John Delaney and the Speed of Success

Quick-Moving Financier in Vanguard of New Era of Washington Entrepreneurs

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Friends of financier John K. Delaney play a game when he's out of town. They trot out their BlackBerrys and make $5 bets on how many minutes it will take Delaney to respond to their e-mails.

"We see who John gets back to first," said David G. Bradley, chairman of Atlantic Media and a close friend of Delaney. "No matter where he is in the world, he will respond to your e-mail in two to three minutes."

Speed, say those who know him, is Delaney's great strength. The founder and chief executive of CapitalSource does everything in a hurry. His conversation is rapid-fire, and he runs a fast meeting. At his company's Chevy Chase headquarters, he offers the 320 employees a free lunch so they don't have to leave the office.

The speed of his success -- at 44, he has built and taken public two highly profitable finance companies -- has made Delaney one of the most talked-about businessmen in Washington. He's at the vanguard of a new generation of entrepreneurs who are exploiting the current environment of easy cash and credit to invest in new businesses such as health care solutions, security systems, small-business lenders and restaurant chains. With the advantages of speed, flexibility and a lot of available cash, they are changing the financial landscape of the city and making Washington a place where small companies can get enough money to become big ones.

Delaney founded CapitalSource seven years ago with a narrow goal: making loans from a few million dollars to more than $100 million to midsize businesses that were mostly ignored by big banks preoccupied with multibillion-dollar private-equity buyouts.

"The large banks were increasingly focused on two things: consumer lending and investment banking," Delaney said. "At the time, and it's changed now, banks were not lending money just to lend money. So we ran at the area they left."

When Au Bon Pain's management needed financing to buy the restaurant chain from its corporate owners, CapitalSource handled the financing. It did the same when high-end shoe retailer Jimmy Choo was being purchased by a private-equity firm. CapitalSource financed Exclusive Resorts, former AOL chairman Steve Case's vacation club. It has made loans to Topnotch Resort and Spa in Stowe, Vt., and to Diamond Tower in New York City's diamond district. One loan made Delaney and fellow Washingtonian Jeffrey D. Zients part owners of Timbuk2, a hip San Francisco messenger-bag company.

"John wins because he's fast," Zients said. "With Timbuk2, the board was about to accept an offer and we were given a seemingly impossible, short window to beat it. John signed off on our offer within a few days and we were ready to close in less than 30."

Washington venture capitalist Mark D. Ein said that nimble response was a factor last fall when he turned to CapitalSource to finance his purchase of Kastle Systems, an Arlington security-system maker. "John mobilized his team and delivered a flexible financing structure in a matter of days, then closed within a matter of weeks, including working 'round the clock over the Thanksgiving holiday," Ein said. As part of the deal, CapitalSource owns a small piece of Kastle.

Washington's role as a home for finance outside traditional banking sources dates back to the founding in 1958 of Allied Capital, which took advantage of new government-guaranteed programs to specialize in lending money to small businesses. Over time, Allied and similar companies, such as American Capital Strategies and Gladstone Capital, evolved into major public companies.

Carlyle Group, founded in 1987, became an international private-equity giant with its multibillion-dollar leveraged buyouts. Friedman, Billings, Ramsey Group became known primarily by reworking troubled banks and thrifts. Capital One built a national reputation on its profitable credit card business. Frederic V. Malek's Thayer Capital thrived in the hospitality sector and made enough money so its founder could make a strong run last year at buying the Washington Nationals.

From that environment rose Delaney and a cadre of young investors, including former Carlyle principal Ein, now head of Venturehouse Group; Zients, who made his fortune helping Bradley take the Corporate Executive Board and the Advisory Board Co. public, and who now runs Portfolio Logic; and another Carlyle alumnus, David W. Dupree of Halifax Group. Robert Haft and George Harrop of MainStreet Lender are focused on small businesses; former FBR bankers Eugene S. Weil and John J. Nelligan run Milestone Merchant Partners; William Walker heads Walker & Dunlop, a family-owned mortgage lender in the city. Former Virginia governor Mark R. Warner started Columbia Capital in Alexandria, and even Washington Redskins owner Daniel M. Snyder has his own private-equity firm, Red Zone Capital Partners, which recently purchased the Johnny Rockets restaurant chain.

