

CIT GROUP INC  
Form 10-Q  
November 09, 2012

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

Quarterly Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2012

Transition Report Pursuant to  
Section 13 or 15(d)  
of the Securities Exchange Act  
of 1934

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Commission File Number: 001-31369

**CIT GROUP INC.**

*(Exact name of Registrant as specified in its charter)*

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**Delaware**  
(State or other jurisdiction of incorporation or organization)

**65-1051192**  
(IRS Employer Identification Number)

**11 West 42nd Street New York, New York**  
(Address of Registrant's principal executive offices)

**10036**  
(Zip Code)

**(212) 461-5200**  
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company .

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

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As of October 31, 2012 there were 200,851,859 shares of the registrant's common stock outstanding.

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#### Part One Financial Information

## ITEM 1. Consolidated Financial Statements

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### CIT GROUP INC. AND SUBSIDIARIES

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#### CONSOLIDATED BALANCE SHEETS (Unaudited) (dollars in millions except share data)

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September 30, 2012	December 31, 2011
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	September 30, 2012	December 31, 2011
<b>Assets</b>		
Cash and due from banks	\$ 367.4	\$ 433.2
Interest bearing deposits, including restricted balances of \$1,083.8 and \$869.9 at September 30, 2012 and December 31, 2011 <sup>(1)</sup>	6,088.1	7,002.4
Investment securities	1,004.6	1,250.6
Trading assets at fair value – derivatives	29.3	42.8
Assets held for sale <sup>(1)</sup>	1,421.1	2,332.3
Loans (see Note 5 for amounts pledged)	20,383.4	19,885.5
Allowance for loan losses	(397.9)	(407.8)
Total loans, net of allowance for loan losses <sup>(1)</sup>	19,985.5	19,477.7
Operating lease equipment, net (see Note 5 for amounts pledged) <sup>(1)</sup>	12,072.0	11,991.6
Unsecured counterparty receivable	592.9	733.5
Goodwill	330.8	330.8
Intangible assets, net	37.3	63.6
Other assets	1,651.9	1,568.2
<b>Total Assets</b>	<b>\$43,580.9</b>	<b>\$45,226.7</b>
<b>Liabilities</b>		
Deposits	\$ 8,709.3	\$ 6,193.7
Trading liabilities at fair value – derivatives	81.9	66.2
Credit balances of factoring clients	1,224.9	1,225.5
Other liabilities	2,567.4	2,562.2
Long-term borrowings, including \$1,438.0 and \$3,203.8 contractually due within twelve months at September 30, 2012 and December 31, 2011, respectively	22,906.5	26,288.1
<b>Total Liabilities</b>	<b>35,490.0</b>	<b>36,335.7</b>
<b>Stockholders' Equity</b>		
Common stock: \$0.01 par value, 600,000,000 authorized		
Issued: 201,263,311 and 200,980,752 at September 30, 2012 and December 31, 2011	2.0	2.0
Outstanding: 200,849,536 and 200,660,314 at September 30, 2012 and December 31, 2011		
Paid-in capital	8,491.0	8,459.3
(Accumulated deficit) / Retained earnings	(290.0)	532.1
Accumulated other comprehensive loss	(100.3)	(92.1)
Treasury stock: 413,775 and 320,438 shares at September 30, 2012 and December 31, 2011 at cost	(16.7)	(12.8)
<b>Total Common Stockholders' Equity</b>	<b>8,086.0</b>	<b>8,888.5</b>
Noncontrolling minority interests	4.9	2.5
<b>Total Equity</b>	<b>8,090.9</b>	<b>8,891.0</b>
<b>Total Liabilities and Equity</b>	<b>\$43,580.9</b>	<b>\$45,226.7</b>

<sup>(1)</sup> The following table presents information on assets and liabilities related to Variable Interest Entities (VIEs) that are consolidated by the Company. The difference between VIE total assets and total liabilities represents the Company's interests in those entities, which were eliminated in consolidation. The assets of the consolidated VIEs will be used to settle the liabilities of those entities and, except for the Company's interest in the VIEs, are not available to the creditors of CIT or any affiliates of CIT. In the following table, certain prior period balances have been conformed to current period presentation.

