CIT GROUP INC
Form 10-Q
November 06, 2013

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

FORM 10-Q

|X|	Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 *For the quarterly period ended September 30, 2013*	| |	Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 001-31369

CIT GROUP INC.

(Exact name of Registrant as specified in its charter)

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 |X| 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 |X| 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. See the definitions of ‘large accelerated filer, ‘accelerated filer and ‘smaller reporting company in Rule 12b-2 of the Exchange Act.
Large accelerated filer |X| 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 |X|

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 |X| No |_|

As of October 31, 2013 there were 200,164,479 shares of the registrant s common stock outstanding.

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Part One Financial Information

ITEM 1. Consolidated Financial Statements

CIT GROUP INC. AND SUBSIDIARIES

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

	September 30, 2013	December 31, 2012

	September 30, 2013	December 31, 2012
Assets		
Cash and due from banks, including restricted balances of $602.9 and $497.6 at September 30, 2013 and December 31, 2012[(1)]	$ 1,488.1	$ 877.1
Interest bearing deposits, including restricted balances of $501.8 and $687.5 at September 30, 2013 and December 31, 2012[(1)]	4,486.2	5,944.2
Investment securities	2,498.9	1,065.5
Trading assets at fair value derivatives	17.5	8.4
Assets held for sale[(1)]	1,122.2	646.4
Loans (see Note 5 for amounts pledged)	21,822.7	20,847.6
Allowance for loan losses	(356.1)	(379.3)
Total loans, net of allowance for loan losses[(1)]	21,466.6	20,468.3
Operating lease equipment, net (see Note 5 for amounts pledged)[(1)]	12,577.1	12,411.7
Unsecured counterparty receivable	626.2	649.1
Goodwill	338.3	345.9
Intangible assets, net	22.4	31.9
Other assets	1,580.5	1,563.5
Total Assets	**$46,224.0**	**$44,012.0**
Liabilities		
Deposits	$11,806.1	$ 9,684.5
Trading liabilities at fair value derivatives	77.5	81.9
Credit balances of factoring clients	1,278.4	1,256.5
Other liabilities	2,818.1	2,687.8
Long-term borrowings, including $2,454.9 and $1,425.9 contractually due within twelve months at September 30, 2013 and December 31, 2012	21,390.2	21,961.8
Total Liabilities	**37,370.3**	**35,672.5**
Stockholders Equity		
Common stock: $0.01 par value, 600,000,000 authorized		
Issued: 202,146,483 and 201,283,063 at September 30, 2013 and December 31, 2012	2.0	2.0
Outstanding: 200,302,140 and 200,868,802 at September 30, 2013 and December 31, 2012		
Paid-in capital	8,543.1	8,501.8
Retained earnings / (Accumulated deficit)	471.2	(74.6)
Accumulated other comprehensive loss	(88.0)	(77.7)
Treasury stock: 1,844,343 and 414,261 shares at September 30, 2013 and December 31, 2012 at cost	(83.3)	(16.7)
Total Common Stockholders Equity	8,845.0	8,334.8
Noncontrolling minority interests	8.7	4.7
Total Equity	**8,853.7**	**8,339.5**
Total Liabilities and Equity	**$46,224.0**	**$44,012.0**

(1) *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.*

Assets		
Cash and interest bearing deposits, restricted	$ 598.0	$ 751.5
Assets held for sale	159.7	8.7
Total loans, net of allowance for loan losses	6,219.2	7,135.5
Operating lease equipment, net	4,466.4	4,508.8

Total Assets	**$11,443.3**	**$12,404.5**
Liabilities		
Beneficial interests issued by consolidated VIEs (classified as long-term borrowings)	$ 8,032.4	$ 9,241.3
Total Liabilities	**$ 8,032.4**	**$ 9,241.3**

