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Johnson Buys Bank to Build Black-Focused Financial Firm

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Robert L. Johnson, the founder and former chief executive of Black Entertainment Television, said yesterday that he acquired a tiny Florida savings and loan and plans to move it to Washington to use as the springboard for a large consumer financial services company aimed at black customers.

The bank, to be renamed Urban Trust, is part of an effort by Johnson to build what he hopes will be the country's largest minority-owned financial services company, one positioned to attract major Wall Street investors as it seeks to foster and profit from rising black wealth. The company is meant to compete with the nation's most elite financial firms, but, its new chief executive said, it will also spend "a lot of afternoons in churches" advocating homeownership.

"Urban Trust will . . . bring more access to capital to individuals and families who need it, especially those that need help managing their assets and their wealth in a better way," Johnson said. "There's no doubt in my mind that a well-capitalized, well-managed black-owned financial institution will be welcomed."

While average household net worth of blacks is far lower than the national average -- \$15,500 vs. \$71,700 in 1998, according to the latest figures compiled by the Federal Reserve -- it is growing far more rapidly than the national average.

In establishing Urban Trust, Johnson wants to reverse a decade-long slide in the number and performance of small, undercapitalized black-owned banks across the country whose traditional markets have been invaded by mainstream financial institutions.

"I've observed what's been happening with some minority banks out there," Johnson said. "The other big banks have gotten very aggressive at going after their customers. What we're saying is that we can bring the focus and the capital to compete with those big banks on the same terms."

Johnson, since resigning as chairman of BET in December -- he sold the privately owned cable broadcaster to Viacom Inc. in 2000 for \$3 billion -- has been assembling what he calls his "second act": a large asset management and financial services firm from the Bethesda headquarters of his RLJ Cos. He has teamed with Deutsche Bank AG to form a

hedge-fund investment business for wealthy individuals and institutions. And Washington's Carlyle Group, the biggest U.S. private equity firm, is helping him form a leveraged-buyout fund. Three years ago, Johnson began investing in hotels, and he now has a \$3 billion portfolio of properties around the country.

The slide Johnson noted in historically black banks has been evident in Washington. Independence Federal Savings Bank in the District and Industrial Bank NA in Oxon Hill, were largely passed by while the deposit base in the Washington area doubled over the past five years. Independence's deposits actually shrank during that period, while Industrial's grew only 3 percent.

Johnson began speaking publicly of his desire to own a financial institution three years ago, when he tried to purchase Independence. That effort failed, but it laid the groundwork for his purchase of the Florida thrift.

Metro Bank FSB was founded in 1963, and for almost all its life it was a black-owned financial institution in a poor, black section of Orlando. It has just one office and less than \$10 million in deposits, and it hasn't made money in years.

After running into financial and ownership troubles in 2003, Metro was purchased by Frank J. Hanna Jr., an Atlanta entrepreneur who made millions of dollars in the debt collection business and is a prominent financial contributor to conservative causes and Republican congressional candidates.

According to Johnson, Hanna, who could not be reached for comment, had hoped to return Metro to minority ownership at some point. Through a mutual friend, the two were introduced after Johnson's bid to buy Independence faltered. Johnson bought most of Metro's stock from Hanna, who will retain a small interest in the new company.

Johnson would not disclose the purchase terms, but described them as "nominal." He also would not disclose how much of his own money he plans to invest in the new business.

Urban Trust will be headquartered in Bethesda and plans to open its first branch this summer at 1350 I St. NW, on downtown's Franklin Square.

Dwight L. Bush, a former Sallie Mae and Chase Manhattan Bank executive, will be Urban Trust's chief executive. He said yesterday that the bank will focus at first on offering basic deposit and lending services in the Washington market, and that it plans to open several branches in the next two years.

However, Bush said, the company plans to immediately begin marketing college loans nationally, through university financial-aid departments.

"Most important for us at the start is to validate the investment premise in Washington," Bush said. "But the student loan business will be a nationwide business."

Bush said a key part of Urban Trust's business plan is to provide financial education to the black community "to help them gain and hold onto the wealth they're creating. You'll see us spend a lot of afternoons in churches giving seminars on getting a home mortgage."

Dozens of black-owned banks were formed in the 1970s and reached their financial peak in the mid-1980s, according to William Michael Cunningham, head of Creative Investment Research Inc. of Minneapolis and a longtime expert in minority financial institutions.

In the 1990s, tougher federal community reinvestment laws forced major banks to better serve urban black neighborhoods, prompting a new wave of competition for black-owned banks.

"The age of socially responsible community investment really began with black banks," Cunningham said. "But they're not the only game in town anymore. What happened is that minority banks didn't innovate. They thought they could hold on to their little niche. But the demand changed as their neighborhoods gentrified, and the supply changed as bigger banks moved in."

Cunningham thinks that Johnson's efforts could bear fruit, particularly if he focuses on black communities on the East Coast, where Cunningham said black wealth is growing most rapidly.

"The Washington area is about as good a banking market as you can find," Cunningham said.