



WEAKEND CIT GIVES IN TO CLIENT DEMANDS

By **JAMES COVERT**

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Embattled finance company CIT has relented to a skittish apparel manufacturer that sued to end its business relationship with the lending giant, The Post has learned.

By settling the case out of court yesterday, legal experts said CIT avoided the risk of a ruling that might have spurred a mass exodus of clients at its "factoring" division, which finances inventory for more than 60 percent of the apparel industry.

Nevertheless, sources noted that under the settlement CIT succumbed to its client's demands to be freed from its contract. Since The Post reported exclusively last Thursday that Scherr Inc. had sued CIT, numerous apparel companies have been mulling similar court actions, according to industry insiders.

CIT's outlook grew more complex yesterday when the Federal Reserve assumed greater oversight of the lender.

Fearing that a potential CIT bankruptcy might devastate its business, Scherr - a Livingston, NJ-based maker of casual men's clothing - argued that "CIT's disastrous financial situation creates grounds for insecurity" as the manufacturer looked for recovery on its inventory receivables held by CIT.

"This was a unique situation," said Vano Haroutunian, a partner at the law firm Ballon Stoll Bader & Nadler, which represented Scherr.

Haroutunian declined to comment further, aside from confirming that Scherr had withdrawn its complaint. But the plaintiff had charged that in addition to holding its receivables, CIT had denied fresh advances of credit.

"If I represented a client that wasn't getting its credit advances, I would now be more inclined to go to court to get out of the factoring agreement," given news of Scherr's settlement yesterday, said Michael Goldberg, a partner at law firm Pryor Cashman.

Meanwhile, some of CIT's apparel-manufacturing clients are limiting their exposure to a potential CIT bankruptcy by other methods, including agreements that allow them to retain ownership on invoices, even as CIT takes responsibility for collecting on their receivables.