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,	
	2013	**2012**	**2013**	**2012**
Interest income				
Interest and fees on loans	$ 330.6	$ 367.5	$ 1,024.5	$ 1,188.3
Interest and dividends on interest bearing deposits and investments	6.8	8.0	20.3	23.8
Interest income	337.4	375.5	1,044.8	1,212.1
Interest expense				
Interest on long-term borrowings	(233.8)	(777.6)	(720.0)	(2,420.8)
Interest on deposits	(44.2)	(38.4)	(131.3)	(110.0)
Interest expense	(278.0)	(816.0)	(851.3)	(2,530.8)
Net interest revenue	59.4	(440.5)	193.5	(1,318.7)
Provision for credit losses	(16.4)		(50.5)	(51.5)
Net interest revenue, after credit provision	43.0	(440.5)	143.0	(1,370.2)
Non-interest income				
Rental income on operating leases	441.1	445.8	1,338.4	1,332.6
Other income	104.8	86.7	254.2	481.4
Total non-interest income	545.9	532.5	1,592.6	1,814.0
Total revenue, net of interest expense and credit provision	588.9	92.0	1,735.6	443.8
Other expenses				
Depreciation on operating lease equipment	(143.0)	(134.5)	(427.6)	(402.9)
Operating expenses	(232.2)	(235.2)	(697.2)	(686.3)
Loss on debt extinguishments		(16.8)		(61.2)
Total other expenses	(375.2)	(386.5)	(1,124.8)	(1,150.4)
Income (loss) before provision for income taxes	213.7	(294.5)	610.8	(706.6)
Provision for income taxes	(13.9)	(3.9)	(61.3)	(89.6)
Income (loss) before noncontrolling interests	199.8	(298.4)	549.5	(796.2)
Net income attributable to noncontrolling interests, after tax	(0.2)	(0.8)	(3.7)	(2.9)
Net Income (loss)	$ 199.6	$ (299.2)	$ 545.8	$ (799.1)

	Quarters Ended September 30,		Nine Months Ended September 30,	
Basic income (loss) per common share	$ 0.99	$ (1.49)	$ 2.71	$ (3.98)
Diluted income (loss) per common share	$ 0.99	$ (1.49)	$ 2.70	$ (3.98)
Average number of common shares basic (thousands)	200,811	200,917	201,089	200,877
Average number of common shares diluted (thousands)	202,329	200,917	202,139	200,877

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,	
	2013	**2012**	**2013**	**2012**
Income (loss) before noncontrolling interests	$199.8	$(298.4)	$549.5	$(796.2)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(1.7)	4.0	(9.0)	(6.3)
Changes in fair values of derivatives qualifying as cash flow hedges				0.6
Net unrealized gains (losses) on available for sale securities	(0.4)	0.5	(1.7)	1.1
Changes in benefit plans net gain (loss) and prior service (cost)/credit	(0.4)	0.5	0.4	1.2
Other comprehensive income (loss), net of tax	(2.5)	5.0	(10.3)	(3.4)
Comprehensive income (loss) before noncontrolling interests	197.3	(293.4)	539.2	(799.6)
Comprehensive income attributable to noncontrolling interests	(0.2)	(0.8)	(3.7)	(2.9)
Comprehensive income (loss)	$197.1	$(294.2)	$535.5	$(802.5)

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)

	Common Stock	Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Minority Interests	Total Equity
December 31, 2012	**$2.0**	**$8,501.8**	**$ (74.6)**	**$(77.7)**	**$(16.7)**	**$ 4.7**	**$8,339.5**
Net income			545.8			3.7	549.5
Other comprehensive loss, net of tax				(10.3)			(10.3)
Amortization of restricted stock, stock option and performance shares expenses and shares withheld to cover taxes upon vesting		40.5			(15.2)		25.3
Repurchase of common stock					(51.4)		(51.4)
Employee stock purchase plan		0.8					0.8
Distribution of earnings and capital						0.3	0.3
September 30, 2013	**$2.0**	**$8,543.1**	**$ 471.2**	**$(88.0)**	**$(83.3)**	**$ 8.7**	**$8,853.7**
December 31, 2011	**$2.0**	**$8,459.3**	**$ 517.7**	**$(82.6)**	**$(12.8)**	**$ 2.5**	**$8,886.1**
Net income (loss)			(799.1)			2.9	(796.2)
Other comprehensive income, net of tax				(3.4)			(3.4)
Amortization of restricted stock and stock option expenses		30.8			(3.9)		26.9
Employee stock purchase plan		0.9					0.9
Distribution of earnings and capital						(0.5)	(0.5)
September 30, 2012	**$2.0**	**$8,491.0**	**$(281.4)**	**$(86.0)**	**$(16.7)**	**$ 4.9**	**$8,113.8**

