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## The Wealth of Possibilities

Black-Owned Bank Draws Big Names, With Bigger Plans

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Robert L. Johnson, who wrote the rules for African American cable programming when he launched Black Entertainment Television 24 years ago, has this vision for the financial world: a nationwide Internet-driven bank that caters to the rising African American middle class -- students who need loans and homeowners who want mortgages.

Other wealthy African Americans, including the chief executive and key investors in an interstate Boston bank called OneUnited, are also trying to create a nationwide financial institution to go after growing black wealth.

These strategies are converging in the District, around a bank that until now aroused little interest outside the Washington area: Independence Federal Savings Bank, the area's second-largest black-owned thrift.

Independence Federal finds itself at a crossroads. Johnson is talking publicly about his desire to buy it. Another large investor could be granted permission from federal regulators to purchase it next month. Soon an unsolicited offer from either shareholder will force the bank's directors to decide whether the historic thrift will continue its course or sell to a bidder.

Despite proxy fights, financial losses and a recent overhaul of top executives, Independence Federal, which was founded in 1968 and is the nation's seventh-largest black-owned bank, is considered a hot acquisition, according to analysts. The merger mania that has sent banks nationwide gobbling up their competitors in recent years has also emerged as a driving force in black banking, which has historically been dominated by small, family-owned community banks.

"Independence has a very strong brand identity here in the Washington market. It is identified as a very strong African American-owned bank," said Johnson, who said he owns a 3 percent stake in the \$247 million thrift. "It provides a platform for the creation of a national banking service for African Americans. Having a bank in D.C. would add the right kind of market strength to promote the bank as a national institution."

"Folks have to realize times have changed," said Robert Patrick Cooper, senior counsel of OneUnited. Banks "truly are financial institutions and not just banking depository

institutions. African American banks have to change because market forces will force them to change. Going it alone can be difficult if not impossible. . . . There is going to be an entity that breaks out of the pack that is going to be able to complete this consolidation. You've got to have the size, the scope and the reach -- and you can't do that alone."

Independence Federal officials are coy about whether they will sell. Chairman Jeanus B. Parks Jr. tells a meandering parable about a used car to explain his indecision

The bank is like a good dependable car, Parks said. The car's owner did not put it up for sale, but interested buyers are making offers anyway.

"Is Parks going to sell it? I don't know," he said, referring to himself in the third-person. "There are a lot of dynamics."

### **Created by Community**

The drive to create a nationwide African American bank is dramatically reshaping the vision of black-owned financial institutions. Most were community groups, formed in response to segregationist business practices that made it hard for blacks to get loans. In 1962 there were 15 black-owned banks, according to the National Bankers Association. As the civil rights and black power movements surged, the number of black-owned banks grew, to about five dozen by 1980.

Most were in urban areas with large black populations and focused on making credit available to business owners, homeowners and churches in their communities. They were often also a power center for the black elite of those communities. In the District, the weekly lunches of William B. Fitzgerald, co-founder and longtime president of Independence Federal before his death, brought together an eclectic mix of city residents, politicians and businessmen.

The founders -- five black and four white politically connected business professionals -- formed the savings and loan to empower those in the region who could not get loans because they were black. Along with Oxon Hill-based Industrial Bank NA, the region's largest black-owned bank, Independence Federal became the bank of many of the city's moneyed African Americans.

Industrial, as a commercial bank, became better known as a lender for businesses and commercial real estate. Independence, as a savings and loan, is primarily a mortgage lender and also has a thriving student loan business, hewing closely to Fitzgerald's original bootstrap vision for the city's black community.

But Fitzgerald's death in 1998 and the deaths of three board members within months of each other in 2000 resulted in months of infighting among company executives and board members. Its return on assets, a key indicator of a bank's health, was 0.11 percent in 2001 and for the last year and a half the company has lost money, according to Federal Deposit

Insurance Corp. reports. **That compares to an average return last year of 0.76 percent for all minority- and women-owned banks, according to Creative Investment Research Inc., an investment advisory research firm based in Minneapolis, and substantially less than the 1.30 percent return on assets garnered by all banks and thrifts.**

**Despite those woes, Independence Federal's history with the District's power brokers, its location near federal regulators and its relatively stable earnings until Fitzgerald's death make it an attractive acquisition, said William Michael Cunningham, manager of Creative Investment.**

**"From a black minority bank perspective, they are the most valuable banking institution in the country," Cunningham said . "If you're going to do this national black banking network thing, you kind of want to have an outpost in the capital."**

#### **Commitment to Local Goals**

Parks, 74, a tall, slim man with wispy gray hair, says the original vision for independent black-owned banks still makes sense.

