderate	10	34%	20%
Middle	6	21%	25%
Upper	9	31%	35%
Total	29	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (2000)

Commercial lending activity substantially exceeds business demographic data and demonstrates excellent performance. Approximately 73 percent of the number of commercial borrowers in our sample reported gross annual revenues of less than \$1 million. This level substantially exceeds assessment area demographics of 56 percent. In addition, FNB originated the largest number of loans to small businesses with less than \$250 thousand in gross annual revenues. The following table compares the bank's commercial lending activity by revenue size to community demographics:

<b>BORROWER DISTRIBUTION OF COMMERCIAL LOANS BY REVENUE SIZE</b>			
Gross Annual Revenue	Originations Dated December 31, 2003 through September 30, 2008		
	Number	% of Number	% of Businesses in AA
<\$50,000	5	19%	<b>56%</b>
\$50,000-\$100,000	4	15%	
\$100,000-\$250,000	6	23%	
\$250,000-\$500,000	3	12%	
\$500,000-\$1,000,000	1	4%	
>\$1,000,000	7	27%	4%
Not Reported	0	0%	40%
Total	26	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (2000)

Demographic data contains a high level of businesses of unknown size, as they chose not to report this information. However, examiner discussions with local lenders and business people during this evaluation indicate that there are no reasons to believe that the non reporters are proportionately different in size than those that did report this information.

### **Geographic Distribution of Loans**

FNB's geographic distribution of residential and commercial loans in the assessment area is adequate. Commercial loan distribution is very near the demographics of the assessment area. Residential real estate loan distribution is somewhat below the demographics of the assessment area. Distance, coupled with competition, creates challenges to lending in moderate-income census tracts 141 and 153.

The following tables provide additional details:

<b>GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL LOANS</b>					
Tract Income Level	Originations Dated December 31, 2003 through September 30, 2008				Percent of Households by Tract Category
	Number	Percent of Number	Amount (000s)	Percent of Amount	
Low	0	0%	\$0	0%	0%
Moderate	4	<b>14%</b>	\$218	<b>11%</b>	<b>22%</b>
Middle	25	86%	\$1,811	89%	78%
Upper	0	0%	\$0	0%	0%
Totals	29	100%	\$2,029	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (2008)

<b>GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS</b>					
Tract Income Level	Originations Dated December 31, 2003 through September 30, 2008				Percent of Businesses by Tract Category
	Number	Percent of Number	Amount (000s)	Percent of Amount	
Low	0	0%	\$0	0%	0%
Moderate	5	<b>19%</b>	\$154	<b>6%</b>	<b>21%</b>
Middle	21	81%	\$2,510	94%	79%
Upper	0	0%	\$0	0%	0%
Totals	26	100%	\$2,664	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (2008)

We did not identify any gaps of concern in the bank’s lending patterns. Our samples identified originations in 19 of 26 census tracts, including all but one distant moderate-income census tract.

### **Responses to Complaints**

There have been no consumer complaints regarding CRA issues during the evaluation period.

### **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.