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Can CIT make it? Not without new structure

By Chelsea Emery - Analysis

NEW YORK (Reuters) - CIT Group Inc (CIT.N) appears to have avoided a costly and disruptive bankruptcy filing for now, but many restructuring experts see little chance that the company will survive in its current form.

The lender to small and mid-sized businesses has managed to obtain \$3 billion in rescue financing from a group of bondholders after it ceased getting loans from its regular lenders, according to a source close to the matter. But, even so, the company's future prospects are dim.

"Some new organization has to emerge. CIT's current business model is broken," said Michael Goldsmith, a managing director at financial advisory firm BBK. CIT provides loans to roughly 1 million customers, playing an indispensable role for many companies that cannot easily obtain affordable financing from large banks.

The company began to founder when the commercial paper market seized up in 2007, cutting off a critical source of funding to many companies with less-than-pristine credit.

CIT had earlier made what proved to have been an ill-advised plunge into subprime mortgages and student loans, causing the company to rack up enormous losses as the economy and credit environment soured.

"When you can't tap into your traditional forms of funding, how do you stay alive as a viable entity?" said BBK's Goldsmith.

A NEW MODEL?

Options for CIT could include a bankruptcy filing or an out-of-court restructuring that would allow the company to spin off some of its most successful and profitable businesses, bankers and restructuring professionals said.

"The likely outcome is some form of bankruptcy or out-of-bankruptcy restructuring," said Daniel Alpert, a managing partner at investment banking firm Westwood Capital LLC, which is not working with CIT. "No one should be buying stock of CIT right now. This is not a resuscitation of the company."

"An out-of-court restructuring is best since there will be a lot of vendors out there who would not make payments to CIT if it is in bankruptcy," said Jerry Reisman, a partner at law firm Reisman, Peirez and Reisman in Garden City, New York.

The company has valuable and desirable assets, such as its factoring business, which will continue to operate either as part of a scaled-down CIT or purchased by a competitor, said BBK's Goldsmith. Factors buy the right to collect on the invoice of a retailer or other business, at a discount to the face value of that invoice. The factor takes a risk that the invoice will not be repaid.

But the company is unlikely to survive in its current form, said experts. Reisman, who has 26 clients who are borrowers of CIT, said the current \$3 billion rescue plan is only a "temporary solution."

BBK's Goldsmith concurred.