

Bankrupt CIT unlikely to get 2nd bailout

By [Patrice Hill](#)

CIT Group Inc., the nation's largest lender to small businesses, filed for bankruptcy reorganization Sunday in the biggest financial failure this year and first major test of the administration's resolve not to bail out every struggling institution that asks for help.

The filing sent shudders through Asian financial markets Sunday, while anticipation of the major bankruptcy on Friday contributed to a 250-point loss in the Dow Jones Industrial Average.

CIT has more than 1 million small-business clients, ranging from retailers that import clothing from China to firms leasing aircraft and railcars, and was the top Small Business Administration lender last year.

Andrew Williams, a Treasury spokesman, said the Treasury Department is "monitoring markets" but the department did not back down from its decision in July not to provide additional aid to the century-old company.

During the financial crisis last December, the Treasury provided CIT with \$2.3 billion to stay afloat, but rejected the company's pleas for further aid this summer after determining its failure would not cause great harm to fragile credit and equity markets.

The Treasury stands to lose the \$2.3 billion it invested in preferred shares, which become worthless in the bankruptcy along with the rest of the company's stock. With \$71 billion in assets and nearly that much in debt, CIT's goal is to keep open its bank and other lending operations for small businesses during the bankruptcy while shedding about \$10 billion in debt.

Jeffrey M. Peek, the company's chairman, warned that the thousands of small businesses and middle-market firms served by the company have more than 90 million employees and are "vital to the U.S. economy." Many of them are owned by women, minorities and veterans - three important Democratic constituencies, he noted.

But the bankruptcy reorganization is a "market-based solution" that averts the need for another government bailout, he said, adding that he developed a "constructive working relationship" with the Treasury, Federal Reserve, Federal Deposit Insurance Corp. and other regulators, and "looks forward to their continued guidance" during the bankruptcy.

CIT's pre-packaged bankruptcy was approved by more than 90 percent of the company's debt holders. The company received a \$1 billion line of credit from Carl Icahn, one of its top bondholders, to get through what it hopes will be a quick court-ordered restructuring.

Not all financial analysts are as optimistic as CIT that its quick dip into bankruptcy will be successful, while they question Treasury's conclusion that the failure of the top small-business lender poses no harm to the recovering economy.

Mark Jacobs, a partner at Pryor Cashman, said the bankruptcy comes at the worst possible time for thousands of small businesses that import goods for sale at Christmas time.

Not many other lenders provide the kind of temporary loans CIT provides these businesses to finance the import and distribution of goods before big stores like Wal-Mart pay for them. And banks have been pulling back on loans to small businesses, who could be left dangling by the failure of CIT.

"In the best of times, you would have seen a situation where other lenders would certainly have been willing to consider getting into this business," he said. "In the current environment, given the constraints on credit generally, there's not enough capacity out there."

Federal regulators say the company's clients have had ample time to line up alternative sources of finance in the three months since its trek toward bankruptcy started to make headlines and it was turned down for federal aid.

They also maintain that the failure of the firm does not come even close to posing the peril to the banking and financial system that the failure of Lehman Brothers, Washington Mutual and other large banks posed last year.