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Investors bail out lender CIT

By Stevenson Jacobs and Daniel Wagner

"You've got private money coming in and essentially giving a vote of confidence" in banks' future profitability, said Vincent Reinhart, former director of the Federal Reserve's monetary affairs division. "It's encouraging."

CIT lends money to nearly a million small and mid-size U.S. companies. It was forced to turn to bondholders for help after the government refused to save the company last week, a sign that the administration is pulling back on costly and unpopular bank rescues.

The lifeline for CIT, whose clients include Dunkin' Donuts franchises and clothing maker Eddie Bauer, aims to sustain the company long enough for it to restructure its debt. It does not guarantee CIT will avoid bankruptcy.

Ahead of the deal's confirmation, investors sent shares of CIT jumping 55 cents, or 78 percent, to $1.25 in trading Monday.

"It tells me that the appetite for risk is increasing, and people are betting that a recovery is coming," said William Larkin, fixed-income portfolio manager at Cabot Money Management in Salem, Mass.

Had CIT been allowed to collapse, some experts feared that it would have crippled an economy still bleeding hundreds of thousands of jobs a month despite a nearly $800 billion federal stimulus program.

The retail sector would have been hit especially hard. CIT serves as short-term financier to about 2,000 vendors that supply merchandise to 300,000 stores, according to the National Retail Federation. Analysts say 60 percent of the apparel industry depends on CIT for financing.

"If CIT had gone under, that would have left a huge hole in the supply chain," said Craig Shearman, a spokesman for the National Retail Federation, one of the trade groups that had urged the government to prevent CIT's collapse.

By not getting involved, the administration gambled that CIT was not so enmeshed with the financial system as companies like Citigroup, Bank of America and others banks that accepted federal bailout money, analysts said.

"The government's sitting there saying, 'If this doesn't set off a meltdown of the financial system, there's no rationale to bailing out creditors,'" said Daniel Alpert, managing director of the investment bank Westwood Capital LLC.

Scott Talbott, top lobbyist with the Financial Services Roundtable, which represents CIT and other big financial firms, said the government's seeming pullback from the banking sector was a welcome sign.

"When the government steps in, you disrupt the market," he said. "That was necessary to restore liquidity but distorted the free-market system. Now the exit strategy is becoming clear."