



Comptroller of the Currency
Administrator of National Banks

Northeastern District
New Jersey Duty Station
830 Morris Turnpike
Short Hills, New Jersey 07078

Public Disclosure

June 30, 1997

Community Reinvestment Act Performance Evaluation

**City National Bank
Charter Number - 16142
900 Broad Street
Newark, New Jersey 07102**

Office of the Comptroller of the Currency

New Jersey Field Office

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 CRA performance of **City National Bank** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **June 30, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated Satisfactory.

Primary factors supporting the bank's overall rating include:

- The loan to deposit ratio of 48.5% is reasonable although below national and local peer.
- A majority (57%) of the dollar amount of loans originated are in the bank's assessment areas.
- The distribution of lending among borrowers of different income levels and businesses of different sizes is good.
- The distribution of loans to census tracts of various income levels is good.

The following table indicates the performance level of **City National Bank** with respect to each of the five performance criteria.

Small Institution Assessment Criteria	City National Bank Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-deposit ratio		X	
Lending in assessment area		X	
Lending to borrowers of different incomes and to businesses of different sizes		X	
Geographic distribution of loans		X	
Response to complaints	No consumer complaints were received since the previous examination.		

Description of Institution

City National Bank (“CNB”) is the only African-American owned banking institution in New Jersey and is located in Newark, New Jersey. CNB is wholly owned and the only subsidiary of City National Bancshares Corporation. Management and the Board have stated that it is their mission to serve the traditionally under served low and moderate income and minority communities within their assessment area. CNB’s main office and Southside branch, opened March 8, 1996, are both located in Newark. CNB’s other branch, acquired in mid-1994 from the Resolution Trust Corporation, is located in Hackensack, NJ. The main office has two ATMs and the Southside branch has an additional ATM. Office hours are reasonable.

As of June 30, 1997, CNB reported total assets of \$129 million, total deposits of \$117 million and total loans of \$57 million. Of the \$28 million in loans originated in the past 24 months, the substantial majority at \$23 million (80%) are commercial real estate loans, with \$3 million (12%) in residential real estate loans and the remaining \$2 million (8%) are consumer loans. There are no known impediments, legal or otherwise, which would hinder management in helping to meet the credit needs of the community. A full range of credit products is made available to the general public with particular emphasis on commercial lending.

Strong competition consists primarily of multinational banks (First Union, Chase, Fleet, and PNC) and other community banks (Summit, Broad National, and Security National). Many of these institutions aggressively pursue mortgage, small business, and community development loans from the Newark market. CNB’s primary business focus is commercial lending with particular emphasis on church and small business lending. In addition, CNB participates in several lines of credit to Fortune 500 companies.

Description of Assessment Areas (AA)

CNB has designated two separate AAs which meet regulatory guidelines and do not arbitrarily exclude any low and moderate income areas (LMI). LMI is referred to throughout this document as low and moderate income individuals and geographies (census tracts). Combined, the assessment areas contain 226 census tracts with a total population of 797 thousand.

Assessment Area #1: This AA is the larger of the two areas and includes the city of Newark and many surrounding cities in Essex county including, Irvington, East Orange, Orange, South Orange, and Maplewood. It also includes Union, Hillside, and Elizabeth cities in Union county which are contiguous to Essex county. AA #1 is located in MSA 5640. There is a total of 192 census tracts and a population of more than 665 thousand. Of the 192 census tracts, 62 (32%) are low income, 86 (45%), are moderate income, 33(17%) are middle income, and 7 (4%) are upper income, with 4 (2%) with income unavailable. The majority of the tracts (77%) are LMI areas and primarily centered in Essex County where the bank has one of its two branches. A market analysis of this area indicates that it is heavily banked with over 100 lenders in the market. Our analysis of the 1995 Home Mortgage Disclosure Act (HMDA) data indicates CNB ranked 56 of 250 lenders, with .46% of the market share. The top 7 lenders in the market have over 3% of the market share. The median family income of the MSA is \$50,047. Major industries in the assessment area include banking, insurance, and education. Major employers include Prudential

Insurance, Continental Airlines, and Federal Express. The area is also home to several university and college campuses and health care facilities.

Assessment Area #2: This AA is the smaller of the two areas and includes the cities of Hackensack, Englewood, Teaneck, Maywood, Ridgefield Park, and Hasbrouk Heights, all are in Bergen county. AA #2 is located in MSA 0875. This AA includes 34 census tracts with a population of 130 thousand. Of the 34 census tracts, none are low income, 2 (6%), are moderate income, 22 (65%) are middle income, and 6 (17%) are upper income, with 4 (12%) with income unavailable. A market analysis of this area indicates that it is heavily banked with over 75 lenders in the market. Major industries in the assessment area are service, retail, and manufacturing industries.

Both assessment areas have basically the same credit needs which are loans for small business, home purchase, and home improvement. AA#1 is also has a substantial need for rehabilitated and/or low income housing.

