BusinessWeek

FGI FINANCE

CIT's Fate Worries Retailers and 'Factor' Industry

Lender CIT, which failed to secure a second federal bailout, is a big player in the business of extending credit based on receivables

By Nick Leiber

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The retail industry is bracing for a possible bankruptcy filing by CIT Group (CIT). The New York-based commercial lender is the biggest player in the business of factoring, an age-old form of debt financing employed mainly by businesses that can't secure traditional bank loans or credit lines. By selling their receivables at a discount, these companies receive cash. Suppliers and apparel makers often rely on factoring to tide them over until retailers pay.

CIT's 2,000 factoring clients sell to approximately 300,000 retailers across the nation. On July 15, CIT announced there was "no appreciable likelihood" of immediate government aid and that it was "evaluating alternatives. Now, *The Wall Street Journal* is reporting CIT may file for bankruptcy as soon as July 17.

There is disagreement in the industry about whether other factoring companies and asset-based lenders will be able to take the place of CIT quickly. The National Retail Federation, a trade group, has been saying (and writing) that the consequences of a CIT bankruptcy will be grave for retailers. The International Factoring Assn., the biggest trade group of commercial factors in the U.S., is also concerned about the impact on factors that specialize in the retail end of the market. Both groups fret about losing a firm the size of CIT, which had a lending volume of $42 billion in 2008. CIT's clients range from North Carolina fabric manufacturer Glen Raven to regional retailer Boscov's Department Stores. A spokesman for CIT says more than 50 factoring clients sell merchandise to Boscov's and rely on CIT's factoring services.

Slowing Cash Flow

The factoring industry, known for charging high financing rates, 20% or more, secured by the value of receivables, has already been struggling because of the downturn. Textron Financial (TXT), which provided financing to factors, pulled out of the business about half a year ago. Those within the industry say money hasn't been flowing in as easily as it had in the past. Bert Goldberg, the IFA's executive director, says the major impact of a CIT bankruptcy would be on the factoring market's retail and apparel segment. "I know there are other factors that deal in that space—but I don't know if they can pick up all that slack," says Goldberg. He also believes factors that were financed by CIT could go out of business.

Malory Duncan, senior vice-president and general counsel at the NRF, also sees alternative financing options drying up, dimming prospects for battered retailers banking on the upcoming holiday season. "Suppliers to many well-known retailers won't have the capital they need for as long as 90 days, and that puts a serious crimp in the retail supply chain," says Duncan. "The option those vendors have now is to find another entity willing to step in to factor for them, and those options are precious few now."

Keith Mabe, director of operations at 15-person, Houston-based factor Charter Capital, which extends lines of credit ranging from around $10,000 to $2 million to its 100-odd clients, agrees the factoring industry is hurting. He says he's seeing midsize factors that expanded during good times laying off employees.

But David DiPiero, president and CEO of 80-person commercial lender FGI Finance, isn't worried about the shock wave CIT is sending through the industry. DiPiero says his New York firm, which aims for loans and lines between $1 million and $10 million and has more than 100 clients, hasn't had a hard time finding capital for the factoring side of his business, despite the recession. DiPiero has seen concerns increase about access to working capital and plans to step in wherever possible.

With reporting by Stacy Perman