

CIT Group Bankrupt, US Taxpayers to foot \$2.3B bill

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CIT group, America's leading specialist lender to small business, filed for Chapter 11 late last night in the fifth biggest bankruptcy in US history.

The collapse of the 101-year-old Utah-based lender, which trails behind only those of Lehman Brothers, Washington Mutual, Worldcom and General Motors in size, will leave US taxpayers with a \$2.3 billion bill.

It is believed the board of the lender, which has \$71 billion of loans, approved the filing after its creditors agreed a pre-packaged plan designed to ensure it emerges from bankruptcy with the core of its business intact.

Only last year, US financial regulators judged CIT sufficiently well-capitalised to survive. While the lender was given access to \$2.3 billion of funding under the Troubled Asset Relief Programme (Tarp), the Obama administration refused the bank's subsequent pleas to give it further cash injections.

The bank's collapse will be a blow for its million small and medium-sized customers, many in the retail sector, for whom sources of debt are scarce. Experts believe that, even if CIT can emerge intact from Chapter 11, its lending capacity could fall by 20 per cent.

The entire \$2.3 billion Tarp loan is expected to be wiped out by the bankruptcy process, but the bill could have been significantly bigger. While the US Government helped other big non-bank lenders, including GMAC, General Motor's finance arm, it rebuffed CIT's subsequent bailout requests in July, concluding that its demise would not threaten the broad financial system.

CIT narrowly avoided bankruptcy in the summer, but its troubles have since been exacerbated by customers who, fearing that the bank is about to go out of business, have been drawing down on credit lines, using up its remaining cash.