Written by **Thomas R. Eddlem** on July 21, 2009

CIT Patches Together Private Bailout After TARP Bailout

Capital lending firm-turned-bank holding company CIT has patched together another $3 billion private loan to avoid bankruptcy and try to complete the transition to bank holding company.

A $67 billion lending company that specializes in loaning to small and medium-sized businesses, CIT had already taken a $2.33 billion loan from the federal government's Troubled Assets Relief Program (TARP) in December. But some industry analysts think the 101-year-old CIT will end up in bankruptcy anyway.

"We still think it is a losing effort in the intermediate term although some bondholders may end up better than others with this structure," David Hendler of the New York-based CreditSights Inc. told Bloomberg.com. "The wholesale model is dead and creating a branch deposit system from scratch is too expensive for CIT and takes too long to build to help any time soon."

CIT leadership is still singing a happy tune, as they have been throughout the crisis. CEO and Chairman of the Board Jeffrey M. Peek opened up his 2008 CIT Annual Report with the overly optimistic prognostication that "what is clear is that we entered 2009 as a well-capitalized bank holding company with leading market positions and unparalleled industry expertise." He might as well included a laugh track along with that statement.

CIT's stock had already tanked by the end of 2008, as the bank holding company posted losses in excess of $600 million that year. Investors who had put $100 into CIT stock back in 2004 had only $14.33 left by the end of 2008, and it only got worse after that. Although news of the latest bailout buoyed the stock back Monday over $1 after a Friday close of $0.70, CIT stock is nowhere near the $35-60 range it traded at before mid-2008. The company's interest income had been cut in half from 2004-08, while credit losses in 2008 were more than five times the average over the previous four years.

The truth came later in CIT's annual report, where Peek noted that the company has been on a cash shopping spree. "We secured new funding arrangements with Goldman Sachs and Wells Fargo, refinanced several existing borrowing facilities, issued capital, and grew deposits at CIT Bank…. We sold our home lending business, eliminating direct exposure to this asset class, stopped originating new student loans, and cut our common dividend to conserve capital…. Following our approval to become a bank holding company, we sold $2.3 billion of CIT preferred stock and related warrants to the U.S. Treasury as a participant in the government's TARP Capital Purchase Program." As of today, we can add another $3 billion in additional emergency loans.

Preferred stock is generally the kind a troubled company gives to lenders of last resort. Preferred stockholders are supposed to be paid first in bankruptcy proceedings, and that's the kind of stock the U.S. government (and every American citizen, by extension) holds.

Peek's survival strategy is to loan nothing and demand more cash, and he doesn't seem to care whether he gets it in the free market or from the government. In fact, the whole idea of transforming CIT into a bank holding company was to let CIT get its hands on FDIC funds. He noted in the annual report: “Job number one remains liquidity, which continues to be very tight in 2009. We have applied to the FDIC to participate in the Temporary Liquidity Guarantee Program (TLGP), which, if approved, would allow us to issue government-guaranteed debt.”

Peek’s “capitalism” is the kind that may end up in bankruptcy anyway. The question is, will “capitalism” and "free enterprise" be blamed for the failure of these quasi-government corporations if that happens, or will the taxpayers demand a return to traditional American free enterprise without the bailouts?