Good morning.

Thank you for giving me this opportunity to share my thoughts on the Regulatory impact on community banks.

My name is Preston Pinkett III, President and CEO for City National Bancshares and its primary subsidiary, City National Bank of New Jersey. City National Bank is a $350 million African-American owned and operated bank headquartered in Newark, NJ. We operate 7 branches: 3 in Newark; 2 in New York City (Harlem and Brooklyn); 1 each in Paterson, NJ and Roosevelt, Long Island. At $350 million in assets, we are the 7th largest African American bank in the country. We are the only African American bank and the only regulated Community Development Financial Institution (CDFI) headquartered in NJ.

As a National Bank, our primary regulator is the Office of the Comptroller of the Currency (OCC). In addition, because of the holding company, we are also regulated by the Federal Reserve and of course the bank is also regulated by the FDIC. I have also been appointed to the OCC's newly formed Minority Depository Institutions Advisory Committee (MDIAC). The MDIAC was established by the OCC to advice on the condition of MDIs and what changes they can make to preserve minority institutions,

In addition, I serve on the Board of the National Bankers Association (NBA). The NBA is an eighty-five year old Association originally established to support African-American banks. Over the years, the Association has expanded its focus and today its membership is open to Hispanic- and Asian-owned Minority Depository Institutions (MDIs) as well as Women-owned institutions.

Two years ago, I accepted an assignment to turn-around this financially challenged institution. I accepted because of what I saw as the significance of Minority-owned financial institutions to our communities and society at large. Minority institutions not only service the under- or un-served consumer and small business owner providing them with capital to develop and prosper, but they also provide jobs in these communities that mainstream financial institutions have either overlooked or abandoned as "unprofitable". Without MDIs in a number of these communities, the residents and business owners would be forced to deal with un-regulated providers of financial services and potentially be victimized. Those that can least afford it, being forced to do without safe and affordable access to financial services...

During this time, I have had more than a few opportunities to interact with my regulators. I'd dare say, more than most, and, the first thing I'd like to make sure you understand is that we have very good relations with our regulators. We don't always agree, but we have found them to be committed and caring. Our common objective is to create a financially strong, secure and stable institution successfully implementing a business plan that addresses underserved markets has allowed us to find middle-ground on difficult issues. I too have heard the stories about regulators overreaching but have none to share. To a person, the employees and the leadership that we have interacted with have been sincerely interested in our success.

What I have heard from the regulators is that even though they know that Section 308 of FIRREA instructs them to "preserve and encourage minority ownership of depository institutions", they do not have explicit guidance on what that means nor the authority to adapt specific requirements of to recognize the unique (and often, quite different) circumstances MDIs face. It may be that the direction to "support" is just too vague an instruction for people whose day-to-day work requires that they follow very clear rules.

.... a few ideas or suggestions where guidance or authority from this body might allow those regulators, who like ours, already want to do more, to be able to do so and, for those that think there should be no difference in approach, clear guidance that you mean for Section 308 to be taken seriously and to encourage positive action in support of MDIs

Also, let me applaud this body for the work that you have done and continue to do to ensure that our financial system is at once safe and sound, and simultaneously, fair and responsible. Those of us in the MDI community, agree with the spirit of these actions to create access to financial services at reasonable cost. It is very much the reason why most of our institutions were formed.

Who could disagree with a desire to make consumer financial markets work for American consumers, honest businesses, and the economy as a whole? We are sure you are concerned about the threats from un-regulated financial service providers in many of our communities and hope that you continue to find a balance that protects the consumer as well as the banks that are committed to making only a fair return for quality products and services...including interchange fees and credit card interest rates and fees.

That's why we've been happy to see the degree of responsiveness, flexibility and even a willingness to listen to our concerns from a number of federal agencies. The members of the NBA have seen willingness by this administration to take our concerns seriously. We have had a level of access that indicates a genuine interest in our wellbeing. For that we all continue to be thankful.

That said, the industry and a number of the individual banks face very real and significant challenges, in fact, threats to their survival and your continued support is crucial.

In December, the FDIC released a survey that found that approximately 17 million (1 in 12) U.S. households are unbanked. The survey also found that 20% of households rely on un-regulated, alternative financial service providers. The rate of low-income consumers that are unbanked is more than 3 times that of middle- and upper-income. As I am sure you are aware, these statistics reflect the difficulty that lower-income and minority customers have in participating in the financial mainstream. These families are often forced into arrangements with alternative financial service providers which tend to have a greater negative effect on their financial wellbeing and reinforce a negative, downward spiral. If it's difficult to get a loan when needed and the consumer is forced to pay high fees and rates, it affects the consumer's ability to make other payments on time thereby driving down his/her credit rating and making it that much more difficult to obtain a loan in the future. This may, at least partially, explain why only 25% of African-Americans have a "prime" credit score.

