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CIT Group says CEO Peek plans to resign

By STEPHEN BERNARD

NEW YORK — CIT Group Inc., struggling as it continues efforts to restructure its debt, said Tuesday chairman and CEO Jeffrey M. Peek will resign at the end of the year.

It is widely believed that the commercial lender, which has received $2.3 billion in federal bailout money, may be forced to seek bankruptcy court protection, and analysts said Peek's departure could be a sign that the company does plan a Chapter 11 filing that would enable it to reorganize its operations and finances.

Sameer Gokhale, a senior analyst at Keefe, Bruyette & Woods Inc. said that if CIT plans to reorganize, it would make sense to bring in a new CEO to run a new capitalized firm, he said.

It provides a "fresh start for the company," Gokhale said.

CIT is one of the largest lenders to small and mid-sized companies, and its customers range from Dunkin' Donuts franchisees to department store operator Dillards Inc. The company has suffered billions of dollars in losses as its borrowing costs outstripped the income it generates from lending to customers. As CIT's customers have struggled amid the recession, they have fallen behind on repaying loans, putting the company in the same predicament as many other financial institutions.

Some experts have warned that a collapse of CIT would deal a blow to an economy struggling to recover. The retail sector would be hit especially hard because CIT serves as a short-term financier to about 2,000 vendors that supply merchandise to 300,000 stores, according to the National Retail Federation. Analysts have said 60 percent of the apparel industry depends on CIT for financing.

CIT had $54.09 billion in outstanding long-term borrowings as of June 30, including $13.85 billion due by June 30, 2010. The company is trying to reduce its near-term debt burden by $5.7 billion.

CIT's shares fell 12 cents, or 11.5 percent, to close at 92 cents Tuesday.

Peek, 62, who has been with CIT Group since 2003, said in a statement the debt restructuring CIT is currently attempting, its second in recent months, makes this "the appropriate time to focus on a transition of leadership."

Daniel Alpert, a managing partner at the investment bank Westwood Capital, said Peek, possibly fearing that the restructuring would fail, might have decided he had run out of options to help the company and wanted to turn it over to someone else.

CIT has asked its biggest debt holders to approve a prepackaged reorganization plan in case it is forced to file for Chapter 11 bankruptcy protection. However, Alpert said, bondholders' conflicting demands could up-end that plan, forcing the company into a protracted court-supervised reorganization.

CIT received a $3 billion emergency loan from some of its largest bondholders in the summer in an attempt to stave off collapse, but its losses have continued to pile up. The loan was secured by essentially all of CIT's remaining assets not already backing other loans.

Debt holders who did not participate in that deal could fight a prepackaged agreement in an attempt to improve their chances of recovering investments during bankruptcy, Alpert said.

The government gave CIT $2.3 billion at the height of the credit crisis last year, when it gave hundreds of billions of dollars to struggling financial institutions. However, with essentially all of CIT's assets backing other outstanding debt, the government is unlikely to recover all of that money, Alpert said. In the hierarchy of creditors, the government would fall below secured creditors when being repaid in a Chapter 11 case, he added.

The government refused to give the company additional money this summer.

Peek was part of a generation of financial company executives who involved their firms in the risky business of subprime mortgages, one of the primary causes of the financial crisis that erupted last year. He first served as CIT Group's president and chief operating officer, before being named CEO in 2004 and chairman in 2005.

Before joining CIT, Peek served as a vice chairman at Credit Suisse First Boston LLC, overseeing the firm's financial services division. He also spent 20 years working at Merrill Lynch & Co.

The board of directors is creating a search committee to find a new CEO.