



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 3, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Buhl
Charter Number 11622**

**121 State Street
Buhl, Minnesota 55713**

**Comptroller of the Currency
Sioux Falls Field Office
4900 South Minnesota Avenue, Suite 300
Sioux Falls, South Dakota 57108**

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 “Satisfactory.”

- Geographic distribution of residential and commercial loans is excellent and substantially exceeds community demographics.
- Borrower distribution reflects excellent penetration among individuals of different income levels and good penetration among businesses of different sizes.
- The bank’s average net loan-to-deposit ratio is reasonable at 55 percent.
- A majority of the bank’s loans by number (90 percent) and dollar volume (75 percent) are located within its assessment area.

DESCRIPTION OF INSTITUTION

Name and Location of Institution	The First National Bank of Buhl (FNB), Buhl, Minnesota
Total Assets of Bank	\$13 million as of December 31, 2002
Number of Branches and Locations	2 branches located in Buhl, Minnesota
Name, Location, and Size of Holding Company	Buhl Bancorporation, Inc., Buhl, Minnesota: \$13 million. The bank is affiliated with the First National Bank of Brewster, Brewster, Minnesota.
Loan Portfolio Summary and Source	Residential (44%), Commercial (30%), Consumer (22%), Agricultural (3%), and Other (1%) from the December 31, 2002 Call Report
Net Loans/Total Assets	49.75% as of December 31, 2002
Date and Rating of Last CRA Examination	May 10, 1999 “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 has designated 11 contiguous census tracts in St. Louis County, Minnesota, as its assessment area. These census tracts include: 121.98, 122.00, 123.00, 124.00, 125.00, 126.00, 127.00, 128.00, 129.00, 134.00, and 151.00, which encompass the city of Buhl and the surrounding area. The population of the assessment area is 35,514. The bank’s assessment area is legal and does not arbitrarily exclude any low- or moderate-income areas.

The 1990 U.S. Census and 2002 Department of Housing and Urban Development (HUD) estimated MFI for the Duluth, Minnesota/Superior, Wisconsin Metropolitan Area (MA) are \$30,561 and \$50,800, respectively. The following table summarizes the income levels of individual geographies and families located within the bank’s assessment areas:

INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES							
Census Tracts				Percentage of Families			
Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
0	2	9	0	20%	18%	24%	38%

Source: U.S. Census Data (1990)

Economic conditions in the bank’s assessment area are fair. Major industries in the assessment area are mining and logging. Fluctuations in employment at local taconite mines have a significant impact on the local economy. Employment levels at local mines have decreased significantly from historical levels, but recent ownership changes at a local mine may improve employment in the near term. The Mesaba Academy and Forest Health Services are two primary employers within the City of Buhl. As of December 2002, the unemployment rate for St. Louis County (4.2 percent) approximated that of the state of Minnesota (4.0 percent) and was below that of the nation (5.7 percent).

Competition from other financial service companies is strong. Financial services companies are particularly competitive on interest rates for consumer and residential real estate loan products. Bank management identified financial institutions with offices in Chisholm, Hibbing, and Virginia as providing the strongest competition for banking services. Including FNB, there are 24 financial institutions serving the Duluth, Minnesota/Superior, Wisconsin MA. Wells Fargo Bank Minnesota, N.A. and U.S. Bank, N.A. have the highest deposit market shares for the entire MA with 32 percent and 19 percent, respectively. FNB has deposit market share of 0.5 percent, ranking 21st among the 24 financial institutions.

We did not identify any unmet credit needs in any of FNB’s assessment areas. Assessment area credit needs are typical of those in most small and rural communities and include small business, residential, and consumer lending.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB’s net loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs. The bank’s quarterly net loan-to-deposit ratio averaged 55 percent over 17 quarters from December 31, 1998 to December 31, 2002. This is an increase from 49 percent at the last examination.

The bank’s net loan-to-deposit ratio is below that of other community banks of similar size (total assets less than \$100 million) in the assessment area. FNB ranks sixth among a total of six similarly situated banks serving the assessment area. The other five banks had quarterly average net loan-to-deposit ratios averaging 69 percent and ranging from 67 percent to 73 percent over the 17 quarters from December 31, 1998 to December 31, 2002.

