As CIT falters, rivals eye factoring business

By Supantha Mukherjee and Brenton Cordeiro - Analysis

BANGALORE (Reuters) - As CIT Group Inc (CIT.N) struggles to keep itself out of bankruptcy, smaller rivals are looking to gain customers from the troubled lender's lucrative factoring business.

Factors buy receivables, or the right to receive money owed, from suppliers at a discount so that those suppliers can continue to have working capital. CIT gets paid back when retailers sell the goods, typically within 90 days.

CIT lends to nearly a million small and mid-sized businesses and had a factoring volume of over $42 billion last year.

Problems at CIT stem in part from Chief Executive Jeffrey Peek's decision earlier in the decade to expand into subprime mortgages and student loans.

Concerns about the company's financial health increased even after CIT received $2.33 billion from the government's Troubled Asset Relief Program in December. The New York-based lender estimated it has lost more than $1.5 billion in the second quarter, hurt by bad loans and writedowns.

Companies ranging from small regional bank Sterling Bancorp (STL.N) to private lenders like Interface Financial Group and FGI Finance are seeing increased customer orders for their factoring services.

"There are clients of CIT that may be interested in coming to stronger factors like Sterling," the bank's Chief Executive Louis Cappelli said, adding that the bank is getting a big influx of new business because of CIT.

"We expect it to be in the millions.

"I believe water seeks its own level," he said. "And so over a period of time, the business will be assumed by others."

David DiPiero, chief executive of FGI Finance, agreed.

"It would take a little bit of time, I believe, to transfer clients over, but I believe that the market would find a solution and support it," he said.

Interface Financial Chairman George Shapiro said his company was also benefiting from CIT's woes.

"We can increase our portfolio," he said. "We can acquire a lot of clients who've been with CIT before."

AIG OF FACTORING?

CIT's role is indispensable for many companies that cannot easily obtain affordable financing from large banks.

If CIT fails, a lot of small businesses would have to start looking for new sources of financing, Interface Financial's Shapiro said.

However, even CIT's rivals are worried about the repercussions that a failure would create.

“I think, in general, it is not a good situation,” Shapiro said, “So if you ask me would I be very happy if CIT failed? No, I will not.

“It looks lucrative for the financing industry to take a piece out of CIT, but I wouldn’t be so happy about that, because it affects the overall picture, and if it affects the economy, then we’re all going to be in trouble.”

CIT is a key factor for the retail industry.

“From this time onwards to December, this is the peak shipping season for the manufacturers and importers to the retailers,” Sterling CEO Cappelli said.

“So, this is the lion’s share of the yearly cycle that we are going in,” he added.

The American Apparel and Footwear Association estimates that about 60 percent of the industry’s factoring is done by CIT.

Rosenthal & Rosenthal, one of the largest privately held U.S. factoring companies, was not available for comment.

(Editing by Vinu Pilakkott)