<b>Assets</b>		
Interest bearing deposits, restricted	\$ 650.9	\$ 574.2
Assets held for sale	570.5	317.2
Total loans, net of allowance for loan losses	7,610.5	8,523.7
Operating lease equipment, net	4,427.1	4,285.4

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<b>Total Assets</b>	<b>\$ 13,259.0</b>	<b>\$ 13,700.5</b>
Liabilities		
Beneficial interests issued by consolidated VIEs (classified as long-term borrowings)	\$ 9,760.1	\$ 9,875.5
<b>Total Liabilities</b>	<b>\$ 9,760.1</b>	<b>\$ 9,875.5</b>

The accompanying notes are an integral part of these consolidated financial statements.

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CIT GROUP INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)** (dollars in millions except per share data)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Interest income</b>				
Interest and fees on loans	\$ 366.1	\$ 494.2	\$ 1,171.2	\$ 1,715.6
Interest and dividends on investments	8.0	8.6	23.8	25.6
Interest income	374.1	502.8	1,195.0	1,741.2
<b>Interest expense</b>				
Interest on long-term borrowings	(773.7)	(574.7)	(2,421.0)	(2,030.2)
Interest on deposits	(38.4)	(28.4)	(110.0)	(77.9)
Interest expense	(812.1)	(603.1)	(2,531.0)	(2,108.1)
Net interest revenue	(438.0)	(100.3)	(1,336.0)	(366.9)
Provision for credit losses		(47.4)	(51.5)	(253.9)
Net interest revenue, after credit provision	(438.0)	(147.7)	(1,387.5)	(620.8)
<b>Non-interest income</b>				
Rental income on operating leases	444.4	409.0	1,329.2	1,238.1
Other income	81.2	242.8	474.6	746.6
Total non-interest income	525.6	651.8	1,803.8	1,984.7
Total revenue, net of interest expense and credit provision	87.6	504.1	416.3	1,363.9
<b>Other expenses</b>				
Depreciation on operating lease equipment	(134.5)	(124.3)	(402.7)	(437.7)
Operating expenses	(237.5)	(226.4)	(701.0)	(669.8)
Loss on debt extinguishments	(16.8)	(146.6)	(61.2)	(146.6)
Total other expenses	(388.8)	(497.3)	(1,164.9)	(1,254.1)
Income (loss) before provision for income taxes	(301.2)	6.8	(748.6)	109.8
Provision for income taxes	(2.9)	(40.2)	(70.6)	(123.8)
Income (loss) before noncontrolling interests	(304.1)	(33.4)	(819.2)	(14.0)
Net (income) loss attributable to noncontrolling interests, after tax	(0.8)	0.6	(2.9)	(2.9)
Net loss	\$ (304.9)	\$ (32.8)	\$ (822.1)	\$ (16.9)

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	Quarters Ended September 30,		Nine Months Ended September 30,	
<b>Basic loss per common share</b>	\$ (1.52)	\$ (0.16)	\$ (4.09)	\$ (0.08)
<b>Diluted loss per common share</b>	\$ (1.52)	\$ (0.16)	\$ (4.09)	\$ (0.08)
Average number of common shares basic (thousands)	200,917	200,714	200,877	200,659
Average number of common shares diluted (thousands)	200,917	200,714	200,877	200,659

The accompanying notes are an integral part of these consolidated financial statements.

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CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited) (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Loss before noncontrolling interests</b>	\$ (304.1)	\$ (33.4)	\$ (819.2)	\$ (14.0)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(0.2)	(20.2)	(11.1)	(29.2)
Changes in fair values of derivatives qualifying as cash flow hedges		0.5	0.7	1.0
Net unrealized gains (losses) on available for sale securities	0.5	(7.4)	1.0	(1.5)
Changes in benefit plans net gain/(loss) and prior service (cost)/credit	0.4		1.2	(0.1)
Other comprehensive income (loss), net of tax	0.7	(27.1)	(8.2)	(29.8)
<b>Comprehensive loss before noncontrolling interests</b>	(303.4)	(60.5)	(827.4)	(43.8)
Comprehensive income (loss) attributable to noncontrolling interests	(0.8)	0.6	(2.9)	(2.9)
<b>Comprehensive loss</b>	\$ (304.2)	\$ (59.9)	\$ (830.3)	\$ (46.7)

The accompanying notes are an integral part of these consolidated financial statements.

