

CIT Adds Junior Debt To Its Arsenal

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Long-time senior lender and M&A advisory firm CIT Group last month launched a \$1 billion mezzanine vehicle to invest in the lower rungs of LBO capital structures.

The New York-based firm tapped Timothy Eichenlaub, formerly head of financial sponsor finance, to head up management of the limited partnership. Known as 505 Capital Partners LP, the fund has \$225 million in commitments and a goal of hitting a \$1 billion target, including what Eichenlaub called "nominal leverage." CIT Group has committed a minority of the equity, with undisclosed institutional investors contributing the remainder.

The mezzanine team has already reviewed two dozen deals and made a handful of commitments to deals that haven't yet closed, Eichenlaub said. Because of the shaky debt market, the first investments will be heavy on equity. "We want to build a portfolio and lever it over time," Eichenlaub said.

The addition of a junior-debt vehicle gives CIT Group the capability of providing one-stop financing to sponsors. The publicly traded company has been among the more active senior-debt providers for mid-market LBOs, and in the past it placed junior-debt components of the capital structure with outside buyers. Now, pricing for mezzanine debt has grown more attractive than it's been in years, making it a good asset to hold; at the same time, it's become more difficult to find buyers for syndicated credit.

"It's something we've been considering" since the credit freeze sunk in over the summer, Eichenlaub said. "It feels like the [junior-debt] market has come back, so we decided to put it together at that point."

CIT Group's new vehicle joins an increasingly crowded field. Goldman Sachs recently closed the largest mezzanine vehicle ever, an \$18 billion pool (including leverage). TCW/Crescent closed on \$2.6 billion for a junior-debt fund dedicated to the energy sector. GSO Capital Partners, the structured-credit hedge fund that's set to be folded into The Blackstone Group, is nearing completion of a \$750 million vehicle. Meanwhile, traditional players such as Audax Group, AEA Investors and various business development companies are also ratcheting up their activity.

"There are some credible players out there," Eichenlaub said. "It's a big market, and there is room for another player."

Although managed by CIT Group, the new fund is located off the bank's balance sheet and has a broad mandate. For instance, it can take equity positions alongside sponsors, Eichenlaub said. It can also do its own deals independent of CIT's senior lending operation. The fund will be used almost exclusively to back sponsor-led buyouts and growth financing deals.

The fund's name was inspired by the location of CIT Group's headquarters, 505 Fifth Avenue.