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Government will not give lender CIT 2nd bailout WASHINGTON (AP) — Struggling commercial lender CIT Group Inc. says the government will not give it another bailout.

The news increases the likelihood of a bankruptcy filing for CIT, a lender to small- and mid-sized businesses that faces a liquidity crunch.

The announcement comes after days of round-the-clock negotiations about a possible rescue for the company. CIT has warned that its failure could prolong the economic crisis by imperiling roughly one million businesses that depend on it for credit.

The New York-based company's release says CIT is "evaluating alternatives." CIT received $2.3 billion from the $700 billion financial system bailout.

Trading in the shares of crippled commercial lender CIT Group Inc. was halted on the New York Stock Exchange late Wednesday as negotiations continued over a possible federal bailout.

Regulators have been poring over the books at New York-based CIT trying to determine which of its assets remain strong enough to secure emergency financing. A trading halt often occurs when news about a company is about to be released.

The company has been teetering on the brink of a bankruptcy filing as its assets decline in value and a large debt payment looms. Representatives from the Treasury Department, Federal Reserve and Federal Deposit Insurance Corp. have been discussing plans for federal aid to prop up the commercial lender, whose failure could affect about a million small businesses that depend on it for credit.

President Barack Obama has been briefed on CIT's potential collapse, White House spokesman Robert Gibbs said Wednesday. But Gibbs declined to discuss Obama's briefing and referred questions to the Treasury Department, which has been handling the deals with troubled financial institutions.

Bert Ely, a longtime banking analyst, said the trading stoppage could signal that CIT is close to accepting some form of federal aid or possibly preparing a bankruptcy filing.

A bankruptcy filing would wipe out CIT's shareholders. But it wouldn't mean that its clients — from Dunkin' Donuts franchisees to retailer Dillards Inc. — would automatically lose their lines of credit, Ely said.

"That would be up to a bankruptcy court. The judge would have to decide," he said. Officials have been discussing a multipart plan to provide short-term liquidity and improve CIT's capital position. The deal under consideration would include some or all of the following: A short term loan from the Treasury, restructuring the company's debt, transferring assets from the parent company to a small bank it owns and accessing the Fed's discount window to obtain low cost cash.

Treasury spokeswoman Meg Reilly would not comment on the matter late Wednesday. To transfer assets, the company would require approval from the Fed and FDIC. To borrow from the Fed, the firm would need to pledge assets that are strong enough to secure the loan. That's what examiners are trying to determine as they go over CIT's books, and it could be a problem for a firm whose portfolio has seen major losses due to a sluggish economy.

"My sense is they can hunt and peck all over the balance sheet for assets that the bank could pledge to (the Fed) and they'll still end up somewhat short, so they need to twist the arms of creditors and raise some equity," said Daniel Alpert, managing director of Westwood Capital LLC.

Shares of CIT added 26 cents, or more than 19 percent, to $1.61 Tuesday on hopes that the government would throw the company a financial lifeline. The price was $1.64 before trading was halted Wednesday.

Corporate customers started to draw down on their credit lines Monday and Tuesday, according to a report Wednesday in The Wall Street Journal, which cited unidentified people familiar with the situation. Those people told the newspaper the draw downs amounted to several hundred million dollars, with one number mentioned as high as $775 million.

A spokesman for CIT on Wednesday was not immediately available for comment. The bailout options earlier had focused on CIT's application to an FDIC program that would guarantee the company's debt, allowing it to raise money at a lower cost. The FDIC has not yet ruled on the application, said agency spokesman Andrew Gray.

The FDIC has resisted calls to give the firm that key subsidy, maintaining that its loan guarantee program was designed to unfreeze credit markets, not bail out companies, according to government and industry officials. Backing CIT's debt also would put at risk the insurance fund used to repay deposits when banks fail — an event that itself could undermine financial stability.

The temporary program is due to be wound down this fall, and banks that have repaid federal bailout money are no longer eligible to participate. CIT, which in April posted a bigger-than-expected first-quarter loss, has seen funding options disappear as investors shy away from purchasing all but the safest forms of debt. The lender has $7.4 billion in debt coming due in the first quarter of 2010, plus other obligations. The recent downgrades of its credit ratings will make it harder to refinance that debt in coming months, raising fears that it could default. CIT said Saturday it retained the law firm Skadden Arps, a bankruptcy specialist, as an adviser.

Regulators know they cannot be seen as insensitive to small businesses, which could fail if their funding is disrupted. Small businesses are critical to the nation's economic recovery, providing about half of all private-sector jobs.

Yet the administration faces mounting criticism about the skyrocketing costs of bailout and stimulus plans, and the continuing rise in unemployment. Critics wonder whether the government should prop up firms like CIT that can't stand on their own.
Unlike Citigroup Inc. and Bank of America Corp., whose failures would have upended the banking system and created financial chaos, some say CIT may not pose such broad risks.

"This is all about where you draw the line, and a very big call has to be made," said Simon Johnson, a former chief economist with the International Monetary Fund and now a professor at the Massachusetts Institute of Technology's Sloan School of Business.

Johnson and others argue that CIT should not be deemed "too big to fail." Others disagreed.

If CIT fails, "a lot of small- and mid-sized businesses would get hurt. I don't think at this stage, with the economy as it is, we can afford that," said Rep. Albio Sires, D-N.J., who owned a title insurance agency that employed 12 people.