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CIT Group's bankruptcy filing poses uncertainty

By Julie Wernau Tribune reporter
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On the heels of its bankruptcy filing, CIT Group Inc.'s future as a commercial lending giant will be determined by the confidence of its creditors and customers.

Already, the 101-year-old lender's months-long financial struggles have been a boon to rivals, who have picked up hundreds of CIT clients. But it is unclear whether those rivals will have the means to pose a real threat.

With $71 billion in assets, the company serves 2,000 vendors that supply merchandise to 300,000 stores, according to the National Retail Federation. Sunday's Chapter 11 bankruptcy filing is one of the biggest in U.S. corporate history, with total liabilities of $64.9 billion.

"We would hope that other lenders would step up should disruption occur," said Brian Dodge, spokesman for the Retail Industry Leaders Association, which counts some of the largest retailers in the U.S. among its members.

Many observers, including its competition, are rooting for CIT, which received $2.3 billion in federal aid last fall, to come out of bankruptcy reorganization quickly and neatly. That's because the collapse of a commercial lender of CIT's size would strain its rivals.

"Everyone is pulling for CIT to get by," said Michael Cipriani, senior vice president of Rosenthal & Rosenthal, a New York-based factoring and financing firm. "It would be devastating to see something like this fail."

Rosenthal & Rosenthal has picked up more than 100 CIT clients since the summer, when the lender's problems flared up.

"We haven't slowed down one bit. The phones keep ringing," Cipriani said, who added he's turned down a number of prospects.

Louis Cappelli, chairman of Sterling National Bank, a New York-based commercial bank with a subsidiary in the factoring business, said he's received a "great deal" of CIT clients who are seeking certainty from their lender. Sterling has been in the business for 80 years, and Cappelli noted that the market is not as wide as it used to be. But so far, he hasn't had the need to turn down business.

"The doors are open all the way to the top," he said.

One element playing in CIT's favor is that tight lending conditions would make it tough for customers who wanted to leave.

Paul Rauseo, managing director of George S. May International, an 84-year-old management consulting firm, said lending has posed a serious problem for small and midsize businesses.

"It's not uncommon for a bank in the middle of the night to send a letter saying that an unused credit line is being revoked or lowered," he said.

About 60 percent of small-business owners have resorted to using high interest credit cards to finance their businesses, according to the Small Business Association.

With debt holders offering broad support for a prepackaged restructuring plan, CIT said it expects to come out on the other side within two months. The company assured customers that the filing should not affect business, and added a $1 billion line of debtor-in-possession credit from Icahn Capital to ensure cash flow.

At Wes and Willy, a manufacturer of children's clothing, President Bill Mullen said he has been keeping up with the planned restructuring and does not expect it to affect his business, thanks to the lender's ability to secure a line of credit that will keep the cash flowing.

"All the risk is on them," he said.

Ike Silvera, chief operating office of Spencer Gifts, which acquired $120 million in asset-based credit and a $52 million term loan through CIT Group, saw the bankruptcy filing as the beginning of the end of the lender's troubles.

"To be honest, for what seemed like a long bit of uncertainty, it seems like a bit of good news because they'll have a bit of certainty in the next couple of months," said Silvera, who also is the chief financial officer of the New Jersey-based company. "We're looking forward to them going through this process and coming out the other end."

Adam Steer, analyst for CreditSights, said he expects that the reorganization plan will pass muster with the court, as 90 percent of debt holders supported the plan, which would give bondholders new notes at 70 cents on the dollar plus new common stock.

However, the group warned that CIT is staking its future on its banking business, with a plan to add commercial and retail deposits after the restructuring. CreditSights said the involves a great deal of uncertainty, not the least of which is whether CIT, with "shaky financials," would be able to gain federal approval to transfer assets to its banking business.