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CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Unaudited) (dollars in millions)

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	Common Stock	Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Minority Interests	Total Equity
<b>December 31, 2011</b>	<b>\$2.0</b>	<b>\$8,459.3</b>	<b>\$ 532.1</b>	<b>\$ (92.1)</b>	<b>\$(12.8)</b>	<b>\$ 2.5</b>	<b>\$8,891.0</b>
Net income (loss)			(822.1)			2.9	(819.2)
Other comprehensive loss, net of tax				(8.2)			(8.2)
Amortization of restricted stock, stock option and performance shares expenses		30.8			(3.9)		26.9
Employee stock purchase plan		0.9					0.9
Distribution of earnings and capital						(0.5)	(0.5)
<b>September 30, 2012</b>	<b>\$2.0</b>	<b>\$8,491.0</b>	<b>\$(290.0)</b>	<b>\$(100.3)</b>	<b>\$(16.7)</b>	<b>\$ 4.9</b>	<b>\$8,090.9</b>
<b>December 31, 2010</b>	<b>\$2.0</b>	<b>\$8,434.1</b>	<b>\$ 505.4</b>	<b>\$ (9.6)</b>	<b>\$( 8.8)</b>	<b>\$(2.3)</b>	<b>\$8,920.8</b>
Net income (loss)			(16.9)			2.9	(14.0)
Other comprehensive loss, net of tax				(29.8)			(29.8)
Amortization of restricted stock and stock option expenses		19.4			(3.7)		15.7
Employee stock purchase plan		0.3					0.3
Distribution of earnings and capital						0.1	0.1
<b>September 30, 2011</b>	<b>\$2.0</b>	<b>\$8,453.8</b>	<b>\$ 488.5</b>	<b>\$( 39.4)</b>	<b>\$(12.5)</b>	<b>\$ 0.7</b>	<b>\$8,893.1</b>

The accompanying notes are an integral part of these consolidated financial statements.

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CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (dollars in millions)

	Nine Months Ended September 30,	
	2012	2011
<b>Cash Flows From Operations</b>		
Net loss	\$ (822.1)	\$ (16.9)
Adjustments to reconcile net loss to net cash flows from operations:		
Provision for credit losses	51.5	253.9
Net depreciation, amortization and (accretion)	1,712.8	415.7
Net gains on equipment, receivable and investment sales	(271.0)	(384.8)
Loss on debt extinguishments	21.1	121.6
Provision for deferred income taxes	5.9	31.4
(Increase) decrease in finance receivables held for sale	(45.5)	12.9

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	<b>Nine Months Ended September 30,</b>	
(Increase) decrease in other assets	(157.1)	272.1
Decrease in accrued liabilities and payables	(117.2)	(305.4)
Net cash flows provided by operations	378.4	400.5
<b>Cash Flows From Investing Activities</b>		
Loans originated and purchased	(13,312.5)	(15,225.4)
Principal collections of loans	11,538.2	16,719.8
Purchases of investment securities	(13,961.2)	(13,928.4)
Proceeds from maturities of investment securities	14,255.2	13,512.2
Proceeds from asset and receivable sales	3,404.6	2,524.0
Purchases of assets to be leased and other equipment	(1,228.0)	(1,080.5)
Net increase in short-term factoring receivables	5.8	(39.2)
Change in restricted cash	(213.9)	528.0
Net cash flows provided by investing activities	488.2	3,010.5
<b>Cash Flows From Financing Activities</b>		
Proceeds from the issuance of term debt	12,786.6	4,876.1
Repayments of term debt	(17,509.3)	(12,581.6)
Net increase in deposits	2,522.9	441.6
Collection of security deposits and maintenance funds	408.9	418.3
Use of security deposits and maintenance funds	(269.7)	(352.1)
Net cash flows used in financing activities	(2,060.6)	(7,197.7)
Decrease in cash and cash equivalents	(1,194.0)	(3,786.7)
Unrestricted cash and cash equivalents, beginning of period	6,565.7	8,650.4
<b>Unrestricted cash and cash equivalents, end of period</b>	<b>\$ 5,371.7</b>	<b>\$ 4,863.7</b>
<b>Supplementary Cash Flow Disclosure</b>		
Interest paid	\$ 972.3	\$ 1,546.7
Federal, foreign, state and local income taxes (paid), net	\$ 7.1	\$ (55.0)
<b>Supplementary Non Cash Flow Disclosure</b>		
Transfer of assets from held for investment to held for sale	\$ 1,342.9	\$ 1,778.3
Transfer of assets from held for sale to held for investment	\$ 0.5	\$ 133.3

The accompanying notes are an integral part of these consolidated financial statements.

