



## **PUBLIC DISCLOSURE**

February 17, 2015

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

The First National Bank of Buhl  
Charter Number 11622

8355 Unity Drive, Suite 400  
MT. Iron, MN 55768

Office of the Comptroller of the Currency

222 South Ninth Street  
Suite 800  
Minneapolis, MN 55402-3371

**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 average loan-to-deposit ratio (LTD) is more than reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- The bank originated a substantial majority of loans inside its AA.
- The distribution of loans reflects excellent penetration among borrowers of different income levels.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA.

**SCOPE OF EXAMINATION**

We conducted a full scope review of First National Bank of Buhl (FNB Buhl) to evaluate the bank's performance in meeting the credit needs of its community. We assessed the bank's performance from November 19, 2008 to February 17, 2015 (the evaluation period). We focused our assessment on the bank's primary loan products based on the dollar volume and number of loan originations from January 1, 2013 through December 31, 2014 (the sample period). Residential real estate and consumer loans were determined to be the primary products for the bank during the sample period. More weight was given to residential real estate lending in our evaluation, as originations totaled 42 percent by dollar volume, of all loans originated during the sample period.

| <b>Loan Originations and Purchases in 2013 and 2014</b> |                     |                    |
|---|---------------------|--------------------|
| <b>Loan Type</b>  | <b>Volume by \$</b> | <b>Volume by #</b> |
| Residential Real Estate                                 | 42.00%              | 14.00%             |
| Consumer  | 25.00%              | 71.00%             |
| Commercial  | 33.00%              | 15.00%             |

*Source: Bank loan origination report for 2013 and 2014*

We randomly sampled 20 residential real estate loans and 60 consumer loans to evaluate lending performance within the AA. Given the bank's size, it is exempt from filing the Home Mortgage Disclosure Act's Loan/Application Register.

**DESCRIPTION OF INSTITUTION**

FNB Buhl is a \$23.7 million institution located in Northeast Minnesota (MN). FNB Buhl has two locations; a main office in Mountain Iron, MN and a branch located in Buhl, MN. The bank has two non-proprietary ATMs located in its AA available for cash withdrawals by customers. The bank does not charge customers a fee for these transactions. FNB Buhl is a wholly owned subsidiary of Timberland Bancorp, a one-bank holding company. Since the last CRA evaluation there have been no mergers or acquisitions; however, the bank relocated its main office from Buhl, MN to Mountain Iron, MN.

FNB Buhl is a full service bank that offers traditional products and services. As of December 31, 2014, net loans and leases totaled 77.72 percent of total assets and Tier 1 Capital was 7.66 percent. The loan portfolio is comprised of 43.24 percent residential real estate, 40.36 percent commercial, and 16.36 percent consumer loans. The investment portfolio totaled \$2.55 million

or 11 percent of total assets as of December 31, 2014 and was comprised entirely of bank-owned certificates of deposit. The bank’s business focus is retail lending.

We did not identify any legal, financial, or other factors that would impede the bank’s ability to serve the credit needs of its AA. The bank’s last CRA evaluation was November 18, 2008. The bank received an “Outstanding” rating.

**DESCRIPTION OF ASSESSMENT AREA**

FNB Buhl's AA includes all of St. Louis County, which is part of the Duluth, MN-WI MSA. The AA consists of all 67 census tracts in St. Louis County. The AA includes eight low- and 13 moderate-income level census tracts. The AA also includes 32 middle-income and 13 upper-income level tracts. The AA meets regulatory requirements and does not arbitrarily exclude any low-or moderate-income census tracts. Competition in the bank’s AA is strong and includes 22 financial institutions, with a majority of institutions located within the Duluth area. Per the June 30, 2014 FDIC Market Share Report, FNB Buhl has a deposit market share of 0.66 percent ranking 19 among the 22 institutions in the AA. The following table shows demographic information for FNB Buhl’s AA.