Delaney came to Washington in 1985 to attend Georgetown law school. The son of an electrician, he grew up in New Jersey and went to Columbia University on a scholarship from his father's union. At Georgetown he met his future wife, April McClain -- and two classmates, Edward P. Nordberg Jr. and Ethan D. Leder, with whom he would team to make their first fortunes.

Delaney quit after a couple of years at a Washington law firm. "I knew nothing, but I wanted to get into business," he said. He and Leder bought a small home-health-care company, turned it around and, after a few fits and starts, sold it in 1993 for a small profit. From that experience was born HealthCare Financial Partners, co-founded in 1993 with Leder and Nordberg. HCF lent money to companies ranging from nursing homes to small hospitals to large doctor's offices. "It was a screaming success," said J. Mitchell Reese, an investor.

Delaney helped run the company for six years, took it public on the New York Stock Exchange and helped guide its sale in 1999 to Heller Financial for about $500 million. The three founders pocketed about $40 million each, "putting us in a position to be choosy about what we would do the rest of our lives," Nordberg said.

What Delaney did was take a year off and then start CapitalSource. He took it public in 2003.

Initial investors have made five times their investments, Delaney said. One of them is Thomas F. Steyer, founder of Farallon Capital Management, a hedge fund with more than $20 billion under management for such clients as the Yale Endowment.

"We knew John at that point really well and had enormous regard for him," said Steyer, whose company invested in HCF and now owns about $700 million worth of CapitalSource stock. "He seems to me to be an extremely ethical and very sensible guy. That's a rare combination."

Delaney is aware that plentiful cash and active private investors in recent years have offered unusual opportunities to make money. "I see nothing on the horizon that will bring rise to an end to the liquidity we see in the market. But it will happen," he said.

Today CapitalSource is valued at $4.6 billion. Because the mortgage securities it holds enable it to be structured as a real estate investment trust, it gets tax advantages and pays most of its profits in dividends. Its current annual dividend is $2.32 a share, a 7.8 percent yield.

So Delaney's 7 million shares earn him more than $15 million a year. His estimated net worth is $250 million, a figure he does not dispute. He has a home in Maryland, a house in Sun Valley, Idaho, and a cabin in Wintergreen, Va., which he visits with his wife and four children. A lifelong Democrat, he's planning to host a fundraiser for Sen. Hillary Rodham Clinton's presidential campaign. His favorite philanthropy is St. Patrick's Episcopal Day School. He and Bradley became close when they paid $25 million for 17 acres adjacent to the school, known as the Casey property, then sold half to a developer and gave the rest to St. Patrick's.

Not that Delaney hasn't made mistakes. A few years ago, CapitalSource backed a private-equity fund that bought landfills, and underestimated the regulatory risks involved. When a local government closed a landfill, the company not only didn't make money, it lost money -- "something I hate," Delaney said.

Not that he doesn't have critics. "What people are going to say is that the guy is very good at his craft," said Ronald E. Silva, president of Fillmore Capital Partners, a West Coast private real estate equity firm that was sued for breach of contract by CapitalSource and settled with Delaney's firm by paying it several million dollars in damages. "And he is very good at his craft." But, Silva said, "CapitalSource is a lender of last resort, or a hard-money lender. You can conjure up any kind of picture you want, but hard-money lenders are hard-nosed lenders."

But most of the comments about him tend to reflect the fact that making big money has made him a lot of friends in Washington.

"John is part and parcel of Washington becoming a more serious place as a financial center," said Edward J. Mathias, a managing director at Carlyle.

"John lives in Magic Time," Bradley said. "He has 48 hours in every day. I don't know how he does it. How do you create four children, two public companies, go from not skiing to expert skier, not playing tennis to expert tennis player, not scuba diving to scuba diver? He has a several-hundred-million-dollar net worth. Heads up Catholic Charities. . . . . On the Georgetown University Board. You just have to hate John Delaney."

Staff researcher Richard Drezen contributed to this report.