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, 2013	Nine Months Ended September 30, 2012
Cash Flows From Operations		
Net income (loss)	$ 545.8	$ (799.1)
Adjustments to reconcile net income (loss) to net cash flows from operations:		
Provision for credit losses	50.5	51.5
Net depreciation, amortization and (accretion)	521.3	1,733.3
Net gains on equipment, receivable and investment sales	(115.6)	(271.0)
Loss on debt extinguishments		21.1

	Nine Months Ended September 30,	
Provision for deferred income taxes	38.7	22.8
Decrease (increase) in finance receivables held for sale	139.8	(45.5)
Increase in other assets	(89.9)	(174.3)
Increase (decrease) in accrued liabilities and payables	182.1	(161.6)
Net cash flows provided by operations	1,272.7	377.2
Cash Flows From Investing Activities		
Loans originated and purchased	(13,083.0)	(13,362.6)
Principal collections of loans	10,797.6	11,695.4
Purchases of investment securities	(14,264.3)	(13,961.2)
Proceeds from maturities of investment securities	12,857.6	14,255.2
Proceeds from asset and receivable sales	1,465.0	3,404.6
Purchases of assets to be leased and other equipment	(1,275.4)	(1,228.0)
Net increase in short-term factoring receivables	22.0	5.8
Change in restricted cash	80.4	(212.7)
Net cash flows (used in) provided by investing activities	(3,400.1)	596.5
Cash Flows From Financing Activities		
Proceeds from the issuance of term debt	1,171.5	12,679.5
Repayments of term debt	(1,902.5)	(17,509.3)
Net increase in deposits	2,125.1	2,522.9
Collection of security deposits and maintenance funds	416.1	408.9
Use of security deposits and maintenance funds	(398.0)	(269.7)
Repurchase of common stock	(51.4)	
Net cash flows provided by (used in) financing activities	1,360.8	(2,167.7)
Decrease in cash and cash equivalents	(766.6)	(1,194.0)
Unrestricted cash and cash equivalents, beginning of period	5,636.2	6,565.7
Unrestricted cash and cash equivalents, end of period	**$ 4,869.6**	**$ 5,371.7**
Supplementary Cash Flow Disclosure		
Interest paid	$ (786.6)	$ (972.3)
Federal, foreign, state and local income taxes (paid) collected, net	$ (59.8)	$ 7.1
Supplementary Non Cash Flow Disclosure		
Transfer of assets from held for investment to held for sale	$ 1,372.9	$ 1,342.9
Transfer of assets from held for sale to held for investment	$ 30.3	$ 0.5

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

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

NOTE 1 BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CIT Group Inc., together with its subsidiaries (collectively CIT or the Company), has provided financial solutions to its clients since its formation in 1908. The Company provides financing, leasing and advisory services principally to middle market companies in a wide variety of industries and offers vendor, equipment, commercial and structured financing products, as well as factoring and management advisory services. CIT became a bank holding company (BHC) in December 2008 and a financial holding company in July 2013. CIT is regulated by the Board of

Governors of the Federal Reserve System (FRS) and the Federal Reserve Bank of New York (FRBNY) under the U.S. Bank Holding Company Act of 1956. CIT Bank (the Bank), a wholly-owned subsidiary, is a state-chartered bank located in Salt Lake City, Utah. The Company operates primarily in North America, with locations in Europe, South America and Asia.

BASIS OF PRESENTATION

Principles of Consolidation

The accompanying consolidated financial statements include financial information related to CIT Group Inc., a Delaware Corporation, and its majority owned subsidiaries, including the Bank, 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, as required by GAAP, based on a convenience date of December 31, 2009. Accretion and amortization of certain FSA adjustments are included in the Consolidated Statements of Operations and Cash Flows.