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

**NOTE 1 BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

CIT Group Inc. has provided financial solutions to its clients since its formation in 1908. We provide financing and leasing capital principally for small businesses and middle market companies in a wide variety of industries and offer vendor, equipment, commercial and structured financing products, as well as factoring and management advisory services. CIT became a bank holding company ( BHC ) in 2008 and is the parent of CIT Bank, a state-chartered bank in Utah. We operate primarily in North America, with locations in Europe, South America and Asia.

**BASIS OF PRESENTATION**

**Principles of Consolidation**

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The accompanying consolidated financial statements include financial information related to CIT Group Inc., a Delaware Corporation, and its majority owned subsidiaries, including CIT Bank (collectively, CIT or the Company), and those variable interest entities (VIEs) where the Company is the primary beneficiary. Assets held in an agency or fiduciary capacity are not included in the consolidated financial statements.

In preparing the consolidated financial statements, all significant intercompany accounts and transactions have been eliminated. These consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial information and accordingly, do not include all information and note disclosures required by generally accepted accounting principles in the United States of America (GAAP) for complete financial statements. The financial statements in this Form 10-Q have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management include all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of CIT's financial position, results of operations and cash flows in accordance with GAAP. These consolidated financial statements should be read in conjunction with our current Form 10-K on file.

The consolidated financial statements include the effects of adopting Fresh Start Accounting (FSA) upon emergence from bankruptcy on December 10, 2009, based on a convenience date of December 31, 2009 (the Convenience Date), as required by GAAP. Accretion and amortization of certain FSA adjustments are included in the Statements of Operations and Cash Flows. See the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (Form 10-K), Note 1 Business and Summary of Significant Accounting Policies and Note 26 Fresh Start Accounting, for additional FSA and reorganization information.

The accounting and financial reporting policies of CIT Group Inc. conform to GAAP and the preparation of the consolidated financial statements requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates and assumptions. Some of the more significant estimates include: fresh start accounting, allowance for loan losses, loan impairment, fair value determinations, lease residual values, goodwill and intangible assets, and deferred tax assets and liabilities. Additionally, where applicable, the policies conform to accounting and reporting guidelines prescribed by bank regulatory authorities.

### NEW ACCOUNTING PRONOUNCEMENTS

#### Fair Value Measurement

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. The disclosure requirements also have been enhanced. The most significant change requires entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendment became effective for fiscal years beginning after December 15, 2011, with early adoption prohibited. The adoption of the guidance during the quarter ended March 31, 2012, did not affect the Company's financial condition and resulted in additional fair value measurement disclosures.

#### Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05 to amend the guidance on the presentation of comprehensive income in FASB ASC Topic 220, *Comprehensive Income* that requires companies to present a single statement of comprehensive income or two consecutive statements. The guidance makes the financial statement presentation of other comprehensive income more prominent by eliminating the alternative to present comprehensive income within the statement of equity. The ASU became effective for annual and interim periods beginning after December 15, 2011. The adoption of the guidance during the quarter ended March 31, 2012 did not affect the Company's financial condition but added the Consolidated Statements of Comprehensive Income (Loss).

On December 23, 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. The ASU defers the requirement to present components of reclassifications of other comprehensive income on the face of the income statement, while still requiring companies to adopt the other requirements contained in ASU No. 2011-05, as noted above.

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## CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

**Balance Sheet Offsetting Disclosure Requirements**

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities* which creates new disclosure requirements about the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The new disclosures will enable financial statement users to compare balance sheets prepared under U.S. GAAP and International Financial Reporting Standards (IFRS), which are subject to different offsetting models. The disclosures will be limited to financial instruments and derivatives subject to enforceable master netting arrangements or similar agreements and excludes loans unless they are netted in the statement of financial condition. The amendments will affect all entities that have financial instruments and derivatives that are either offset in the balance sheet or subject to an enforceable master netting arrangement or similar agreement regardless of whether they are offset in the balance sheet. The ASU will require entities to disclose, separately for financial assets and liabilities, including derivatives, the gross amounts of recognized financial assets and liabilities; the amounts offset under current U.S. GAAP; the net amounts presented in the balance sheet; the amounts subject to an enforceable master netting arrangement or similar agreement that were not included in the offset amount above, and the reconciling amount.

