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CIT Seeks \$500 Million Loan, Block on Lender Demands (Update1)

By Tiffany Kary

Nov. 2 (Bloomberg) -- **CIT Group Inc.**, the bankrupt 101-year-old commercial lender, sought a judge's permission to borrow another \$500 million and block some lenders' demands as it acknowledged challenges to a quick reorganization.

CIT today asked U.S. Bankruptcy Judge **Allan Gropper** in Manhattan to set a confirmation hearing on its "prepackaged" reorganization plan as soon as possible after Dec. 1. CIT filed for bankruptcy protection yesterday, blaming losses on subprime mortgages and tightening credit markets.

"It's frequently the case that the company can't get in and out of bankruptcy as quickly as they hope with a prepack -- you never know what will come out of the woodwork," **Paul Zumbro**, a partner at Cravath, Swaine & Moore LLP who isn't involved in the case, said in an interview.

The New York-based lender, which employs 3,119 people in the U.S. and funds about 1 million businesses such as **Dunkin' Brands Inc.** and Eddie Bauer Holdings Inc., plans to exit court protection next month after bondholders voted 90 percent in favor of the reorganization plan. None of CIT's operating units, including Utah-based CIT Bank, were included in the filing.

CIT said it wants to reorganize quickly "to preserve the bargained-for recoveries in these cases." Any delay would be harmful to CIT's clients, said **Gregg Smith, a restructuring adviser in the New York office of Conway MacKenzie Inc. and a former CIT managing director.**

Delay a 'Disaster'

"Customers would have to look to other options, and I think that is a disaster," Smith said. "Competitors are not making loans right now."

Separately, CIT told the court it needs approval of several requests so it can continue to operate smoothly while under court protection. The bankruptcy entails some risks to bondholders, who are being given new notes in exchange for their old bonds, CIT said.

To fill a funding void, a \$500 million letter of credit from **Bank of America Corp.** is needed after rival lenders refused to extend more credit, CIT said. HSBC Holdings Plc, JPMorgan Chase & Co. and Wachovia Corp. issued CIT's other pre-bankruptcy letters of credit.

"The banks that have been issuing these letters of credit have not been amenable to rolling or extending additional capacity to CIT," lawyers for the company wrote.

'Essential' Funds

CIT seeks approval of an agreement with JPMorgan giving a non-bankrupt affiliate access to \$400 million outstanding under a \$750 million letter of credit. The funds are "essential" for "continued effective operations and maintenance of customer relationships," CIT said.

Before CIT's bankruptcy, JPMorgan said conditions of its loan weren't being met. To keep drawing on the loan, CIT agreed to let JPMorgan hold onto a cash collateral deposit of \$1 million given to the New York-based bank on Oct. 6, and will set aside \$400,000 to pay for JPMorgan's legal fees.

CIT listed \$71 billion in assets and \$64.9 billion in liabilities in a Chapter 11 petition yesterday. The Treasury Department said the government probably won't recover much, if any, of the \$2.3 billion in taxpayer money that went to CIT. Shareholders may be wiped out as common and preferred stock will be canceled.

CIT filed a lawsuit seeking to bar lenders including Fifth Third Leasing Co., Wells Fargo Bank Northwest and Wilmington Trust Co. from collecting on losses from a non-bankrupt unit, CIT Group/Equipment Finance Inc. The unit holds leases for 115,000 railcars and 550 locomotives in the U.S. and Canada.

'Needless Loss'

"The exercise of the additional default remedies would likely destroy the going concern value of the railcars and therefore cause the needless loss of up to approximately \$680 million of value to CIT Rail," lawyers for CIT wrote.

Other challenges were cited in the company's 649-page outline of its reorganization, including a potential loss of customers' confidence in its ability to provide capital, lender demands on non-bankrupt units, or a Federal Deposit Insurance Corp. seizure of its bank business.

The FDIC may limit access to the bank unit, which isn't in bankruptcy, unless CIT shows it has enough liquidity, the company said in its disclosure statement explaining the reorganization plan. CIT Bank holds mostly middle-market commercial loans, and the FDIC may want a "a more diversified basket of assets" before lifting a cease-and-desist order issued July 16, Conway's Smith said.

'Fraudulent Conveyance'

A court may find CIT's issuance of new debt through the plan a "fraudulent conveyance" under the U.S. bankruptcy code, CIT said. Such claims allow creditors

to recover money for the estate if they can show transfers made as many as two years before a bankruptcy were intended to defraud future creditors.

CIT's ability to repay noteholders also depends in part on generating enough receivables, which the company said is subject to business conditions beyond its control. It warned that collateral securing the new notes hasn't been appraised, "may be illiquid and may have no readily ascertainable value."

The company has \$1 billion from investor **Carl Icahn** to fund operations while it reorganizes. It also expanded its \$3 billion credit facility by another \$4.5 billion on Oct. 28.

CIT's largest unsecured claim holders were **Bank of America**, as collateral agent for a \$7.5 billion claim, and Bank of New York Mellon Corp., as a trustee for retail bonds with a claim of \$3.2 billion, according to the petition. Canadian senior unsecured notes have a claim for \$2.1 billion, and Citigroup Inc. has a \$2.1 billion claim as an administrative agent to bank debt due 2010.

CIT said in its outline of the prepackaged plan filed yesterday that it will give most noteholders new notes at 70 cents on the dollar plus new common stock, compared with the range of 70 cents to 90 cents and new preferred stock proposed in the exchange offer.

The case is In re CIT Group Inc., 09-16565, U.S. Bankruptcy Court for the Southern District of New York (Manhattan).

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