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: allowance for loan losses, loan impairment, fair value determination, lease residual values, liabilities for uncertain tax positions, realizability of deferred tax assets and goodwill assets. Additionally where applicable, the policies conform to accounting and reporting guidelines prescribed by bank regulatory authorities.

In preparing the quarterly financial statements for September 30, 2013, the Company discovered and corrected an immaterial error impacting the classification of *cash and due from banks* and *interest bearing deposits* in the amount of $430 million as of December 31, 2012. The reclassification error had no impact on the Company s statements of operations or cash flows for any periods.

NEW ACCOUNTING PRONOUNCEMENTS

Foreign Currency Matters

In March 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-05, *Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity,* which provides that a cumulative translation adjustment (CTA) is attached to the parent s investment in a foreign entity and should be released in a manner consistent with the derecognition guidance on investments in entities. Thus, the entire amount of the CTA associated with the foreign entity would be released when there has been a:

- Sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity.
- Loss of a controlling financial interest in an investment in a foreign entity (i.e., the foreign entity is deconsolidated).
- Step acquisition for a foreign entity (i.e., when an entity has changed from applying the equity method for an investment in a foreign entity to consolidating the foreign entity).

The ASU does not change the requirement to release a pro rata portion of the CTA of the foreign entity into earnings for a partial sale of an equity method investment in a foreign entity.

The guidance is effective for fiscal years (and interim periods within those fiscal years) beginning on or after December 15, 2013, with early adoption permitted. The ASU should be applied prospectively from the beginning of the fiscal year of adoption. The adoption of this guidance is not expected to have a significant impact on CIT s financial statements or disclosures.

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Federal Funds Effective Swap Rate Allowed as Benchmark Interest Rate

In July 2013, the FASB issued ASU No. 2013-10 *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*, which permits the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under ASC 815, in addition to U.S. Treasury and LIBOR. The amended guidance also removed a previous scope reference that required the same benchmark interest rate be used for similar hedges and that using different rates be rare and justified. The amended guidance is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The inclusion of the OIS as a benchmark rate had no immediate implication to CIT. At September 30, 2013, all our existing interest rate swaps reference LIBOR and do not receive hedge accounting treatment.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force). This pronouncement amends guidance on exceptions as to when an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward.*

To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date.

The amended guidance is effective for fiscal years (and interim periods within those fiscal years) beginning on or after December 15, 2013, with early adoption permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company will adopt the amended guidance on January 1, 2014. The Company is evaluating the impact of adoption of this guidance on its financial statements and disclosures.

NOTE 2 LOANS

Finance receivables consist of the following:

Finance Receivables by Product (dollars in millions)

	September 30, 2013	December 31, 2012
Loans[(1)]	$16,995.4	$16,082.3
Direct financing leases and leveraged leases[(1)]	4,827.3	4,765.3
Finance receivables	21,822.7	20,847.6
Finance receivables held for sale	885.5	302.8
Finance and held for sale receivables[(2)]	$22,708.2	$21,150.4

(1) *In the current quarter the Company discovered and corrected an immaterial error related to the classification of loans and leases at December 31, 2012.*

(2) *Assets held for sale on the Balance Sheet include both finance receivables and operating lease equipment. Balances in this disclosure include only finance receivables in Assets held for sale, which are measured at the lower of cost or fair value (i.e. do not include operating leases). ASU 2010-20 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 so that Company data are tracked and used for management purposes on an aggregated basis as presented above.*

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

Finance Receivables (dollars in millions)

	September 30, 2013			December 31, 2012		
	Domestic	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
Corporate Finance	$ 8,111.6	$1,121.2	$ 9,232.8	$ 7,159.8	$1,013.2	$ 8,173.0
Transportation Finance	1,036.8	936.8	1,973.6	1,219.8	633.4	1,853.2
Trade Finance	2,160.3	135.5	2,295.8	2,177.2	128.1	2,305.3
Vendor Finance	2,585.0	2,275.8	4,860.8	2,459.1	2,359.6	4,818.7
Consumer	3,450.3	9.4	3,459.7	3,687.3	10.1	3,697.4
Total	$17,344.0	$4,478.7	$21,822.7	$16,703.2	$4,144.4	$20,847.6

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, 2013	**December 31, 2012**
Unearned income	$(921.1)	$(995.2)
Unamortized (discounts)	(50.5)	(40.5)
Net unamortized deferred costs and (fees)	54.5	51.4

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:

- Pass finance receivables in this category do not meet the criteria for classification in one of the categories below.
- 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.
- 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.