The disclosure requirements are effective for annual and interim reporting periods beginning on or after January 1, 2013, with retrospective application required. The Company is evaluating the impact of this amendment.

**Indefinite-Lived Intangible Assets Impairment Test**

In July 2012, the FASB issued ASU No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment* which amends the guidance in ASC Topic 350 on testing indefinite-lived intangible assets other than goodwill for impairment. Under ASC 350-30, entities must test indefinite-lived intangible assets for impairment at least annually by calculating and comparing an asset's fair value with its carrying amount. An impairment loss would be recorded for an amount equal to the excess of the asset's carrying amount over its fair value. ASU No. 2012-02 provides the option of performing a qualitative assessment before calculating the fair value of the asset, when testing an indefinite-lived intangible asset for impairment. If an entity determines, on the basis of qualitative factors, that the fair value of an indefinite-lived intangible asset is not more likely than not impaired, they would not need to calculate the fair value of the asset. The ASU does not revise the requirement to test indefinite-lived intangible assets annually for impairment. In addition, the ASU does not amend the requirement to test these assets for impairment between annual tests if there is a change in events or circumstances; however, it does revise the examples of events and circumstances that an entity should consider in interim periods.

The guidance will be effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. As the Company has no indefinite-lived intangible assets, adoption of this guidance will have no impact on the consolidated financial statements.

**NOTE 2 LOANS**

Finance receivables consist of the following:

**Finance Receivables by Product** (dollars in millions)

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Loans	\$ 15,622.7	\$ 15,663.6
Direct financing leases and leveraged leases	4,760.7	4,221.9
Finance receivables	20,383.4	19,885.5
Finance receivables held for sale	881.7	2,088.0
Finance receivables and held for sale receivables <sup>(1)</sup>	\$ 21,265.1	\$ 21,973.5

<sup>(1)</sup> *Assets held for sale in the balance sheet includes finance receivables and operating lease equipment. As discussed in subsequent tables, since the Company manages the credit risk and collections of finance receivables held for sale consistently with its finance receivables held for investment, the applicable amount is presented.*

The following table presents finance receivables by segment, based on obligor location:

**Finance Receivables** (dollars in millions)

	September 30, 2012			December 31, 2011		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Corporate Finance	\$ 6,748.5	\$ 1,051.9	\$ 7,800.4	\$ 5,870.0	\$ 992.7	\$ 6,862.7
Transportation Finance	1,247.4	543.5	1,790.9	1,063.2	423.8	1,487.0
Trade Finance	2,284.5	123.8	2,408.3	2,299.1	132.3	2,431.4
Vendor Finance	2,379.1	2,248.9	4,628.0	2,365.5	2,056.2	4,421.7
Consumer	3,745.8	10.0	3,755.8	4,670.9	11.8	4,682.7
Total	\$ 16,405.3	\$ 3,978.1	\$ 20,383.4	\$ 16,268.7	\$ 3,616.8	\$ 19,885.5

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table presents selected components of the net investment in finance receivables.

**Components of Net Investment in Finance Receivables** (dollars in millions)

	September 30, 2012	December 31, 2011
Unearned income	\$(986.2)	\$(1,057.5)
Unamortized (discounts)	(42.3)	(42.3)
Net unamortized deferred costs and (fees)	57.4	39.8

Certain of the following tables present credit-related information at the class level in accordance with ASC 310-10-50, *Disclosures about the Credit Quality of Finance Receivables and the Allowance for Credit Losses*. A class is generally a disaggregation of a portfolio segment. In determining the classes, CIT considered the finance receivable characteristics and methods it applies in monitoring and assessing credit risk and performance.

**Credit Quality Information**

The following table summarizes finance receivables by the risk ratings that bank regulatory agencies utilize to classify credit exposure and which are consistent with indicators the Company monitors. Risk ratings are reviewed on a regular basis by Credit Risk Management and are adjusted as necessary for updated information affecting the borrowers' ability to fulfill their obligations.

The definitions of these ratings are as follows:

- n Pass finance receivables in this category do not meet the criteria for classification in one of the categories below.
- n Special mention a special mention asset exhibits potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects.

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n Classified a classified asset ranges from: 1) assets that exhibit a well defined weakness and are inadequately protected by the current sound worth and paying capacity of the borrower, and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected to 2) assets with weaknesses that make collection or liquidation in full unlikely on the basis of current facts, conditions, and values. Assets in this classification can be accruing or on non-accrual depending on the evaluation of these factors.