| <b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AA</b> |           |
|---|-----------|
| Population  |           |
| Number of Families  | 51,606    |
| Number of Households                                      | 86,561    |
| % of Low-Income Families                                  | 20.58%    |
| % of Moderate-Income Families                             | 17.59%    |
| % of Middle-Income Families                               | 22.65%    |
| % of Upper-Income Families                                | 39.18%    |
| Geographies   |           |
| Number of Census Tracts                                   | 67*       |
| % Low-Income Census Tracts                                | 12.00%    |
| % Moderate-Income Census Tracts                           | 19.40%    |
| % Middle-Income Census Tracts                             | 47.80%    |
| % Upper-Income Census Tracts                              | 19.40%    |
| Median Family Income (MFI)                                |           |
| 2010 MFI for AA   | \$59,812  |
| 2014 HUD-Adjusted MFI                                     | \$64,300  |
| Economic Indicators                                       |           |
| 2014 Unemployment Rate                                    | 5.35%     |
| 2010 Median Housing Value                                 | \$147,146 |
| % of Households Below Poverty Level                       | 14.72%    |

Source: 2010 U.S. Census data with updated information when available

\*One tract shows income as NA

In order to gather current information on the local community and potential lending opportunities we contacted a community leader. The community contact indicated local institutions were meeting the credit needs of the community. The contact noted that economic activities in the AA are largely influenced by mining activities, an industry which is highly cyclical due to the impact of changing market conditions, such as the level of imports and the price of steel. The contact further noted mining companies are actively moving through the necessary approval and permit processes to mine copper and other non-ferrous metals, which will eventually have a positive effect on the local economy. The other major economic influence in the AA is from the timber industry according to our community contact.

The average unemployment rate in the AA of 5.35 percent exceeds the 2014 Minnesota unemployment average of 4.1 percent. Major employers in the AA are mining, timber, health care, and education. Top employers include US Steel Minntac, Cleveland Cliffs Natural Resources, Arcelor Mittal, Virginia Regional Hospital, and Independent School District 712.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB Buhl's LTD is more than reasonable given the bank's size, capacity, financial condition, AA economic conditions, and AA credit needs. The LTD ratio demonstrates a strong commitment to meet the credit needs of the AA. The bank's quarterly average LTD ratio is 84.50 percent for the 26 quarters beginning September 30, 2008 to December 31, 2014. The ratio ranged from a quarterly high of 98.64 percent in September of 2009, to a quarterly low of 72.15 percent in July of 2014. The following table depicts the average LTD ratios of similarly situated banks in the AA, with total assets ranging from \$22 million to \$60 million. FNB Buhl ranks first when compared to these similarly situated AA banks.

| LOAN-TO-DEPOSIT RATIO                  |                                |                                  |
|--|--------------------------------|----------------------------------|
| Institution (Headquarters)             | Assets as of 12/31/14 (\$000s) | Average LTD Ratio (4Q08 to 4Q14) |
| <i>The First National Bank of Buhl</i> | \$23,468                       | 84.50%                           |
| Northern State Bank of Virginia        | \$57,606                       | 78.83%                           |
| The First National Bank of Proctor     | \$22,028                       | 60.50%                           |
| The First National Bank of Gilbert     | \$32,641                       | 52.49%                           |
| The Miners National Bank of Eveleth    | \$60,488                       | 43.57%                           |

*Source: Call Report data as of December 31, 2014.*

### Lending in Assessment Area

A substantial majority of loans originated by FNB Buhl were to borrowers located inside the AA. Based on a sample of the bank's primary products, FNB Buhl originated 100 percent of loans inside the bank's AA.

The table on the following page details lending activity during the sample period:

| <b>Lending in the AA</b>            |                 |      |         |    |       |                         |      |         |    |         |
|-------------------------------------|-----------------|------|---------|----|-------|-------------------------|------|---------|----|---------|
| Loan Type                           | Number of Loans |      |         |    |       | Dollars of Loans (000s) |      |         |    |         |
|                                     | Inside          |      | Outside |    | Total | Inside                  |      | Outside |    | Total   |
|                                     | #               | %    | #       | %  |       | \$                      | %    | \$      | %  |         |
| Residential Real Estate (RRE) Loans | 20              | 100% | 0       | 0% | 20    | 1,402                   | 100% | 0       | 0% | \$1,402 |
| Consumer Loans                      | 20              | 100% | 0       | 0% | 20    | 231                     | 100% | 0       | 0% | \$ 231  |
| Totals                              | 40              | 100% | 0       | 0% | 40    | 1,633                   | 100% | 0       | 0% | \$1,633 |

Source: OCC Loan Samples.

### **Lending to Borrowers of Different Incomes**

Overall, FNB Buhl's lending reflects excellent penetration to borrowers of different income levels.