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

Finance and Held for Sale Receivables by Risk Rating (dollars in millions)

Grade:	Corporate Finance Other	Corporate Finance SBL	Transportation Finance	Trade Finance	Vendor Finance U.S.	Vendor Finance International	Total Commercial	Consumer
September 30, 2013								
Pass	$7,984.9	$148.9	$1,770.9	$1,784.6	$2,195.0	$2,318.4	$16,202.7	$3,055.4
Special mention	731.1	302.1	98.8	334.5	199.4	211.2	1,877.1	105.3
Classified accruing	323.3	77.4	114.0	170.1	145.7	79.9	910.4	299.0
Classified non-accrual	108.0	47.4		6.6	45.0	51.3	258.3	
Total	$9,147.3	$575.8	$1,983.7	$2,295.8	$2,585.1	$2,660.8	$19,248.5	$3,459.7
December 31, 2012								
Pass	$6,228.7	$166.1	$1,492.4	$1,913.2	$2,057.0	$2,340.5	$14,197.9	$3,254.1
Special mention	759.5	358.6	184.1	266.9	194.0	161.8	1,924.9	213.5
Classified accruing	408.2	96.7	136.2	119.2	160.4	77.7	998.4	229.8
Classified non-accrual	148.9	63.0	40.5	6.0	45.5	26.3	330.2	1.6
Total	$7,545.3	$684.4	$1,853.2	$2,305.3	$2,456.9	$2,606.3	$17,451.4	$3,699.0

Past Due and Non-accrual Loans

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

Finance and Held for Sale Receivables Delinquency Status (dollars in millions)

	30 59 Days Past Due	60 89 Days Past Due	90 Days or Greater	Total Past Due 30 Days or Greater	Current	Total Finance Receivables
September 30, 2013						
Commercial						
Corporate Finance Other	$ 30.6	$ 1.3	$ 0.3	$ 32.2	$ 9,115.1	$ 9,147.3
Corporate Finance SBL	2.2	4.4	7.9	14.5	561.3	575.8
Transportation Finance		1.4	0.5	1.9	1,981.8	1,983.7
Trade Finance	27.5	1.4	3.7	32.6	2,263.2	2,295.8
Vendor Finance U.S.	47.1	15.5	9.5	72.1	2,513.0	2,585.1
Vendor Finance International	50.6	18.6	24.3	93.5	2,567.3	2,660.8
Total Commercial	158.0	42.6	46.2	246.8	19,001.7	19,248.5
Consumer	104.4	72.5	226.2	403.1	3,056.6	3,459.7
Total	$262.4	$115.1	$272.4	$ 649.9	$22,058.3	$22,708.2
December 31, 2012						
Commercial						
Corporate Finance Other	$	$ 0.3	$ 4.0	$ 4.3	$ 7,541.0	$ 7,545.3
Corporate Finance SBL	18.0	2.9	12.5	33.4	651.0	684.4
Transportation Finance	4.0	0.9	0.7	5.6	1,847.6	1,853.2
Trade Finance	79.3	3.4	5.6	88.3	2,217.0	2,305.3
Vendor Finance U.S.	56.1	18.0	12.4	86.5	2,370.4	2,456.9
Vendor Finance International	55.2	12.3	8.2	75.7	2,530.6	2,606.3
Total Commercial	212.6	37.8	43.4	293.8	17,157.6	17,451.4
Consumer	135.2	80.8	231.7	447.7	3,251.3	3,699.0
Total	$347.8	$118.6	$275.1	$ 741.5	$20,408.9	$21,150.4

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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 that are individually evaluated and determined to be impaired (generally loans with balances greater than $500,000), as well as other, smaller balance loans placed on non-accrual due to delinquency (generally 90 days or more).