Although FNB’s net loan-to-deposit ratio is below that of other area banks, it is reasonable. FNB is the smallest bank and has the lowest deposit market share among all similarly situated banks. Also, the city of Buhl is the least populated of the six communities where the similarly situated banks are chartered. Finally, the bank’s net loan-to-deposit ratio has increased by six percent; the other five banks showed an average increase of two percent over the same time period.

Lending in Assessment Area

FNB originates a majority of its loans to borrowers located within its defined assessment area. We reviewed all of the bank’s existing residential and commercial loans originated between January 1, 1999 and December 31, 2002; these are the bank’s primary products, in order of importance. About 90 percent by number and 75 percent by dollar volume were made to businesses and individuals located within the bank’s assessment area. The following table shows loans originated inside the assessment area by number and dollar volume:

LENDING IN ASSESSMENT AREA BY NUMBER AND DOLLAR AMOUNT				
Type of Loan	Number In	Percent of Number In	Dollars (000s) In	Percent of Dollars In
Residential	63 of 69	91%	\$2,718 of \$2,904	94%
Commercial	31 of 36	86%	\$1,631 of \$2,871	57%
Total	94 of 105	90%	\$4,349 of \$5,775	75%

Source: Bank records (verified by examiners)

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 good penetration among businesses of different sizes.

Residential lending activity shows excellent penetration to borrowers of varying income levels. Lending to low-income borrowers (15 percent) meets the community demographics of 20 percent. Lending to moderate-income borrowers (30 percent) substantially exceeds the community demographics of 18 percent.

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

BORROWER DISTRIBUTION OF RESIDENTIAL LOANS BY INCOME LEVEL			
Borrower Income Level	Originations Dated January 1, 2000 through December 31, 2002		
	Number	% of Number	% of Families in AA
Low	3	15%	20%
Moderate	6	30%	18%
Middle	7	35%	24%
Upper	4	20%	38%
Total	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Commercial lending activity meets business demographic data. About 75 percent of commercial borrowers had gross annual revenues of less than \$1 million, which meets assessment area demographics of 69 percent. In addition, the largest number of loans in each assessment area was originated to small businesses with less than \$500 thousand in gross annual revenues. The following table compares the bank's commercial lending activity by revenue size to community demographics:

BORROWER DISTRIBUTION OF COMMERCIAL LOANS BY REVENUE SIZE			
Gross Annual Revenue	Originations Dated January 1, 2000 through December 31, 2002		
	Number	% of Number	% of Businesses in AA
<\$50,000	1	5%	69%
\$50,000-\$100,000	1	5%	
\$100,000-\$250,000	5	25%	
\$250,000-\$500,000	6	30%	
\$500,000-\$1,000,000	2	10%	
>\$1,000,000	3	15%	5%
Not Reported	2	10%	26%
Total	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Geographic Distribution of Loans

Geographic distribution of residential and commercial loans in the assessment area is excellent. Both residential and commercial loan distribution substantially exceed community demographics by both number and dollar volume.

The following tables provide additional details:

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL LOANS					
Tract Income Level	Originations Dated January 1, 2000 through December 31, 2002				Percent of Households by Tract Category
	Number	Percent of Number	Amount (000s)	Percent of Amount	
Low	0	0%	\$0	0%	0%
Moderate	15	30%	\$644	29%	9%
Middle	35	70%	\$1,570	71%	91%
Upper	0	0%	\$0	0%	0%
Totals	50	100%	\$2,214	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS					
Tract Income Level	Originations Dated January 1, 2000 through December 31, 2002				Percent of Businesses by Tract Category
	Number	Percent of Number	Amount (000s)	Percent of Amount	
Low	0	0%	\$0	0%	0%
Moderate	6	19%	\$238	15%	9%
Middle	25	81%	\$1,393	85%	91%
Upper	0	0%	\$0	0%	0%
Totals	31	100%	\$1,631	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (2002)

We did not identify any gaps in the bank's lending patterns. The bank made residential and commercial loans in 9 of 11 census tracts, including both moderate-income census tracts.

Responses to Complaints

The bank has not received any CRA-related complaints since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.