

As a Turnaround Takes Hold, CIT Rededicates Itself to Equipment Finance

A Conversation With Vincent A. Belcastro, Group Head, CIT Capital Equipment Finance

BY HOWARD BROD BROWNSTEIN, CTP, PRESIDENT, THE BROWNSTEIN CORP.

The severe economic downturn of recent years has seen many equipment lenders leave the business or sharply curtail their activities, and CIT was no different, downsizing its Diversified Industries Group in 2007. Central to CIT's recovery strategy is the appointment of a senior CIT veteran, Belcastro, well-known both inside CIT, as well as throughout the asset-based finance industry, as a knowledgeable and experienced professional.



VINCENT A. BELCASTRO
Managing Director,
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Equipment Finance

With CIT's recent appointment of Vincent A. Belcastro as managing director and group head of its Capital Equipment Finance group, CIT signals a strategic rededication to providing financing for middle-market companies with equipment finance needs. The severe economic downturn of recent years has seen many equipment lenders leave the business or sharply curtail their activities, and CIT was no different, downsizing its Diversified Industries Group, headquartered in Tempe, AZ during 2007. As part of CIT's tremendous turnaround and recovery, CIT has re-entered a number of strategic markets in which it formerly was well-known, including equipment finance.

Central to this strategy is the appointment of a senior CIT veteran, Belcastro, to head CIT Capital Equipment Finance, headquartered in New York City. Belcastro is well-known both inside CIT, as well as throughout the asset-based finance industry, as a knowledgeable and experienced professional who exemplifies the strong "credit culture" for which CIT has been known for decades. *ABF Journal*

contributing editor Howard Brownstein interviewed Belcastro about this important move and his plans for equipment lending.

HOWARD BROD BROWNSTEIN: Vince, congratulations on your new responsibilities at CIT. You've been a senior credit officer at CIT for several years — what's it like running a business with a P&L bottom line to meet?

VINCENT BELCASTRO: It is an exciting time to be building a business in which CIT has been a leader for many years. It is clear the market has received us well, and we will continue to build the brand. It is also a great time to be at CIT and to watch the execution of the growth plans we have embarked upon. I think moving on to running a business unit was the next natural progression for me, and a return to creating new business that I am thoroughly enjoying.

HBB: Tell us about the team that CIT and you have assembled to build the equipment finance business.

VB: We are off to a great start. We recently hired a director of Underwriting, have promoted from within to fill an additional underwriting spot, and are continuing to build out the underwriting team. We also expect two very talented new business professionals to join us in the Northeast and Southeast in February. The expansion plans will continue into 2012 with new business positions in the Midwest and West Coast.

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HBB: How does equipment finance differ from CIT's core ABL and factoring businesses?

VB: I think the main difference is that it is a hybrid between our cash-flow lending businesses and ABL. We finance all types of asset classes for a wide array of businesses and industries. I would say equipment lending tends to be more of a cash-flow term loan driven business, with the added support of specific collateral. In addition, we tend to be equipment specific, and structure our loans and leases to cover specific collateral, rather than based upon a lien covering all the assets. This gives us the opportunity to interface and co-exist with different tranches of debt in the capital structure.

HBB: What it's like to ramp up a lending business under current market conditions? Are there any particular factors or challenges that you and your team face?

VB: I think times are pretty exciting in the equipment space looking out over the next few years. During the downturn, as I managed through challenging turnarounds, one of the easier things to do was for companies to reduce their capital projects and spending. Rather than re-invest in new equipment due to the economic uncertainty, company managers put band-aid fixes on manufacturing equipment. However, as companies continue to come through the economic recovery, they are once again focusing on capital projects and replacing aged equipment and transportation fleets. As an example, large trucking companies are currently operating longer-aged fleets than normal and it has begun not to make economic sense to leave these older assets on the road.

HBB: How does CIT differentiate itself from its competition in equipment lending? What's the "value proposition" for the borrower in selecting CIT as its equipment lender?

VB: The difference is that we can provide pretty flexible financing solutions and alternatives. We have a strong credit process and team that understands middle-market credit risk. Our model is to provide customized solutions and approaches to mission-critical equipment financing alternatives for our middle-market clients. We have the added benefit of operating through CIT Bank and obtaining a reasonable cost of capital. This will make us more competitive than some of the other players in our core market space.

HBB: How has CIT changed since its reorganization and recovery, and how does this affect equipment lending?

VB: I think that we have done a great job optimizing our credit portfolio in all our corporate finance-related businesses. We have a strong balance sheet — capital and liquidity. Non-performing assets are at their lowest level in years. In addition, we have significantly de-levered the company and have greatly reduced more expensive debt. This bodes well for all our businesses, and in particular it allows the equipment finance team to reasonably participate in credits that have a stronger credit profile and demand better pricing.