"Independence is deeply connected in the community," said Parks, who is one of the bank's original depositors and was elected chairman earlier this year. "There is a commitment to [local] economic and social goals. You cannot do serious business in a market" without being connected.

Parks is not sure a national bank could do the same thing.

Neither is one of the thrift's largest investors, Morton A. Bender, a wealthy, white D.C. real estate investor who owns 9.8 percent of the bank. Bender wants to buy it and keep it local. He has formally asked the Office of Thrift Supervision for permission to do that.

Donna Fitzgerald Shuler, Independence's former chief executive, opposed Bender's efforts because it would put the minority-owned status of the institution at risk. The Office of Thrift Supervision is expected to rule on Bender's request by mid-October.

Johnson is aware of concerns in the African American community that a nationwide bank might not serve black communities as well. He disagrees. Instead, he says that by using modern business tools, such as the Internet and direct marketing, he could reach more African Americans. And in addition to expanding the traditional way, by buying some branches from other banks, Johnson is discussing a possible partnership with a national retailer that would allow the bank to operate in its stores.

"The way to go is to take advantage of the Internet and the instant availability of information. African Americans lag the general market in terms of homeownership and student loans. By having a national footprint you can make an impact," said Johnson,

who said his vision for the bank also includes other financial service arenas, such as insurance, small-business loans and mutual funds.

### **Expanding by Acquisitions**

OneUnited, with financial backers that include Earvin "Magic" Johnson, Janet Jackson and former Motown president Jheryl Busby, has been taking a bit more traditional approach to expansions. OneUnited president and chief executive Kevin Cohee has been buying up a number of institutions.

Cohee's financial institution, which began as the Boston Bank of Commerce, now includes Peoples Bank of Commerce in Miami and Founders National Bank of Commerce and Family Savings Bank in Los Angeles, all renamed OneUnited. He even bid for Carver Federal Savings bank in New York, at the time the largest black-owned bank in the United States. At the end of 2002, OneUnited was the larger of the two banks.

"We have really stirred the pot in this sector of banking," said Cooper, who went to Harvard Law School with Cohee. "We turned [the Boston] bank around and had this idea to go out and do something that's not novel. Taking out redundancy is a time tested and proven idea. It has worked for any number of large institutions."

Cooper said the problems of urban areas are similar. A national black-owned bank, could address issues such as lack of capital and the need for revitalization in cities across the country.

"We're on a mission to link urban inner city communities by linking their banks," he said. Joe Gladue, an analyst who until recently tracked minority-owned firms for Baltimore-based Chapman Co., an investment company that recently shed its research department said: "There is a precedent for ethnic-oriented banks growing in geographically dispersed markets."

Other banks that have focused on specific ethnic groups have had mixed success in expanding. Banco Popular North America, a subsidiary of the dominant Puerto Rican bank, has expanded quickly into states with large Hispanic populations, including New York, Illinois, California, New Jersey, Texas and Florida. The bank's U.S. assets total \$5.7 billion, and its return on assets was half a percent as of March.

Cathay Bank, a Chinese American bank founded in 1962, has expanded more slowly throughout the past decade, acquiring and planting U.S. branches in California, New York, and Texas, as well as overseas operations in Shanghai, Taiwan and Hong Kong. The bank has assets of \$2.9 billion, and its return on assets is 1.79 percent.

Gladue said one of the biggest risks for these banks is that they may grow too quickly and spread their resources too thinly. "They've got small management teams and they are trying to manage far-flung empires without the same infrastructure," he said.

Parks says, for him, the big question is what a nationwide network will mean for Independence and its mission.

"It gives you the address but what are you going to do if you end up with it?" he asked.

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