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

	September 30, 2013			December 31, 2012		
	Held for Investment	Held for Sale	Total	Held for Investment	Held for Sale	Total
Commercial						
Corporate Finance Other	$ 96.1	$11.9	$108.0	$148.6	$0.3	$148.9
Corporate Finance SBL	6.5	40.9	47.4	60.3	2.7	63.0
Transportation Finance				40.5		40.5
Trade Finance	6.6		6.6	6.0		6.0

	September 30, 2013			December 31, 2012		
Vendor Finance U.S.	45.0		45.0	45.5		45.5
Vendor Finance International	43.7	7.6	51.3	24.3	2.0	26.3
Consumer					1.6	1.6
Total non-accrual loans	$197.9	$60.4	$258.3	$325.2	$6.6	$331.8
Repossessed assets			8.3			9.9
Total non-performing assets			$266.6			$341.7
Accruing loans past due 90 days or more						
Government guaranteed Consumer			$226.2			$231.4
Other			5.4			3.4
Total			$231.6			$234.8

Payments received on non-accrual financing receivables are generally applied first against outstanding principal, though in certain instances where the remaining recorded investment is deemed fully collectible, interest income is recognized on a cash basis.

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.

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

Impaired Loans (dollars in millions)

	September 30, 2013			Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Average Recorded Investment
With no related allowance recorded:					
Commercial					
Corporate Finance Other	$149.0	$163.8	$	$155.6	$204.8
Corporate Finance SBL	7.8	8.0		23.0	41.1
Transportation Finance	9.1	9.1		8.6	6.9

				Nine Months Ended September 30,	
Trade Finance	9.7	9.7		10.3	34.6
Vendor Finance U.S.	3.8	3.9		4.7	8.5
Vendor Finance International	18.6	29.4		14.0	10.0
With an allowance recorded:					
Commercial					
Corporate Finance Other	52.8	53.3	30.5	82.5	113.1
Corporate Finance SBL				1.3	12.4
Transportation Finance				11.9	29.0
Trade Finance	6.5	6.5	2.0	4.7	13.8
Total Commercial Impaired Loans(1)	257.3	283.7	32.5	316.6	474.2
Total Loans Impaired at Convenience Date(2)	64.7	99.6	1.0	87.1	157.6
Total	$322.0	$383.3	$33.5	$403.7	$631.8

	December 31, 2012			Year Ended December 31, 2012
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial				
Corporate Finance Other	$179.9	$231.9	$	$199.8
Corporate Finance SBL	39.1	52.6		40.7
Transportation Finance	11.3	29.1		7.8
Trade Finance	10.1	13.3		29.7
Vendor Finance U.S.	4.7	12.2		7.7
Vendor Finance International	8.4	20.0		9.7
With an allowance recorded:				
Commercial				
Corporate Finance Other	102.4	106.7	32.3	111.0
Corporate Finance SBL	2.4	2.7	1.0	10.4
Transportation Finance	29.1	29.3	8.9	29.0
Trade Finance	6.0	6.0	1.3	12.2
Total Commercial Impaired Loans(1)	393.4	503.8	43.5	458.0
Total Loans Impaired at Convenience date(2)	106.7	260.8	1.5	147.4
Total	$500.1	$764.6	$45.0	$605.4

(1) *Interest income recorded while the loans were impaired was $13.8 million and $15.9 million for the nine months ended September 30, 2013 and September 30, 2012, respectively, of which $2.5 million and $3.6 million was recognized using the cash-basis method. Interest income recorded for the year ended December 31, 2012 while the loans were impaired was $21.3 million, of which $4.3 million was recognized using the cash-basis method of accounting.*

(2) *Details of finance receivables that were identified as impaired at the Convenience Date are presented under Loans and Debt Securities Acquired with Deteriorated Credit Quality.*

