

CIT failure to leave small businesses floundering

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* CIT's \$42 bln factoring business in doubt

* Small businesses still facing credit crunch

By Elinor Comlay

NEW YORK, Nov 1 (Reuters) - CIT Group Inc's (CIT.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) bankruptcy filing, while long expected, could still trigger a financing crunch for many of the hundreds of thousands of small businesses it finances.

CIT filed for bankruptcy protection on Sunday, and said its creditors have already approved the century-old commercial lender's reorganization plan.[ID:nN01408863]

The bankruptcy followed a failed struggle to refinance its debt amid the credit crunch and recession, and paves the way for it to restructure.

Under the plan announced on Sunday, the lender expects to reduce total debt by about \$10 billion.

But the company's long-term prospects are uncertain and the bankruptcy could leave more than one million small and medium-sized businesses looking for another source of funding, lawyers said.

"This could have a devastating effect," said Jerry Reisman, a partner at law firm Reisman Peirez & Reisman in Garden City, New York, who has been working with many of CIT's factoring clients.

These clients -- about 2,000 small companies -- are in a particular bind when it comes to finding alternative financing since CIT is by far the biggest provider of factoring services.

In the factoring business, CIT buys accounts receivables from vendors that range from \$5 million to \$1 billion in size and then works with their customers to ensure payment.

What's more, many of the factoring clients are in the garment industry, where they already face a bleak holiday season.

"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," said **Mark Jacobs, a partner in law firm Pryor Cashman's bankruptcy group**. "In the current environment, given the constraints on credit generally, there's not enough capacity out there," he added.

In the first six months of the year, CIT lent just \$65 million in Small Business Administration loans, one percent of the total lent in this category over that time period. In 2008, CIT was the top SBA lender in dollar terms, providing 6 percent of all SBA lending, according to the National Small Business Association.

At the same time, banks are also broadly cutting back on lending to small and medium-sized businesses. Banks' lending to small companies fell by about 2 percent, or \$14.8 billion, for the year through June, according to data from the Federal Deposit Insurance Corp.

The NSBA had expressed its concern about a potential CIT bankruptcy and in July wrote to U.S. Treasury Secretary Timothy Geithner to ask the government to consider assisting CIT. It may discuss a similar lobbying effort again, spokeswoman Molly Brogan said in an interview before the bankruptcy filing.

UNCERTAINTY ABOUT OPERATIONS

The major question for CIT's factoring clients is whether that unit can continue to operate as usual while its parent goes through bankruptcy.

The lender said on Sunday that all operating entities are expected to continue functioning normally.

CIT's factoring business, worth about \$42 billion in 2008, is estimated to be at least five times the size of its closest competitor, Wells Fargo & Co (WFC.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), followed by other smaller companies such as GMAC Inc and Rosenthal & Rosenthal. It is not clear if these rivals have enough capacity to take on all of CIT's existing customers.

Many of those clients, anticipating funding problems from CIT, have already drawn down on their credit lines. In one week in July alone -- before the company secured an emergency loan from bondholders -- CIT said in a filing it had \$700 million of draws, about twice the normal level.

The company has said in filings that it hopes to complete a quick restructuring that would have minimal impact on its clients.

Still, a lot about the process is uncertain, and that has CIT clients worrying about the security of their financing.

"The businesses that I'm talking to are very nervous," said Vano Haroutunian, lawyer at Ballon Stoll Bader & Nadler. (Reporting by Elinor Comlay; Editing Bernard Orr)

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