



MONEY FOR BREAKFAST

Hosted by Alexis Glick

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ALEXIS GLICK, co-anchor:

Well, you just heard those numbers on small business optimism. Now, this comes as CIT, the nation's biggest lender to small businesses, is in, quote, "active discussions," end quote, with regulators about perhaps a rescue package. Now, shares of CIT Group are rising in pre-market trading this morning on that news. They started to rise after the bell yesterday when rumors were swirling that the government would, in fact, potentially step in. It's up as much as 20 percent this morning.

Now, according to The Wall Street Journal, federal officials are in advance talks about providing them some sort of aid. Now, it's been hit very hard by heavy losses.

For more details, I'm joined by Louis Cappelli--he is the CEO of Sterling Bancorp--and Kathleen Madigan, a columnist for Dow Jones Newswires.

Good morning, guys. Good to see you.

Ms. KATHLEEN MADIGAN (Columnist, Dow Jones Newswires): Good morning.

Mr. LOUIS CAPPELLI (CEO, Sterling Bancorp): Good morning.

GLICK: Thank you very much for being here.

All right, Kathleen, a lot of talk overnight about the possibility that the federal government would step in. Let's note for people, by the way, on the record here that we've given them \$2.3 billion dollars. Now the question is whether or not perhaps the FDIC would backstop some of their debt. Where do you think those discussions are, and how important is it for CIT's future?

Ms. MADIGAN: Well, I think the administration realizes that, you know, economists are looking past the recession. They see real GDP bottoming out. The key now is when are businesses going to start hiring, and the key generator of jobs are small businesses, and small businesses need credit.

So, I think that the feeling is they need to let CIT live.

GLICK: So if, in fact, CIT were allowed to fail--and they fund over a million small and mid-sized businesses, a lot of manufacturing, retail businesses. If they were to fail, what could that do to the job market?

Ms. MADIGAN: I think we would see--you know, right now, the expectation is that job losses are going to moderate as the year goes on. But instead, I think we could go back to the 600,000 a month loss.

GLICK: Luis (sic), this is an opportunity--Louis, I should say. Sorry; my apologies.

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Mr. CAPPELLI: That's OK.

GLICK: Louis, this is an opportunity for you at Sterling Bancorp. And you are looking to dip your toe more aggressively in the water of small business loans. How do you see this as an opportunity?

Mr. CAPPELLI: Our pipeline, in the last few weeks, has increased dramatically as a result of this negative news. We compete actively in the New York metropolitan area, and we're prepared to lend and to take care of the credit needs of many of the small and mid-sized businesses.

GLICK: So, let me understand this for a second. Are you actually seeing CIT customers who were concerned about the health and well-being of the financial institution, many of which they have revolving lines of credit with CIT, come to you as a result of the fear that they could go bankrupt?

Mr. CAPPELLI: We have seen some, yes.

GLICK: Kathleen, a lot of talk about the debt. If you look at some of the numbers, the latest statistic, I believe which was in their 10-K filing back in May, suggested that they have as much as \$10 billion in debt due by the end of the first quarter. Their funding costs are rising precipitously, because they've been downgraded so aggressively by the rating agencies.

Ms. MADIGAN: Right.

GLICK: What kind of deal would we expect the government to step in and do?

Ms. MADIGAN: Well, it could be similar to, you know, say a GM or Ford, where we--not Ford; I'm sorry, GM and Chrysler--where we get some equity into the company. It also could just--like, you know, concentrating on the FDIC--backstopping their lending to bring down the interest costs. Because, you know, their problem is a liquidity problem, not so much--let's say GM, you know, that they make products that people don't want.

GLICK: Yeah, it's interesting: when you look at the company, one of the things that you measure success or failure--Louis, you know better than anybody--is your net charge-off ratios. And when you look at some of the competition in the space in small business portfolios, either at GE Capital, at Bank of America, some of the other banks, their charge-off rates are very low. But they rely heavily on the securitization market to sell these pools of loans. How crucial is that, in seeing that marketplace revitalize, so that you guys have the opportunity to offer the necessary credit to small business owners?

Mr. CAPPELLI: Most of our lending is done on a secured basis. We are professionals. We've been around for over 80 years. And we know how to evaluate the underlying pledge of collateral. And this has protected us against significant losses.

GLICK: Explain to people what you mean, in layman's terms, by your--the lending that you do is "secured" lending.

Mr. CAPPELLI: We will take a pledge of accounts receivable. Accounts receivable are self-liquidating collateral which will be paid in 30, 60, 90 days. We make loans against inventory. We have professionals that can evaluate the underlying value of that inventory.

GLICK: So why would you, at a time like this, decide 'I want to have a bigger piece of the pie in the small business community?' Because a lot of people are pulling back. I'm thrilled that you are doing it. We'd like to see more of you. But why do you see opportunity?

Mr. CAPPELLI: Because of our experience over many, many years of doing this kind of lending in peak periods, in periods where business is down. We are very professional at what we do. We are able to evaluate and to provide businesses with the credit that they need, which will perpetuate their businesses and will help us to grow as well.

GLICK: Kathleen, rattle off some of the statistics as to why we should care about this story, particularly as it relates to small businesses.

Ms. MADIGAN: It comes down to jobs. I mean, small businesses--if you look at the ADP data--generate 44 percent of the jobs in this country. You know, large corporations, which we all talk about, only generate 17 percent. And small businesses have really tried to hold the line on laying off. Even though they're 44 percent, they have only accounted for 36 percent of the layoffs in this recession.

So, the turnaround in the job market is going to depend on small businesses having the credit to be able to expand.

GLICK: All right. Well, Kathleen and Louis, we will continue to keep a close eye on this story. Thank you guys so much. Great meeting you both.

Mr. CAPPELLI: Thank you.

Ms. MADIGAN: Thanks.