November 17, 2009

CIT Group says 3Q loss widened to $1.07 billion

By STEPHEN BERNARD (AP)

NEW YORK — Commercial lender CIT Group Inc. provided a further glimpse into its troubled finances, saying it lost $1.07 billion during the third quarter as customers jumped ship and it tried unsuccessfully to avoid filing for bankruptcy protection.

"It's just more of the same," said Len Blum, a managing partner at investment bank Westwood Capital. The major question that remains for CIT is whether it can keep its customers and best employees and rebuild its business after emerging from bankruptcy, Blum said.

Third-quarter results showed that CIT, one of the nation's largest lenders to small and mid-sized businesses, was struggling to keep its customers and that those that remained during the summer were having difficulties repaying their loans. That points to more uncertainty for the company even after it emerges from bankruptcy protection; many small businesses still have cash flow problems.

CIT filed for Chapter 11 protection Nov. 1 as it was unable to get bondholder approval to reduce its rising debt. Even as bondholders turned down an offer to swap their holdings for debt with a later maturity and stock, they supported a plan for a preapproved bankruptcy filing aimed at getting CIT reorganized and out from under court protection by the end of the year.

New York-based CIT said in a regulatory filing late Monday it lost $2.74 a share during the quarter ended Sept. 30. It lost $317.3 million, or $1.11 per share, in the same period a year ago.

Hal Reichwald, co-chair of the banking and specialty finance practice group at the law firm Manatt, Phelps & Phillips LLP, said the quarterly results should theoretically look a lot better in the future because of the reduced strain on the balance sheet from debt payments.

"The result, they hope, is the balance sheet won't be upside down," Reichwald said.

CIT generated $549.6 million from interest and fees on loans it originated during the third quarter, a 36 percent decline from the same quarter last year. The drop came as CIT struggled throughout the summer to try to reduce its debt and restructure its business without filing for bankruptcy protection.

At the same time, CIT's provision for credit losses ballooned to $701.8 million from $210.3 million during the third quarter in 2008.

Westwood Capital's Blum said because of CIT's current situation, he expects its customers to look for all other available financing options. That would leave a reorganized CIT with only a stable of clients that couldn't find funding elsewhere.

"From a credit and earnings perspective, that's not a fortunate outcome," Blum said.

While CIT was able to reduce interest on its own borrowings during the quarter, that decline could not keep up with the drop in money generated from loans it originated. CIT's interest expense fell 9 percent to $693.8 million.

CIT was hit hard by the credit crisis as its borrowing costs outpaced revenue generated from loans. Its access to its primary funding source, the short-term lending market known as commercial paper, essentially evaporated during the credit crisis last year and has yet to recover.

A lack of liquidity coupled with rising loan defaults as more of its customers were also stung by the recession kept it from stabilizing its business. At the same time, it was overwhelmed by mounting debt maturities.

It initially completed a debt exchange program during the summer, but failed in its most recent attempt to further lighten its debt load, leading to the bankruptcy filing.

By filing for bankruptcy protection, common shareholders of CIT stock were wiped out, as was a $2.3 billion taxpayer investment made last year as part of the government's financial bailout program. The government declined to provide CIT Group with any additional bailout money over the summer as CIT was trying to reduce its debt burden.