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

Impairment occurs when, based on current information and events, it is probable that CIT will be unable to collect all amounts due according to contractual terms of the agreement. The Company has established review and monitoring procedures designed to identify, as early as possible, customers that are experiencing financial difficulty. Credit risk is captured and analyzed based on the Company s internal probability of obligor default (PD) and loss given default (LGD) ratings. A PD rating is determined by evaluating borrower credit-worthiness, including analyzing credit history, financial condition, cash flow adequacy, financial performance and management quality. An LGD rating is predicated on transaction structure, collateral valuation and related guarantees or recourse. Further, related considerations in determining probability of collection include the following:

n Instances where the primary source of payment is no longer sufficient to repay the loan in accordance with terms of the loan document;

n Lack of current financial data related to the borrower or guarantor;

n Delinquency status of the loan;

n Borrowers experiencing problems, such as operating losses, marginal working capital, inadequate cash flow, excessive financial leverage or business interruptions;

n Loans secured by collateral that is not readily marketable or that has experienced or is susceptible to deterioration in realizable value; and

n Loans to borrowers in industries or countries experiencing severe economic instability.

Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable. A specific allowance or charge-off is recorded for the shortfall. In instances where the estimated value exceeds the recorded investment, no specific allowance is recorded. The estimated value is determined using fair value of collateral and other cash flows if the finance receivable is collateralized, or the present value of expected future cash flows discounted at the contract s effective interest rate. In instances when the Company measures impairment based on the present value of expected future cash flows, the change in present value is reported in the provision for credit losses.

The following summarizes key elements of the Company s policy regarding the determination of collateral fair value in the measurement of impairment:

n Orderly liquidation value is the basis for collateral valuation;

n Appraisals are updated annually or more often as market conditions warrant; and

n Appraisal values are discounted in the determination of impairment if the:

n appraisal does not reflect current market conditions; or

n collateral consists of inventory, accounts receivable, or other forms of collateral that may become difficult to locate, collect or subject to pilferage in a liquidation.

Loans and Debt Securities Acquired with Deteriorated Credit Quality

For purposes of this presentation, finance receivables that were identified as impaired at the Convenience Date are presented separately below. The Company is applying the income recognition and disclosure guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*) to loans considered impaired under FSA at the time of emergence.

Loans Acquired with Deteriorated Credit Quality (dollars in millions)

	September 30, 2013[(1)]			December 31, 2012[(1)]		
	Carrying Amount	Outstanding Balance[(2)]	Allowance for Loan Losses	Carrying Amount	Outstanding Balance[(2)]	Allowance for Loan Losses
Commercial	$64.7	$99.6	$1.0	$106.7	$260.8	$1.5
Total loans	$64.7	$99.6	$1.0	$106.7	$260.8	$1.5

[(1)] *The table excludes amounts in Assets held for sale with carrying amounts of $13 million and $3 million at September 30, 2013 and December 31, 2012, and outstanding balances of $29 million and $16 million at September 30, 2013 and December 31, 2012.*

[(2)] *Represents the sum of contractual principal and interest at the reporting date, calculated as pre-FSA net investment plus inception to date charge-offs.*

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Troubled Debt Restructurings

The Company periodically modifies the terms of finance receivables in response to borrowers difficulties. Modifications that include a financial concession to the borrower are accounted for as troubled debt restructurings (TDRs).

CIT uses a consistent methodology across all loans to determine if a modification is with a borrower that has been determined to be in financial difficulty and was granted a concession. Specifically, the Company s policies on TDR identification include the following examples of indicators used to determine whether the borrower is in financial difficulty:

- Borrower is in default with CIT or other material creditor
- Borrower has declared bankruptcy
- Growing doubt about the borrower s ability to continue as a going concern
- Borrower has (or is expected to have) insufficient cash flow to service debt
- Borrower is de-listing securities
- Borrower s inability to obtain funds from other sources
- Breach of financial covenants by the borrower.

If the borrower is determined to be in financial difficulty, then CIT utilizes the following criteria to determine whether a concession has been granted to the borrower:

- Assets used to satisfy debt are less than CIT s recorded investment in the receivable
- Modification of terms interest rate changed to below market rate
- Maturity date extension at an interest rate less than market rate
- The borrower does not otherwise have access to funding for debt with similar risk characteristics in the market at the restructured rate and terms
- Capitalization of interest
- Increase in interest reserves
- Conversion of credit to Payment-In-Kind (PIK)
- Delaying principal and/or interest for a period of three months or more
- Partial forgiveness of the balance.