#### **Residential Real Estate Loans**

FNB Buhl's residential lending to borrowers of different income levels reflects excellent penetration. The bank significantly exceeded both the number of low- and moderate-income borrowers relative to the comparable demographics in the AA.

The following table compares the bank's residential real estate lending activities by borrower income level in comparison to the AA demographics:

| <b>Borrower Distribution of Residential Real Estate Loans in the AA</b> |                  |                      |                  |                      |                  |                      |                  |                      |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level   | Low              |                      | Moderate         |                      | Middle           |                      | Upper            |                      |
| Loan Type   | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| RRE Loans   | 20.58%           | 25.00%               | 17.59%           | 25.00%               | 22.65%           | 30.00%               | 39.18%           | 20.00%               |

Source: Loan sample; 2010 US Census Data

#### **Consumer Loans**

FNB Buhl's consumer lending to borrowers of different income levels reflects excellent penetration. Our loan sample indicated that the bank's lending to both low-income and moderate-income borrowers significantly exceeded the demographic comparator.

The table on the following table compares the bank's consumer lending activities by borrower income level to the AA demographics:

| <b>Borrower Distribution of Consumer Loans in the AA</b> |                     |                      |                     |                      |                     |                      |                     |                      |
|--|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
| Borrower Income Level                                    | Low                 |                      | Moderate            |                      | Middle              |                      | Upper               |                      |
| Loan Type  | % of AA House holds | % of Number of Loans | % of AA House holds | % of Number of Loans | % of AA House holds | % of Number of Loans | % of AA House holds | % of Number of Loans |
| Consumer   | 25.69%              | 30.00%               | 15.78%              | 35.00%               | 17.30%              | 20.00%               | 41.23%              | 15.00%               |

Source: Loan Sample; 2010 US Census Data

**Geographic Distribution of Loans**

Overall, FNB Buhl’s lending to low-to-moderate income tracts reflect a reasonable dispersion of loans throughout the AA.

**Residential Real Estate Loans**

The geographic distribution of residential real estate loans reflects an overall excellent dispersion of loans throughout the AA when considering overall lending to low-to-moderate income tracts. While lending to low-income tracts is at zero percent versus the demographic comparator of 3.37 percent, the bank’s distance from the low-income census tracts, and the sizeable number of competing banks near the low-income tracts, make it difficult to originate loans in those tracts. Lending to moderate-income tracts significantly exceeds the percentage of owner-occupied housing. Bank lending in the moderate-income census tracts was 35 percent, over three times the demographic comparator of 11.12 percent.

The following table compares the bank’s residential real estate lending activity by census tract income level to the AA demographics:

| <b>Geographic Distribution of Residential Real Estate Loans in the AA</b> |                                |                      |                                |                      |                                |                      |                                |                      |
|---|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Tract Income Level  | Low                            |                      | Moderate                       |                      | Middle                         |                      | Upper                          |                      |
| Loan Type   | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans |
| RRE Loans   | 3.57%                          | 0.00%                | 11.12%                         | 35.00%               | 63.59%                         | 65.00%               | 21.72%                         | 0.00%                |

Source: Loan Sample; 2010 US Census Data

**Consumer Loans**

The geographic distribution of consumer loans reflects poor dispersion throughout the different income level census tracts. Consumer lending in both low- and moderate-income tracts do not meet the comparable demographics of the AA. As noted previously, due to distance and competitive challenges, lending in the low-income census tracts is more difficult.

The table on the following page compares the bank’s consumer lending activity by census tract income level to the AA demographics:

| <b>Geographic Distribution of Consumer Loans in the AA</b> |                     |                      |                     |                      |                     |                      |                     |                      |
|--|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
| Tract Income Level   | Low                 |                      | Moderate            |                      | Middle              |                      | Upper               |                      |
| Loan Type  | % of AA House holds | % of Number of Loans | % of AA House holds | % of Number of Loans | % of AA House holds | % of Number of Loans | % of AA House holds | % of Number of Loans |
| Consumer   | 9.75%               | 2.00%                | 14.46%              | 12.00%               | 56.00%              | 86.00%               | 19.79%              | .00%                 |

*Source: Loan Sample; 2010 US Census Data*

**Responses to Complaints**

FNB Buhl has not received any CRA-related complaints since the previous CRA evaluation.

**Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.