California Apparel News

CIT Looks Ahead With Its Apparel Business in Mind

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At the beginning of the year, most financial professionals agreed 2008 was going to be a challenging year. For those working in the apparel sector, the prevailing advice was to rein in costs; concentrate on serving long-term, proven accounts; and wait until the economy turns around.

In March, when the largest factoring company, **CIT Group**, unexpectedly tapped into $7.3 billion in emergency credit lines and announced plans to sell off a few assets, some predicted the worst for the company, which had been on a growth track ever since it split with parent company **Tyco International** in 2002.

Others dismissed the negative speculation, noting that CIT's position as market leader would steer the company through its own crisis, as well as through the economic downturn.

California Apparel News Executive Editor Alison A. Nieder recently caught up with John F. Daly, president of **CIT Trade Finance**, to discuss CIT's financial health and the impact on its apparel clients.

Earlier this year, CIT drew on its credit lines to cover its daily operations and announced plans to sell off non-core assets. Where does CIT stand now, and what effect does this have on CIT's California apparel clients?

I don't know that there's a direct impact with our apparel clients.

The commercial paper market, which is where we had borrowed money for the last seven or eight years from the time we were spun off from Tyco, is really an unpredictable market and has been for the last six to nine months. What was happening was companies were able to issue commercial paper for 270 days, 180 days, 360 days. Short commercial paper was 60 to 90 days.

After you started to have the subprime issues surface, commercial paper was being sold for 28 days, 7 days, 14 days; it was very, very short-term. The predictability of the markets was almost impossible to figure out. So anybody who was managing a business on commercial paper was really vulnerable to liquidity issues if the market got disrupted on any particular day.

We determined that we would be better off paying off $3 billion in commercial paper and drawing down on our bank line. This is exactly what the bank lines were in place for. That's what happened. The capital markets are in disarray.

With the $7.3 billion, we had the liquidity we needed to service our clients, and we were highly confident we would not have an issue servicing any of our clients, which includes our California apparel clients.

The connection there is to make sure you have adequate funding. Since that time, we have sold $1 billion in common stock and $500 million in preferred stock. We also have sold off $4.5 million in loan commitments, which had about $1.5 billion in actual funds employed. Between the stock offerings and the asset sales, we raised $3 billion.

We're in the process of considering selling additional assets, which could raise up to an additional $5 billion in liquidity. So if you take the $3 [billion] that we raised and the $5 [billion] that we intend to raise, that's $8 billion, which by anybody's standards is a lot of money. It puts us in a position to have clear sight on adequate liquidity to fund our clients through the end of 2009.

We still have investment-grade ratings on our debt from all of the major credit agencies. And we have what's called tierone capital ratio that's above 9 percent. And that is higher than almost every bank in the country.

How does it affect our California apparel clients? I think the answer is we have done everything necessary to have all the liquidity we would ever need to provide all of the financing to those clients on a regular basis.

The economy is still flagging, and consumers are dealing with rising energy and food costs. How is the tough economic climate affecting CIT's apparel business?

You can see that retail sales are struggling.

I think there are retailers that are well-positioned, like **Wal-Mart**, where their value-based pricing is extremely attractive to the consumer. And there are retailers at the top of the economic spectrum that seem to be doing okay. But I think there's a lot of shifting to what I call value-based products.

People are looking for more for their money, and they don't have a choice because money is tighter than it used to be. Interest rates may be a little lower, but the willingness to lend by banks, especially in the consumer sector, is down. The ability to get mortgages on new homes requires greater down payments than before, and the mortgage rates really haven't come down like the prime rate or LIBOR [London Interbank Offered Rate] has. So I think the cost of consumer credit is higher.

The cost of services appears to be rising [as well]. The cost of oil for both gasoline and home heating and its impact on electricity for air conditioning is probably double what it was last year. So I think every penny that people have to spend on necessities is a penny less to spend on discretionary items.

I look at the retailers, and I say, “[If] you have kids and they wear sneakers, socks, jeans, T-shirts, caps, jackets and sweaters, and sweat shirts, those products are going to sell.” They may sell at a little lower markup. A little lower-priced categories may sell a little better than the more expensive categories. But the products are going to sell.

It’s the discretionary clothing needs that I think are going to be hurt.

So I don’t think there’s going to be a huge contraction in the amount of product sold, but I do think there’s going to be a contraction to a degree in the dollar value of that product and who the successful sellers are going to be.

Assuming that credit is harder to come by now, how long will this situation last, and what should apparel manufacturers and retailers do to survive?

As to when the economy is going to get better, I’ll check my soothsayer. I do think the stimulus money is going to have a positive impact on third quarter. What continues to drive the economy after that, I think, is very vulnerable to the price of energy, price of oil, price of gasoline, housing prices and liquidity in the banking system. If you can fix those things, I think we’ve got a pretty good term in front of us.

So holiday is a big question mark?

I think that’s a good way to put it. Holiday is “Cross your fingers and hope it shows up.”