Conclusions with Respect to Performance Criteria

Scope of the Review

This review covered the time period from July 1, 1995 through June 30, 1997. All HMDA reportable loans originated during the review period were evaluated. Small business lending for the same period was also evaluated. Consumer lending activity for 1996 through May of 1997 was also reviewed. Management prepared most of these analyses. A 10% sample of all the lending activity was reviewed to determine the accuracy of management's reports. The reports were determined to be accurate and provide much of the information for the analyses presented.

Loans to Deposit Ratio

CNB's eight quarter average loan to deposit ratio is low when compared to the national peer. CNB's loan to deposit ratio, although still low, is more reasonable when compared to other community banks located in urban areas in New Jersey and New York. CNB's concerted effort to increase lending over the past 24 months was successful as they have increased the volume of lending by \$5MM, or 36%. Two other factors also affect this ratio. One, CNB receives a significant amount of large deposits from the state, county, and city governments and large corporations due to CNB being a minority owned bank operating in a depressed urban market. When adjusted for these deposits, CNB's ratio approximates 70%.

Lending Within and Outside the Assessment Areas

Management prepared an analysis to determine CNB's lending within the assessment areas. This information provides the basis for the table below which illustrates the loan originations within AA #1 and #2 and outside the assessment area from July 1995 to June 1997. The table discloses that 53% of the number and 57% of the dollar volume of loans were within the AA. CNB originated and sold \$5,469M in mortgage loans in the past 24 months, thus increasing the availability of mortgage credit within the community.

Loan Originations - (000's) July 1, 1995 to June 30, 1997						
Loan Type	Within AA #1		Within AA#2		Outside AA #1 & #2	
	#	\$	#	\$	#	\$
Commercial	47	10,906	5	1,669	36	10,394
Residential	49	4,277	6	649	84	8,726
Consumer	68	301	0	0	32	332
TOTAL	164	15,484	11	2,318	152	13,409
Percentage of Total Originated	50%	50%	3%	7%	47%	43%

Geographic Distribution

Lending to Borrowers of Different Income

CNB's distribution of lending among borrowers reflects a reasonable penetration of loans to individuals of different income levels. Penetration in the small business loan market is good.

Small Business Lending

Small business loans, defined as businesses with annual gross revenues below \$1 million, account for 88% of the bank's commercial lending activity. This reflects a notable level of attention to the small business credit needs within the community. In addition, CNB has financed a significant number of churches both within and outside of the bank's assessment area. CNB's church financing activity is a community building activity and their success in this niche has been considerable.

Home Mortgage and Consumer Lending

The following table reflects CNB's responsiveness to all income levels for consumer lending. CNB's HMDA lending record is not as responsive as consumer and small business lending. However, HMDA lending is not a major part of the bank's lending activity. Additionally, the majority (56%) of housing is rentals, primarily located in AA# 1. The volume of lending in AA# 2 is low; only 6 loans were originated in the past 24 months. Thus the lending activity for AA#1 and AA#2 were combined in the following table.

HMDA and Consumer Loans by Income of Borrower in AA #1 & #2			
Borrower Income Level	Area	HMDA	Consumer
	% of area	% of number of loans	% of number of loans
Not Available	0%	0%	27%
Low	37%	0%	29%
Moderate	23%	11%	18%
Middle	20%	39%	14%
Upper	20%	50%	12%
Total	100%	100%	100%

Lending to Borrowers in Different Areas

The geographic distribution of CNB's loans reflects a reasonable penetration in LMI census tracts. In fact, CNB's commercial lending in LMI areas is 91% while these areas comprise only 77% of the bank's AA. CNB's consumer lending mirrors the LMI tract percentage. HMDA lending is well below LMI tracts, however, this is due to the limited opportunity to lend in these areas. Additionally, as was stated above, HMDA lending is not a major focus of the bank's activity and the majority of housing stock is rentals. The following chart depicts lending within AA#1.

Geographic Distribution of Loans in AA# 1				
		CNB's Lending to Borrowers in Different Census Tracts		
Census Tract Income Level and % of Total Tracts		Commercial Loans	HMDA Loans	Consumer Loans
Low	32%	53%	0%	22%
Moderate	45%	38%	50%	54%
Middle	17%	9%	50%	17%
Upper	4%	0%	0%	7%
NA*	2%	-	-	-
Total	100%	100%	100%	100%

* Income information was not available.

Since the majority of AA #2's census tracts are middle income, an analysis of the lending by census tracts for AA#2 was not meaningful and therefore not performed.

Other Activities

At the bank's request we also reviewed CNB's qualifying investments and services.

Qualified Investments

CNB has made limited qualified (equity) investments within their assessment area as defined by the regulation. Instead CNB has focused its efforts on making direct credit available to the community through lending activity. CNB has made numerous cash contributions within Newark which enhances credit availability and/or helps minority and disadvantaged individuals.

