# Lead Left Interview – Jim Hudak

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**This week we chatted with Jim Hudak, President, CIT Commercial Finance. Jim has been with CIT and predecessor companies (AT&T Capital, Newcourt, Tyco) since 1991. He has also run the Corporate Finance Group at CIT, which comprises leading industry verticals in Aerospace & Defense, Commercial & Industrial, Communications, Media & Entertainment, Energy and Healthcare. The group is dedicated to servicing the specialized financing and advisory needs of small- and middle-market companies in the U.S. and Canada.**

***The Lead Left:*** *Jim, thanks for taking the time to catch up today. What's CIT's vision now that Ellen Alemany has taken over from John Thain as CEO?*

**Jim Hudak:** Since Ellen took over [in April 2016] the focus has been to simplify, strengthen and now grow the company. The middle market is integral to what we do. We've gotten out of a number of businesses, such as aircraft leasing that were not core and the vision is to stay in places where we can create value.

We are a bank, so for us the middle market is key. Historically we've been a finance company and I can see both sides now. There are advantages to both bank and finco structures. We have to play within the bounds of regulations but we have a stable and efficient funding as a bank.

***TLL:*** *Isn't that the importance of your Allstate joint venture? Talk about that a bit.*

**JH:** Sure. As background, our commercial finance business is roughly 60% dedicated to cash flow type financings, with 40% asset-based. CIT has a rich history as a well-known ABL lender. The bank's low-cost deposit base gives us consistent funding. But we don't rely solely on the collateral, versus a finco model that's very comfortable in a liquidation scenario. We have certain minimum "burn rate" requirements.

We looked at a number of different platforms and ultimately chose Allstate. They're under-represented in this asset class. This now allows us to serve our asset-based lending client base. We do all the underwriting, origination, and managing the assets. If it's a Pass loan we can do it in the bank; if not, we can put it in the J/V.

***TLL:*** *What are yields in that business?*

**JH:** Plain vanilla ABL spreads are below 200 bps. More distressed spreads are in the 800-900 range. This J/V looks to do deals in the L+400 range. These are good companies but may be challenged in some way.

***TLL:*** *So do you brand it differently?*

**JH:** We brand it as CIT Northbridge Credit. While the firm is populated by CIT people, it's a joint decision on credit.

***TLL:*** *Interesting. You also have a venture with TPG, correct?*

**JH:** Larger holds are important to our middle market private equity clients. Having a partner like TPG who can move quickly and who understands middle market lending is critical. We think alike on credit.

***TLL:*** *What's your strategy on origination for your core middle market practice? We know Michael Young [head of healthcare capital markets] very well.*

**JH:** Yes, we align our deals by industry teams. Our focus is companies with $10-$50 million ebitda. Other verticals include communications and technology, entertainment and media, aerospace, energy, aviation finance, and maritime finance. We have significant operating experience in these sectors. Mike Lorusso, for example, who heads up our energy group, was an engineer in a nuclear power plant. Our head of media held a position with Leo Hindery in his media business. We can leverage that experience and get paid for it. It also helps us stay out of commoditized areas.

Otherwise our coverage is 50/50 direct versus from sponsors. There are 3300 PE shops in the US, and 300 core middle market firms. Aligning with our industry verticals cuts it down to 90-100. Also we focus on sponsors we've worked well with through the crisis. It's really an efficient way to market nationally. The Michael Youngs of the world are all over the US.

**Contact: Jim Hudak**
Jim.Hudak@cit.com