HBB: What market segment approach is CIT taking in equipment finance? For example, what types of equipment does it seek to finance, what size deals are in its wheelhouse, and what types of borrowers are a good match for CIT?

VB: We expect to be a full-service equipment lender and lessor. I expect that we will have a direct-to-market strategy calling on the corporate middle-market clients directly through our sales force. This approach will also lead to great cross-selling opportunities for other parts of the CIT business. In addition we also expect to be an active capital markets player and participate in both sell side

and buy side syndications. We will look at all types of equipment and specifically focus on general manufacturing equipment in industries such as food services, industrial manufacturing, mining and logistics, just to name a few. The mandate here is to facilitate middle-market, term heavy financing from \$2 million and above. I would expect our core markets to be loan values above \$10 million. We have the ability and appetite to initiate and syndicate larger capital markets transactions and this will be a core goal for the team. As far as the credit classification, I would expect our group to mostly focus on credits in the B+ space and above. The key is mission-critical equipment for businesses with good predictable cash flows.

HBB: How important are referral sources to CIT's achieving its goals in equipment finance? What is CIT doing to get the word out to turn-around professionals, accountants, attorneys, intermediaries, etc.?

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VB: Our referral sources are extremely important to our success; as you know this has been deeply rooted in our history. Since we formally re-launched this group in October, we attended the Equipment Lessors & Finance Association (ELFA) convention, as well as the Commercial Finance Association (CFA) convention. In addition, we have called on many of our referral bases directly, as well as our syndication partners. I am surprised at the amount of positive feedback and excitement we have received from our partners. We have thus far closed on three different transactions and have several others waiting to close.

HBB: You're an experienced senior credit officer. For a long time, it felt like equipment asset valuations were in free-fall. What's been happening with residual values for equipment, and how will that affect lending structures and pricing?

VB: I think it is safe to say that we are in that part of the cycle where asset valuations have stabilized. Residual values continue to remain more conservative than before the meltdown but show signs of improving over the next few years. I think lenders in the equipment space have shown conservatism and poise in not pushing the envelope on residual values or advance rates. Certainly this has compressed pricing as most of the general lending industries have experienced.

HBB: Do you foresee growth in the equipment financing industry? Where will it come from? What sectors will be among the most attractive?

VB: I think that if you were to survey equipment managers you would hear the mantra of stable and measurable growth over the next few years. We are seeing a lot of activity in the energy sector, transportation and logistics as well as industrial manufacturing. I also believe alternative energy and new technology will be the next sectors from which we will see increased loan and leasing demand.

HBB: How important will the private equity and sponsor community be to CIT's growth strategy?

VB: As always, our sponsor partners are extremely important to our corporate finance-driven business in all industry sectors, including equipment finance. We have enjoyed great success with a broad sponsor base that we deem our strategic partners. They are critical to our growth.

HBB: While equipment finance is a largely unregulated activity except insofar as the lender itself is regulated, accounting rules do affect how borrowers and lenders view equipment finance relative to other alternatives. How will impending changes in lease accounting standards affect your market?

VB: As you know, the lease accounting project has gone on for several years, and its implementation has been extended once before. I think that, in one aspect, it will lead to better visibility of companies' off-balance sheet financing activities. However, the proposed change in the depreciation and expense allowances could potentially have a slowing effect on equipment financing. As you know, the ELFA has done an outstanding job and continues to lobby on behalf of the equipment lending industry concerning this project.

HBB: To what degree are there synergies and cross-selling opportunities with CIT's other financial services? Are your customers externally or internally generated?

VB: There is a great degree of cross-selling opportunities with other parts of CIT, especially as we grow our direct-to-market and external sales functions. We currently have internally generated joint projects with our ABL groups, for instance. We are able to cross-refer business to our partners in Vendor Finance, as well as to the Aerospace and Rail groups. Certainly given the activity we are seeing in energy, there will be synergies there as well. The other day we were calling on directly a large corporate client, and we discussed the possibility of credit enhancements via deposits in CIT Bank. I also expect we will run into situations where we may work with our insurance group.

HBB: What main message would CIT like to send to the marketplace? What one thing do you want prospective borrowers and referral sources to know about CIT Capital Equipment Finance?

VB: I would like our referral sources, company managers and capital markets syndication friends to know that CIT is thriving and we have already closed on a multitude of loan and leasing transactions. We have strong growth planned for 2012, which we will pursue in a reasonable and judicious manner. In addition, we have launched CIT Bank online and our capital base is strong. We are well positioned for growth in all sectors. In Equipment Finance, we are in full execution mode, and expect to return CIT to the market force it traditionally has enjoyed. There has been a warm welcome back to business from the industry to CIT's Capital Equipment Finance group, and we are grateful.

HBB: Thank you very much, Vince. Good luck to you and the CIT Capital Equipment Finance team! [abfj](#)



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