

A Threatened Industry on the Edge of Chaos Should CIT Group Fail

by WWD Staff

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The industry is facing potential turmoil after CIT Group Inc., which provides basic financing for thousands of small- and mid-sized apparel retailers and vendors, said Wednesday it probably won't be rescued by a federal bailout.

After days of intense negotiations, the New York-based commercial lender said there was "no appreciable likelihood of additional government support being provided in the near term." The company said it was "evaluating alternatives" with its advisers.

The disclosure raised the possibility of a bankruptcy filing by the financial giant and left many vendors and retailers in limbo about how they'll finance their fall shipments and finance their businesses.

"This is terribly upsetting," said Gary Wassner, president of Hildun Factors. "This will upset the entire shipping season. It will be very disruptive. I am surprised that the government would not think about the thousands of people that would be affected. This also impacts so many people on the periphery [of the apparel industry]."

Hours before the 6 p.m. announcement from CIT, there was a flicker of optimism when trading was halted on the lender's stock in the final half hour of trading, with shares up 3 cents to \$1.64. Considered a likely prelude to a major announcement just as President Obama was being briefed on the situation. Hope surrendered to fear just two hours later.

The Treasury Department, the Federal Reserve and the Federal Deposit Insurance Corp. have been discussing whether to rescue CIT, which already received \$2.33 billion in federal funds.

CIT has more than \$1 billion in debt coming due by September and had been trying to hammer out a deal with regulators to improve its balance sheet and stay afloat. How it will manage to do so now, with its best hope for a lifeline denied, is unclear.

"CIT is a critical player for middle-market companies, most specifically those in the fashion industry," said William Sweedler, chairman and chief executive officer of Windsong Brands. "The government looking at CIT as noncritical is inaccurate. CIT represents the people the government is trying to help at this point in time."

“Any supply of credit for the apparel market is an important one,” said Arnold Aronson, managing director of retail strategies at Kurt Salmon Associates.

The possible failure of the industry’s largest factor comes at a time when willing lenders are already scarce.

While bigger players have their own working capital lines of credit with banks, Aronson said smaller, emerging designers who are trying to get a footing are vulnerable.

Kevin Burke, president and chief executive officer at the American Apparel & Footwear Association, said members of his board estimated CIT represents about 60 percent of factoring volume within the apparel industry. A failure “would be another nail in the coffin,” he said. “It would be devastating. It would have a very strong impact on the industry’s ability to get products to the consumer.”

Even before its own finances reached a crisis level this week, the reticence of the firm’s factoring arm to cover fashion’s finances had been a blow to the industry.

The company lent about \$4 billion to the apparel industry last year, a drop of about 20 percent, according to estimates by Marie Driscoll, an equity analyst at Standard & Poor’s.

“This just further hurts the vibrancy of the apparel industry,” she said. “For your companies that are doing \$1 million to \$250 million in sales, that’s who this is hurting and a lot of those companies are the lifeblood of this business. They’re the companies that grow up to be Liz Claiborne, that grow up to be Juicy Couture.”

Driscoll said New York’s fashion industry would be hurt if new designers are unable to get financing and are squeezed out of business.

“That’s what makes New York creative in a fashion sense, the fact that you can walk down Madison Avenue or the Lower East Side or SoHo and find storefronts [selling new designs],” Driscoll said.

Smaller vendors who use CIT’s factoring services could be forced to make a leap of faith, trusting retailers to pay them.

“A lot of these companies would probably wind up taking the risk on their own and they would probably wind up shipping [if CIT failed],” said Marc Federbush, partner in charge of the apparel and textile services group at the accounting firm Anchin, Block & Anchin.

The ability of CIT’s wide breadth of activity to be picked up by others appeared small. John Millman, president of Sterling National Bank, which has a factoring arm, said banks without one wouldn’t be able to handle collection operations for clients or understand the nuances of insuring receivables as factors do.

“Good quality clients will find financing,” he said. While some financial services firms could supplement their current services, a learning period would be required. While “challenging,” he said, “it could be done.”

For smaller vendors dealing with already stretched retailers facing another weak holiday selling season, shipping could mean betting everything.

“You’re potentially risking your entire net worth, personally and corporately, if you ship people you’re not prepared to ship if you have no other home for the merchandise,” said Matt Polsky, managing director at NetWorth Solutions.

About half of NetWorth’s clients work with CIT, which had tightened up its terms in recent months.

“We’ve seen a lot of clients come in and say a healthy CIT was difficult to work with,” said John Henderson, a director at NetWorth. “Before they got into this problem, there were problems with suppliers just to work with any of the factors in terms of their standards.”

Fashion’s Washington contingent tried to prod the government to step in and shore up the financing giant, but apparently without success.

“If CIT were to fail, a chain reaction would be set off that could very well leave retailers with a shortage of merchandise during the crucial holiday season this fall,” said Tracy Mullin, president and chief executive officer of the National Retail Federation, in letters to Treasury Secretary Timothy Geithner and Sheila Bair, chairwoman of the Federal Deposit Insurance Corp., early in the day.

Urging the two federal regulators to provide “all possible government assistance,” Mullin warned that a failure of CIT would hurt thousands of retailers and ultimately consumers, whose spending accounts for two-thirds of the nation’s economy.

“I strongly encourage the [Treasury Department and FDIC] to take a very close look at the role CIT plays in the retail industry and act appropriately to ensure that this essential lending institution remains economically viable,” Mullin said in the letters.

In addition to advancing vendors cash for shipments, the firm also finances small- and medium-sized retailers.

“If the criterion for whether a financial institution should receive government assistance is whether it is ‘too large to fail,’ CIT is most certainly too important to the retail industry to be allowed to fail, and the retail industry is too important to the economy to be placed under additional stress,” Mullin said.