Community Services

Bank Enterprise Award. In 1996, City National Bank was one of only 38 banks to receive this award in the United States and the only bank in New Jersey. The Award was given to banks for their investment either through grants or direct lending to depressed areas with at least 30% poverty rates and 1½ times the national average unemployment rate. As part of the Award, CNB received a \$168 thousand grant to reinvest in the community.

CNB efforts to bring low income housing to the Newark area is evident through their line of credit commitments to several low income housing projects. No funds have been advanced due to the lengthy process involved with obtaining low income housing tax credits. Several of these commitments have been outstanding since early 1996. Commitments total \$1,875 thousand and include the Corinthian Housing Development, United Community Urban Renewal, and Bakery Village. These activities are vital to redeveloping Newark and providing affordable housing, an identified need in the community.

CNB opened a branch in a Southside LMI area of Newark in March of 1996. The branch makes available basic banking services to a market that would not otherwise be served.

Fair Lending Review

The bank is in compliance with fair lending laws. There is no evidence of disparate treatment or discriminatory practices in the bank's lending policies and practices.

Metropolitan Statistical Areas

Conclusions with Respect to Performance Tests in the Newark MSA (MSA 5640)

CNB's performance in helping to meet the credit needs of its assessment area within the Newark MSA 5640 is consistent with the bank's overall performance.

Description of the Institution's Operations in the Newark MSA - 5640

Full service banking is provided in the Newark MSA. One main office and one branch are located in the MSA. An ATM is available at each office. CNB's business focus in the area is small business lending and this is consistent throughout the MSA.

Description of Newark MSA 5640

The portion of MSA 5640 included in CNB's assessment area contains 192 census tracts, 62 (32%) are low income, 86 (45%) are moderate income, 33 (17%) are middle income, 7 (4%) are upper income, and 4 (2%) had no income data available. All of the low income census tracts are located within Essex county. The median family income for the entire MSA is \$50,047 and unemployment is 3%.

The major companies in the area are in the banking, insurance, and air transportation services with First Union Bank, Prudential Insurance, Continental Airlines, and Federal Express being the largest employers. The area is also home to several college and university campuses including Rutgers University, New Jersey Institute of Technology, Seton Hall University, and Essex County community College. Larger health care facilities in the area include the University of Medicine and Dentistry in New Jersey, Beth Israel Medical Center, St. Barnabas Hospital, and St Michael's Hospital.

Lending Performance

The majority (90%) of the banks' lending activity takes place in the Newark MSA. CNB has traditionally been in this market and it has been the focus of a large part of their lending activity. HMDA originations in this market totaled 55 of the total of 139 HMDA reported loan originations in this MSA and represent approximately 40% of the loans made throughout the review period. A substantial majority of small business loans were originated in this MSA (43 loans) and this represents approximately 88% of the small business loans made throughout the review period. All of the bank's 71 consumer loans were made within the Newark MSA.

Most of the bank's small business loans (90%) were made in LMI areas in this MSA. This illustrates CNB's commitment to the LMI communities within the MSA. In addition, most of CNB's consumer loans were made to LMI individuals and in LMI areas. This again shows CNB's commitment to serving the LMI individuals and areas of the community.

Conclusions with Respect to Performance Tests in the Bergen-Passaic MSA (MSA 0875)

CNB's performance in helping to meet the credit needs of its assessment within this MSA 0875 is consistent with the bank's overall performance.

Description of the Institution's Operations in the Bergen-Passaic MSA - 0875

Full service banking is provided in this MSA, with one branch located in the MSA. CNB's business focus in the area is small business and mortgage lending and this is consistent throughout the MSA.

Description of Bergen-Passaic MSA 0875. The portion of MSA 0875 included in the CNB's assessment area includes 34 census tracts, none are low income, 2 (6%) are moderate income, 22 (65%) are middle income, 4 (12%) are upper income, and 6 (17%) had no income data available. The median family income is \$52,659 and unemployment is 3%. Major industries in the assessment area are service, retail, and manufacturing industries.

Lending Performance

A very small part (10%) of the bank's lending activity takes place in this MSA. The reasons for this are explained below. HMDA originations in this market totaled 27 of the total of 139 HMDA reported loan originations in this MSA and represent approximately 19% of the loans made throughout the review period. Only 12% of the bank's small business loans were originated in this MSA and no consumer loans were made in this MSA.

CNB has had the branch in this MSA for 3 years. CNB acquired the former Savings and Loan branch under favorable terms due to its minority ownership and the presence of minority and LMI census tracts in the area. CNB acquired relatively few deposits and loans in this transaction. CNB has had difficulty establishing a presence in this market due to the highly competitive marketplace. In addition, CNB only had \$11 million in deposits in this area, less than 10% of total deposits. Attempts have been made to increase the lending activity and market share, however, CNB has had limited success.