**Finance Receivables<sup>(1)</sup> by Risk Rating** (dollars in millions)

	Corporate Finance Other	Corporate Finance SBL	Transportation Finance	Trade Finance	Vendor Finance U.S.	Vendor Finance International	Commercial	Consumer
<b>Grade:</b>								
<b>September 30, 2012</b>								
Pass	\$5,645.3	\$167.9	\$1,411.7	\$2,001.8	\$1,994.4	\$2,194.1	\$13,415.2	\$3,819.0
Special mention	914.6	373.6	180.2	293.6	189.2	184.3	2,135.5	232.1
Classified accruing	448.9	105.2	143.7	85.7	146.1	76.5	1,006.1	245.2
Classified non-accrual	181.4	74.2	55.2	27.2	47.0	26.7	411.7	0.3
Total	\$7,190.2	\$720.9	\$1,790.8	\$2,408.3	\$2,376.7	\$2,481.6	\$16,968.5	\$4,296.6
<b>December 31, 2011</b>								
Pass	\$4,255.6	\$279.9	\$1,089.3	\$2,019.1	\$2,017.8	\$2,058.8	\$11,720.5	\$5,580.1
Special mention	930.9	236.9	136.7	263.8	156.1	123.0	1,847.4	367.5
Classified accruing	735.6	135.0	216.0	73.2	131.9	67.3	1,359.0	397.0
Classified non-accrual	356.4	141.5	45.0	75.3	55.3	27.6	701.1	0.9
Total	\$6,278.5	\$793.3	\$1,487.0	\$2,431.4	\$2,361.1	\$2,276.7	\$15,628.0	\$6,345.5

<sup>(1)</sup> Balances include \$881.7 million and \$2,088.0 million of loans in Assets Held for Sale at September 30, 2012 and December 31, 2011, respectively, which are measured at the lower of cost or fair value. ASC 310-10-50 does not require inclusion of these finance receivables in the disclosures above. However, until they are disposed of, the Company manages the credit risk and collections of finance receivables held for sale consistently with its finance receivables held for investment, and Company data is tracked and used for management purposes on an aggregated basis, as presented above. In addition to finance receivables, the total for Assets Held for Sale on the balance sheet also include operating lease equipment held for sale, which are not included in the above table.

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

**Past Due and Non-accrual Loans**

The table that follows presents portfolio delinquency status, regardless of accrual/non-accrual classification:

**Finance Receivables<sup>(1)</sup> Delinquency Status** (dollars in millions)

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Finance Receivables <sup>(1)</sup>
<b>September 30, 2012</b>						

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		<u>30 59 Days Past Due</u>	<u>60 89 Days Past Due</u>	<u>90 Days or Greater</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Finance Receivables<sup>(1)</sup></u>
Commercial							
Corporate Finance	Other	\$ 1.0	\$ 0.2	\$ 32.2	\$ 33.4	\$ 7,156.8	\$ 7,190.2
Corporate Finance	SBL	2.8	6.3	16.2	25.3	695.6	720.9
Transportation Finance		0.5	1.1	2.3	3.9	1,786.9	1,790.8
Trade Finance		29.8	13.1	7.8	50.7	2,357.6	2,408.3
Vendor Finance	U.S.	42.7	13.0	11.7	67.4	2,309.3	2,376.7
Vendor Finance	International	13.9	8.4	9.4	31.7	2,449.9	2,481.6
Total Commercial		90.7	42.1	79.6	212.4	16,756.1	16,968.5
Consumer		147.5	86.5	248.2	482.2	3,814.4	4,296.6
Total		\$238.2	\$128.6	\$327.8	\$ 694.6	\$20,570.5	\$21,265.1

**December 31, 2011**

Commercial							
Corporate Finance	Other	\$ 5.9	\$ 2.5	\$ 35.6	\$ 44.0	\$ 6,234.5	\$ 6,278.5
Corporate Finance	SBL	7.7	7.2	27.7	42.6	750.7	793.3
Transportation Finance		1.8	3.4	0.7	5.9	1,481.1	1,487.0
Trade Finance		60.8	2.3	1.2	64.3	2,367.1	2,431.4
Vendor Finance	U.S.	47.7	18.9	15.7	82.3	2,278.8	2,361.1
Vendor Finance	International	15.7	6.0	5.6	27.3	2,249.4	2,276.7
Total Commercial		139.6	40.3	86.5	266.4	15,361.6	15,628.0
Consumer		246.0	123.0	395.1	764.1	5,581.4	6,345.5
Total		\$385.6	\$163.3	\$481.6	\$1,030.5	\$20,943.0	\$21,973.5

<sup>(1)</sup> Balances include \$881.7 million and \$2,088.0 million of loans in Assets Held for Sale at September 30, 2012 and December 31, 2011, respectively. In addition to finance receivables, Assets Held for Sale on the balance sheet also include operating lease equipment held for sale, which are not included in the above table.

