

Jon Lucas, Chief Sales Officer, CIT Trade Finance

2011 U.S. Factoring Overview

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“Factoring is also attractive for the liquidity it may afford a company.”

Q: Can you briefly explain factoring and its importance?

A: **Factoring** is a form of credit protection against a customer’s financial inability to pay. It refers to an agreement between a factor (e.g., CIT) and a company that supplies goods, typically to the retail industry, in which the factor purchases the accounts receivable from the supplier and assumes responsibility for a retailer’s financial inability to pay.

Factoring is important because it plays a vital role in trade flows; factoring enables suppliers to look to their factor to protect them against bad debt losses. In the event a retailer becomes insolvent, or financially unable to pay, the factor will pay the supplier for the full undisputed amount due on all credit approved accounts receivable.

Q: How has the demand for services like factoring fared recently?

A: The past couple of years have been challenging for the retail sector as consumer confidence declined and consumers cut back on their spending.

When there is uncertainty in retail, like when a major retailer goes bankrupt, there tends to be an uptick in demand for factoring.

Factoring is also attractive for the liquidity it may afford a company. Many suppliers borrow against the value of their accounts receivable, so factoring enables a supplier’s financing to grow as its receivables grow.

At CIT, we work closely with small and middle market companies. In fact, more than half of our clients factored \$10 million or less with us in 2010. Those companies turn to us because we understand their credit protection and financing needs, and we provide them with cost effective solutions to managing their accounts receivable.

Q: Can you expand on the importance of credit to suppliers of the retail sector?

A: Clients who have come to CIT from other factors have told us that our ability to extend customer credit is a key reason for making the switch. We have the capabilities, the experience and the knowledge to extend credit to approximately 250,000 retail customers. Our expertise covers a broad range of industries including apparel, footwear, accessories, furniture and home furnishings, carpet, housewares, toys, sporting goods and consumer electronics.

We perform the credit analysis, underwrite the retail customer’s creditworthiness, collect and apply the cash receipts from the retailer, and manage the accounts receivable bookkeeping. This is a form of outsourcing for the supplier.

Our analysis is stored online and is supplemented by our market intelligence based

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upon the pay history we have developed with each retailer. In addition, we have EDI (Electronic Data Interchange) links with the major retailers to speed up the flow of funds and information between the retailers and CIT. Our clients can access their accounts receivable information any time online and can customize and run reports as needed.

With CIT as their factor, the supplier does not have to invest in the human resources, training and systems required to manage these functions.

Q: Besides credit protection, what other services does a supplier look for in its factor?

A: Professional accounts receivable management services can be very difficult for a small- to mid-sized company to replicate internally; and it's a service that's integrated with the factoring service we provide. As companies look to manage their balance sheets, they look to outsource this function so they don't need to invest in people, overhead and systems. This allows them to concentrate on what they do best — bringing new products to market.

In addition, companies are always looking for financing. Factors provide working capital financing, which is the lifeblood of a company and is especially critical for small- to mid-sized businesses.

Q: From your perspective, what were the lessons learned from the Great Recession?

A: Factors and lenders alike have been reminded that “Credit is King.” Factors continue to closely watch customer credit (the retailers' credit worthiness), but perhaps more importantly, they are also watching client credit metrics when they have loans outstanding to clients.

Q: What's your outlook for 2011?

A: In general, the factoring industry is somewhat correlated with sales at retail. Although retail sales were up in December 2010, many retailers came in below expectations.

Looking ahead toward 2011, retail activity remains uncertain due to a number of reasons, including: expected high unemployment levels, the slow recovery of the housing market, high energy prices, and high commodity prices.

In terms of retail categories that should perform well this year, I believe well-recognized, branded merchandise will see growth as consumers continue to look for products with a perceived added value.



Jonathan Lucas is Chief Sales Officer of **CIT Trade Finance**, the leading U.S. provider of factoring services for companies that sell into retail channels of distribution. CIT provides credit protection, accounts receivable management and asset-based lending to manufacturers and importers.

To learn more about CIT Trade Finance, visit <http://www.cit.com/tradefinance>. Members of the press who have an interest in speaking with Mr. Lucas can contact Curt Ritter at Curt.Ritter@cit.com. Additional CIT Executive Spotlights can be found here: <http://executive-spotlight.cit.com>.

What Is Factoring?

Factoring is an agreement between CIT and companies that supply goods typically to the retail industry. CIT purchases the accounts receivable from the suppliers and assumes responsibility for a retailer's financial inability to pay.

This combines:

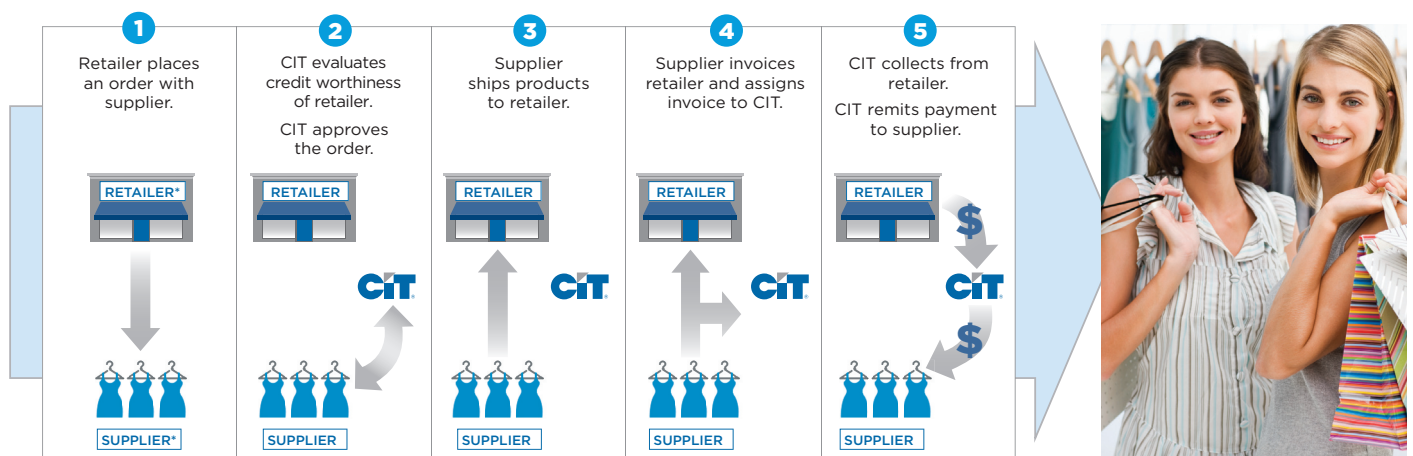
- Credit protection and advice
- Accounts receivable bookkeeping, including electronic invoice and payment processing
- Collections, cash management and lockbox processing
- Accounts receivable financing

What Are the Benefits?

Factoring helps companies of all sizes, from start-ups to mature companies:

- Improve cash flow
- Eliminate credit losses
- Reduce operating expenses
- Expand working capital financing through advances
- Improve management information through online reports, such as:
 - Customer payments
 - Accounts receivable agings
 - Loan status
 - Credit approvals
 - Customer credit previews
 - Customer deductions and dispute summaries
 - Wire transfers

Factoring in Action: Serving suppliers that sell to wholesalers and retailers nationwide.



*In factoring, suppliers are often referred to as "clients." Retailers are often referred to as "customers."



For more information about CIT's factoring services visit www.cit.com/tradefinance or call 800-248-3240.