Financing for minority-owned businesses is often provided by friends and family, however since the financial crisis this source as eroded significantly as net worth's have declined even more dramatically in minority communities. Today, the average net worth of an African-American household stands at approximately $6,000. In addition, business loans continue to be difficult to obtain for minority entrepreneurs, specifically African-Americans. The SBA has historically been a good source of assistance for those businesses that need an additional amount of credit support. However, after this latest economic downturn, the largest lenders have begun to retrench and the small loans that were once available are much more difficult to come by.

It is against this challenging backdrop that MDIs, like ours, seek to work. According to the FDIC information I have been able to obtain, there are 180 Minority Depository Institutions operating today. Of that 90 are Asian; 38 are Hispanic; and 30 are African American. In total 28% (51) of these MDIs are under $100 million in assets. Astonishingly enough, almost half of the African American banks are under $100 million causing the average size of an African American bank to be just about $115 million.

As you might imagine, managing an institution of that size in today's complex environment requires a great deal of creativity, grit and determination... and, we need support from this body, our regulators, and this administration.

Given all that I've said about the communities in which we work and the customers that rely on us for services, I'm sure you understand the pressure we face on earnings. Our low-wealth customer base needs institutions that provide education/information in addition to accounts and loans. Competition from the larger institutions (banks and credit unions) with technology, marketing and pricing advantages as well as unregulated check cashers and payday lenders, mean that MDIs earnings opportunities continue to be under pressure.

Given that, our ability to raise capital is also made significantly more difficult. Mainstream investors seeking high returns would have us alter our decades long focus on the most needy and like many other institutions focus on a wealthier and therefore, easier to service customer. The "Social Investors" that do exist and care about this market have found that non-profit (unregulated institutions) are easier to invest in. Their willingness to accept debt (they have no stockholders) and the relative ease with which debt payments can be made (they have no regulators) make these investments much more desirable. The institutions that it seems are perfectly positioned to support our efforts, the SBA's (Specialized) Small Business Investment Companies either have a prohibition against investing in banks or are only able to invest in Minority banks if they are under $100 million in assets. And, as we just discussed, those institutions would struggle to demonstrate viability due to the lack of scale.

The challenges associated with being regulated do not end with access to capital. In fact, the cost of meeting regulations, the time spent keeping abreast of changes to the regulations are up significantly. We understand that there is a need for increased efforts on this front, and only request that this body continues to recognize and encourage the regulators to keep in mind that the business of banking can't just be an exercise in meeting regulatory requirements. So please, as you think of the usefulness of the requirements also think about the financial impact of that compliance particularly on smaller Community institutions. In that vein, let me like so many before touch on those issues that concern us most.

Not only the requirement for additional amounts of common equity but also, the concern over the “quality” of the existing capital is issues that may adversely affect our institutions. If the types of securities that we've used in the past to raise long-term capital at reasonable rates are no longer going to count as Tier 1 capital, we will need not only time to adjust, but assistance in finding alternative types and even sources of capital to allow us to continue to have a stable and strong capital base.

In addition, we would hope this body would reconsider the proposed changes to the way "Risk-weighting" of assets and to the way unrealized gains and losses for "Available for Sale" securities are to be captured and reflected.

I guess my request is that this body continue to keep in mind the unique character of MDIs and work to ensure that these institutions are able able to continue to meet their mandate to improve opportunities for people and in communities that, otherwise, may be left behind.

As we look forward, I offer some additional ideas, suggestions and concerns that I think might be worth exploring in connection with stabilizing and growing the sector...

1. TARP redemption: The process to unwind TARP has begun with the Capital Purchase Program (CPP) and will eventually take place for the Community Development Capital Initiative (CDCI) recipients. Of course, we realize that Treasury has a mandate to recapture as much of their investment as possible, and we'd hope that the issue of "preserving" MDI status would continue to be part of the thinking as these investments get unwound.
2. Tax policy: Many of these institutions have Deferred Tax Assets due to significant losses that will be eliminated if there is a "change of control" with new capital. Today, change of control is defined as a change in ownership of more that 51%. If that definition could be altered to allow for a change in ownership as long as it doesn't change the mission of the MDI, the return on invested capital could increase

significantly for many institutions and possibly even attract investors that otherwise might turn away.

3. In as much as contributions made to non-profit CDFI are tax-deductible and we find ourselves in direct competition with these institutions for capital, we would request consideration of change in tax policy that creates some advantage for making an investment in MDIs. This could be as simple as allowing MDIs to qualify as operating businesses eligible for investment under the existing New Markets Tax Credit (NMTC) program administered by the CDFI Fund in Treasury.
4. Encourage the CDFI Fund to establish an allocation for MDIs so that the allocation competition is one in which they are compared against other like institutions. This would help offset the challenge a MDI faces when being compared to the larger more sophisticated regulated financial institutions or the more flexible unregulated non-profit CDFI.

In addition, let me add one last note of appreciation and support for your efforts to support community banks as evidenced by Financial Institutions Examination Fairness and Reform Act (FIEFRA) and Community Banks Serving Their Communities First Act (CFA).

I appreciate this opportunity to share our perspective and hope we can continue to work to ensure that Minority Depository Institutions are a thriving and successful sector that creates much needed opportunities for un- and under-served individuals and communities to live up to the American ideal.

Again, thank you.