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How a Newark Bank Helps Small Businesses Contribute to Community Revitalization

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Georgette Hauser, Executive Director of Memorial Day Nursery in Paterson, NJ, received a loan from City National Bank to purchase a 16,000 square-foot building to accommodate the growth of her day care facility.

City National Bank of New Jersey (CNB) has been a beacon of light for African-Americans for 30 years. Founded in 1973 by Charles Whigham, a prominent Newark businessman and community leader, CNB is still the only commercial bank in the state owned and operated by African-Americans.

Mr. Whigham's campaign to start a bank was grounded in his awareness that many qualified Newark residents and local small-business owners were being denied credit by other banks. He led a grass-roots effort consisting of church groups and other community-based organizations that sent volunteers literally door-to-door to raise the bank's initial capital. More than 1,800 individuals contributed a total

of \$1.2 million.

Today the bank has over 1,900 stockholders, most of whom were among the original contributors. CNB, although it now has over \$220 million in assets, remains true to its original mission: to serve the underserved.

A staggering task

CNB operated out of one branch location in downtown Newark for 15 years. The challenge of helping the underserved to improve their financial well being proved to be daunting. The riots that stunned Newark in 1967 triggered a dramatic change in the size and ethnic make-up of its population. Newark was battered in the 1970s by an economic decline and dramatic demographic shifts. Dependent on manufacturing, the city watched helplessly as thousands of manufacturing jobs went elsewhere to be replaced by fewer numbers of service-sector jobs that generally paid much less. Newark's net job losses were staggering: private-sector employment in the city dropped 43 percent before finally stabilizing in the 1990s.

Lost jobs were just part of the problem. Middle-class residents, predominantly white, fled the city in droves.

Both of these trends made CNB's mission more problematic - but also more relevant. Despite great difficulties, the bank experienced 15 years of steady growth.

In 1989, Louis E. Prezeau became President and CEO. Under his leadership the bank has continued to flourish. CNB has grown from one branch to nine branches in New Jersey and New York. The bank has over \$13 million in capital, assets have passed the \$220-million mark, and CNB has over \$120 million in loans.

Key to CNB's growth has been the growth of its loan portfolio. Since 1994 CNB has made nearly \$175 million in loans, resulting in a net portfolio increase of more than \$100 million. Because these loans are largely going back into the community - helping to revitalize Newark - the bank enjoys an outstanding Community Reinvestment Act rating. The Treasury Department's CDFI Fund has also designated CNB as a Community Development Financial Institution and Community Development Entity, and the bank has received a Bank Enterprise Award.

Success stories

Typical of our customers are a local husband and wife optometry practice that had served the community for more than 15 years. Their practice had grown to the point where they needed a larger location and new equipment. Although they were short of capital, by using the SBA 7(a) loan guaranty program CNB was able to assist them in purchasing and renovating an adjacent property and obtaining the new equipment they needed.

Similarly, a local carwash owner, who had been in business for only two years, sought to expand his business by acquiring a nearby building to house an auto accessory store that would complement the carwash. His business plan had merit but because of his limited operating history CNB opted to use the SBA 7(a) program to mitigate the risk to the bank.

Using the SBA 504 program, CNB was able to assist a local minister and his wife, a licensed funeral director, to acquire a building and open a business. Under the terms of the 504 program they were required to make an equity contribution of 10 percent with a bank loan of 50 percent and subordinated debt of 40 percent. Because the bank position was limited to only 50 percent its risk was reduced, and the modest equity requirement for the borrowers made it possible for them to have cash available for other purposes while acquiring the fixed assets they needed to open their business.

In addition to working with the SBA, CNB has used the various programs of the New Jersey Economic Development Authority and New Jersey Housing and Mortgage Finance Agency to mitigate risk and meet customer demand. For example, Memorial Day Care in Paterson, NJ needed to purchase a 16,000-square-foot building to accommodate growth. Although the day care center, founded in 1887, is the oldest in the nation, it was unable to obtain conventional financing because the income from expansion was projected. CNB arranged to fund the project — and reduce Memorial's annual debt obligation — through the purchase of tax-exempt bonds issued by the New Jersey Economic Development Authority. The renovated building opened in January 2003 and now accommodates 285 children.

CNB also partners loans with other banks by selling loan participations, generally to ensure that CNB stays within lending limits consistent with its size. Community bank partners have similar concerns and often seek out CNB to purchase loan participations from them. CNB maintains community bank relationships with banks within and outside of New Jersey and New York. Larger banks have also assisted CNB in its mission of servicing an underserved urban customer base and mitigating risk.

One money-center bank recently partnered with CNB in making lines of credit available to three community development companies that make microloans up to \$35,000 to small businesses.

Hard but rewarding work

Providing financial services to underserved small businesses and community organizations is hard, challenging work - but deeply rewarding. Traveling through the neighborhoods CNB serves, you come upon La Casa, a nonprofit providing social services to Newark's large Hispanic community. La Casa occupies a renovated building purchased and renovated with the help of a CNB bridge loan. You walk past the Union Gospel Tabernacle, built in 1973 with the help of a CNB loan - the first of many CNB loans to area churches. (CNB is now the largest church lender in New Jersey.) You take note of a thriving beauty salon owned by Leo and Olivia Dougherty, who were able to open it with the help of CNB and the SBA. You pass Hellas Fashion, a Newark-based women's coat manufacturer that employs over 600 people. Six years ago the company needed working capital, but was turned down by other financial institutions because of its seasonal sales and relatively high labor costs. Reviewing the company's financial statements, CNB analysts found ways to significantly reduce some of the company's expenditures. CNB was then able to provide Hellas with a working capital line of credit secured by commercial real estate.

All of these clients, and countless others, are helping to make Newark - and the other communities we serve - better places to work and live. Our customers are the building blocks of community development, and CNB is proud to provide the financial glue that holds them together.

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