

CIT Group names former Merrill Lynch CEO John Thain to lead as chairman and CEO of lender

By STEPHEN BERNARD
February 8, 2010

NEW YORK (AP) — John Thain is getting a second chance.

CIT Group Inc., the lender that is trying to regain its former stature after almost collapsing during the financial industry crisis, said late Sunday it has hired the former Merrill Lynch & Co. CEO as its chairman and chief executive.

Thain is also trying to repair his own image. He brokered Merrill's sale to Bank of America Corp. as the credit crisis peaked in the fall of 2008, but was forced to resign after the deal closed because of controversy over employee bonus payments and mounting losses at the investment bank.

CIT, which lends to more than 3,000 businesses including supermarkets and department stores, went through bankruptcy reorganization late last year after it failed to restructure billions of dollars in debt. It was also hurt by rising loan losses as more customers fell behind on repaying loans.

Thain, 54, is taking over a company that has seen its business shrink dramatically as customers fled. He'll have to find a way to bring in new customers. And he'll have to find new sources of funding because short-term lending known as commercial paper essentially disappeared during the credit crisis and has yet to revive.

Analysts say Thain's experience makes him an ideal candidate to rebuild CIT's business. He was able to get Merrill shareholders the best possible price for their stock in the Bank of America deal. And as CEO of the New York Stock Exchange, he expanded the stock market through a series of mergers and acquisitions.

"He's taking on an extremely challenging situation," said Steve Hagenbuckle, managing principle of private equity fund TerraCap Partners. "If he survives and rights the ship, then I think his legacy has been written. It's a perfect storm to come out a hero or come out a failure."

Thain took over Monday. He replaced interim CEO Peter Tobin, who will remain on CIT's board of directors. Tobin had served as CEO since Jeffrey Peek retired Jan. 15.

Hal Reichwald, co-chair of the banking and specialty finance practice group at the law firm Manatt, Phelps & Phillips LLP, said Thain's job will be made easier by the fact that few other

lenders picked up the business the company lost as it headed toward bankruptcy.

"No institution has stepped up to challenge CIT," Reichwald said. That could be because banks are still tentative about lending.

"The marketplace needs a CIT," Reichwald said. But, he said, CIT can only be viable long-term if it finds new sources of funding.

Thain, a former president of Goldman Sachs Group Inc., might have been brought in because of his extensive connections on Wall Street. His experience in investment banking may help CIT find a new partner or even parent, Hagenbuckle said.

CIT will pay Thain an annual cash salary of \$500,000. He will also receive \$5.5 million in stock annually, of which \$2.5 million will be subject to a one-year holding period. The remaining \$3 million cannot be sold for three years.

Thain could also receive up to \$1.5 million in bonuses based on the performance of the company. The board will determine whether to award the performance-based bonuses.

Thain's deal to sell Merrill was considered a lifesaving move at the height of the financial crisis. But he was criticized for having paid out \$3.6 billion in bonuses to Merrill employees just before the deal closed, and for spending more than \$1 million to redecorate his office at Merrill despite its massive losses.

Thain resigned as head of global wealth management of the combined company in January 2009, after news of the bonus payments surfaced. Bank of America last week agreed to settle a case with the Securities and Exchange Commission over claims it misled shareholders about the bonuses and more than \$15 billion in fourth-quarter losses at Merrill to ensure the deal would be approved.

New York Attorney General Andrew Cuomo filed civil fraud charges against Bank of America and its former CEO Ken Lewis on similar grounds. Joe Price, who at the time of the deal was Bank of America's chief financial officer but now heads consumer banking, was also charged. Thain was not charged with any wrongdoing.

CIT shares rose 7 cents to \$30.82 in afternoon trading. Shares initially jumped more than 3 percent early in the day after the announcement Thain would take over as CEO.