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table sets forth non-accrual loans and assets received in satisfaction of loans (repossessed assets). Non-accrual loans include loans greater than \$500,000 that are individually evaluated and determined to be impaired, as well as loans less than \$500,000 that are delinquent (generally for 90 days or more).

**Finance Receivables on Non-accrual Status** (dollars in millions)

		<u>September 30, 2012</u>			<u>December 31, 2011</u>		
		<u>Held for Investment</u>	<u>Held for Sale</u>	<u>Total</u>	<u>Held for Investment</u>	<u>Held for Sale</u>	<u>Total</u>
Commercial							
Corporate Finance	Other	\$181.1	\$0.3	\$181.4	\$225.7	\$130.7	\$356.4
Corporate Finance	SBL	69.1	5.1	74.2	132.0	9.5	141.5

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	September 30, 2012			December 31, 2011		
Transportation Finance	55.2		55.2	45.0		45.0
Trade Finance	27.2		27.2	75.3		75.3
Vendor Finance U.S.	47.0		47.0	55.3		55.3
Vendor Finance International	24.9	1.8	26.7	25.6	2.0	27.6
Consumer		0.3	0.3	0.2	0.7	0.9
Total non-accrual loans	\$404.5	\$7.5	\$412.0	\$559.1	\$142.9	\$702.0
Repossessed assets			15.5			9.7
Total non-performing assets			\$427.5			\$711.7
Accruing loans past due 90 days or more						
Government guaranteed Consumer			\$248.1			\$390.3
Other			10.7			2.2
Total			\$258.8			\$392.5

Payments received on non-accrual financing receivables are generally applied first against outstanding principal.

**Impaired Loans**

The Company's policy is to review for impairment finance receivables greater than \$500,000 that are on non-accrual status. Consumer loans and small-ticket loan and lease receivables that have not been modified in a troubled debt restructuring, as well as short-term factoring receivables, are included (if appropriate) in the reported non-accrual balances above, but are excluded from the impaired finance receivables disclosure below as charge-offs are typically determined and recorded for such loans when they are more than 120-150 days past due.

The following table contains information about impaired finance receivables and the related allowance for loan losses, exclusive of finance receivables that were identified as impaired at the Convenience Date for which the Company is applying the income recognition and disclosure guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*), which are disclosed further below in this note.

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

**Impaired Loans** (dollars in millions)

	September 30, 2012			Nine Months Ended September 30,	
				2012	2011
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Average Recorded Investment
<b>With no related allowance recorded:</b>					
Commercial					
Corporate Finance Other	\$207.6	\$231.5	\$	\$204.8	\$150.1

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			Nine Months Ended September 30,		
Corporate Finance	SBL	38.3	50.7	41.1	42.0
Transportation Finance		12.6	30.4	6.9	8.3
Trade Finance		8.8	8.8	34.6	77.1
Vendor Finance	U.S.	5.9	15.2	8.5	18.4
Vendor Finance	International	12.7	29.1	10.0	13.9
<b>With an allowance recorded:</b>					
Commercial					
Corporate Finance	Other	122.4	142.6	40.1	113.1
Corporate Finance	SBL	1.4	1.6	0.5	12.4
Transportation Finance		42.2	43.0	9.4	29.0
Trade Finance		18.4	20.5	4.0	13.8
Total Commercial Impaired Loans <sup>(1)</sup>		470.3	573.4	54.0	474.2
Total Loans Impaired at Convenience Date <sup>(2)</sup>		114.2	287.6	1.8	157.6
Total		\$584.5	\$861.0	\$55.8	\$631.8
				\$1,025.1	

				Year ended
				December 31, 2011
				December 31, 2011
				Average Recorded Investment
				Recorded Investment
				Unpaid Principal Balance
				Related Allowance
<b>With no related allowance recorded:</b>				
Commercial				
&nbsp;				