

CIT Group Nears Bankruptcy Again

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CIT Group Inc. continued to twist in the wind late Wednesday, trying to hammer out a restructuring plan as bankruptcy once again loomed over the lender, a financial cornerstone to many fashion producers and retailers.

But industry experts were less anxious about the factor's financial woes — and its deadline of today for a restructuring arrangement — than they were in July, when bankruptcy was averted with a \$3 billion lifeline from bondholders. At least some fashion companies have tweaked their agreements with CIT or made other financing arrangements. And if a deal can't be worked out and the 101-year-old lender does become insolvent, it is now expected to have a relatively orderly bankruptcy, mitigating the impact on its clients, financial sources said.

CIT accounts for about 60 percent of fashion's factoring volume and lent the apparel industry about \$4 billion last year, according to estimates. The lender's cash crunch took center stage this summer as vendors worried they wouldn't be able to find backing through another company and feared they would have to ship to stores on faith alone.

CIT agreed to work out a restructuring plan with bondholders by today and said in an August filing with the Securities and Exchange Commission that it might have to file for bankruptcy protection if the restructuring is unsuccessful or if a deal can't be reached. Financial sources also indicated over the summer, and again this week, that CIT's factoring arm could be spun off or sold.

"I think there's probably a little more hope that even in bankruptcy there will be a continuing entity that will service our industry," said Gary Wassner, president of Hilldun Factors.

Wassner said some vendors could be hesitant to ship if CIT does go bankrupt, but noted it was unlikely the industry's largest factor would cease functioning entirely.

"I do not see a situation where they lock the door and walk away," he said. "I can't imagine that any regulator or anyone would allow [CIT's clients] to flounder."

Shares of CIT fell 99 cents, or 45 percent, to \$1.21 Wednesday after widespread reports that insolvency was still a possibility as the company scrambled to meet the deadline with bondholders. It would be the fifth largest bankruptcy in U.S. history, edging Enron Corp. out of the top five, which also includes Lehman Brothers Holdings Inc., Washington

Mutual Inc., WorldCom Inc. and General Motors Corp.

“If they file and basically get their debtor in possession [financing] in place immediately....I would imagine that the amount of short-term damage to the vendor community would be severely reduced,” said Matt Polsky, managing director at NetWorth Solutions Inc.

One problem facing vendors this summer was they had used receivables that were technically held by CIT as collateral for loans from other banks, putting those loans in jeopardy should CIT go under. Polsky said at least some companies have adjusted their factoring deals with CIT and retained the receivables on their books.

But CIT is still the dominant factor in fashion and even the remote prospect of its failure is enough to cause anxiety throughout the industry.

“It looks like something is moving, which is good,” said Marc Federbush, partner in charge of the apparel and textile services group at the accounting firm Anchin, Block & Anchin. “It will take away the fear of the unknown.”