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Berkeley Center for Law,
Business and the Economy

University of California, Berkeley
School of Law
2850 Telegraph Ave, Suite 500
Berkeley, CA 94705-7220

Ph: 510.642.0532 – Fax: 510.643.7095
E-mail: BCLBE@law.berkeley.edu
http://www.law.berkeley.edu/bclbe.htm

CIT and One West to Merge

By Sergio Torres, JD Candidate 2017 | February 20, 2015

Commercial Investment Trust, a private commercial lender that focuses mainly on middle-market lending in various industries, recently announced its intent to acquire fellow bank One West. The CEO of CIT, John Thain, wants to take advantage of the synergies that will be created by marrying the commercial lending of CIT to the residential lending that dominates One West's asset sheet. Yet investors may not be as keen on the deal given the two banks rocky experiences with the financial crisis.

CIT is a private commercial lender that focuses mainly on middle-market lending in industries such as retail, energy, healthcare, transportation, and technology. Although the bank's deposits are insured by the FDIC – which means that each depositor's account is insured up to $250,000 if the bank is unable to pay its depositors – the bank has not been able to increase its deposits to a desirable level. Although CIT is currently in a financially stable position, the bank faced severe economic distress during the 2007-08 mortgage crisis, and since then the bank has faced difficulties raising its depository levels. The bank was forced to take close to $2 billion from TARP funds during the bailout process.

Bigger banks, such as Bank of America or J.P Morgan Chase, have significantly larger amounts of deposits at their disposal, and this places CIT at a disadvantage vis-à-vis its larger competitors. The idea is that bigger banks are theoretically safer given that 1) their existence is most likely guaranteed by the national financial system in case a financial crisis develops and 2) bigger banks are less likely to face runs when presented with financial difficulties because their increased deposit levels and reputational strength allay concerns that customers' money is at risk. CIT wants to increase its size by combining with One West, creating a combined entity that would be large enough to become systemically important like Bank of America and J.P. Morgan Chase. The inertia of becoming a large bank ensures that more and more deposits will flow towards CIT, increasing its capital reserves and lending ability. The increased lending ability will allow CIT to reach the biggest players in the commercial lending market – an audience that is currently out of reach to the middle-market lender.

However, both banks faced severe financial difficulties during the financial crisis and thus both seem to not be in a strong enough financial position to expand. Additionally, various groups have asked for the merger to be put on hold pending public hearings about the lending practices of One West.

One West was formed when it bought most of IndyMac's assets in 2009, after IndyMac filed for Chapter 7 Bankruptcy. One West has been guided by George Soros and John Paulston, two of the most aggressive financial investors on Wall Street. One West focuses on home loans and other types of family and residential lending. Although the bank seems to be in a financially solid position, the bank does not present viable opportunities for expansion given the

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consolidated state of the banking industry and the lingering skepticism of the market for banks that faced bankruptcy during the financial crisis.

John Thain is currently the CEO of CIT. The bank seems to have proliferated in spite of the negative predictions that most market analysts gave to banks such as CIT, which faced bankruptcy proceedings during the crisis. Under Thain's control, CIT has repaid a large part of its debt (close to $31 billion), and has repurchased close to $200 million in shares, which increased the price per share given the reduction in the amount of stock in the market. The market cap of the bank is around $9 billion and the bank seems to be directed towards a less-debt, higher-equity plan after its acquisition of One West.

Although he has done a remarkable job bringing the bank back to life, the likelihood that Mr. Thain's rosy predictions for merger come to fruition remains anyone's guess. The market does not seem to be ready to couch another bank's attempt to get a bigger size of the pie, especially given the current market situation, the Federal Reserve's tight control over interest rates, and the fact that the 2007-08 financial crisis' stigma is still on the minds of investors. But both banks have shown resilience since the financial crisis, and it seems to be only a matter of time until the acquisition will finalize.