Modified loans that meet the definition of a TDR are subject to the Company s standard impaired loan policy, namely that non-accrual loans in excess of $500,000 are individually reviewed for impairment, while non-accrual loans less than $500,000 are considered as part of homogenous pools and are included in the determination of the non-specific allowance.

The recorded investment of TDRs at September 30, 2013 and December 31, 2012 was $239.2 million and $289.1 million, of which 31% and 29%, respectively were on non-accrual. Corporate Finance receivables accounted for 93% of the total TDRs at September 30, 2013 and 91% at December 31, 2012. At September 30, 2013 and December 31, 2012, there were $6.4 million and $6.3 million, respectively, of commitments to lend additional funds to borrowers whose loan terms have been modified in TDRs.

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

The tables that follow present additional information related to modifications qualifying as TDRs that occurred during the periods ended September 30, 2013 and 2012.

Recorded investment of TDRs that occurred during the periods ended September 30, 2013 and 2012 (dollars in millions)

	Quarters Ended September 30,		**Nine Months Ended September 30,**	
	2013	**2012**	**2013**	**2012**
Commercial				
Corporate Finance Other	$2.0	$22.7	$12.7	$31.3
Corporate Finance SBL	1.0	4.6	9.7	11.6

	Quarters Ended September 30,		Nine Months Ended September 30,	
Vendor Finance U.S.		0.2	0.1	2.4
Vendor Finance International		0.4	2.1	1.4
Total	$3.0	$27.9	$24.6	$46.7

Recorded investment of TDRs at the time of default that experienced a payment default[(1)] in the periods presented, and for which the payment default occurred within one year of the modification (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Commercial				
Corporate Finance Other	$	$	$	$12.0
Corporate Finance SBL	1.5	1.0	1.5	3.7
Vendor Finance U.S.		0.1	0.2	0.5
Vendor Finance International	0.1	0.1	0.1	0.1
Total	$1.6	$1.2	$1.8	$16.3

[(1)] *Payment default in the table above is one missed payment.*

The financial impact of the various modification strategies that the Company employs in response to borrower difficulties is described below. While the discussion focuses on current quarter amounts, the overall nature and impact of modification programs were comparable in the prior year.

- The nature of modifications qualifying as TDR s, based upon recorded investment at September 30, 2013 and December 31, 2012, was comprised of payment deferral for 89% and 86%, covenant relief and/or other for 9% and 8%, and interest rate reductions and debt forgiveness for 2% and 6%, respectively;

- Payment deferrals, the Company s most common type of modification program, result in lower net present value of cash flows and increased provision for credit losses to the extent applicable. The financial impact of these modifications is not significant given the reduction to recorded investment balances from FSA discount and the moderate length of deferral periods;

- Interest rate reductions result in lower amounts of interest being charged to the customer, but are a relatively small part of the Company s restructuring programs. Additionally, in some instances, modifications improve the Company s economic return through increased interest rates and fees, but are reported as TDRs due to assessments regarding the borrowers ability to independently obtain similar funding in the market and assessments of the relationship between modified rates and terms and comparable market rates and terms. The weighted average change in interest rates for all TDRs occurring during the nine months ended September 30, 2013 was immaterial;

- Debt forgiveness, or the reduction in amount owed by borrower, results in incremental provision for credit losses, in the form of higher charge-offs. While these types of modifications have the greatest individual impact on the allowance, the amounts of principal forgiveness for TDRs occurring during the quarter and nine month periods ended September 30, 2013 approximated $9.4 million and $9.5 million, respectively, as debt forgiveness is a relatively small component of the Company s modification programs; and

- The other elements of the Company s modification programs do not have a significant impact on financial results given their relative size, or do not have a direct financial impact, as in the case of covenant changes.

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

NOTE 3 ALLOWANCE FOR LOAN LOSSES

The following table presents changes in the allowance for loan losses.

Allowance for Loan Losses and Recorded Investment in Finance Receivables (dollars in millions)

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Total Commercial	Consumer	Corporate and Other	Total
	Quarter Ended September 30, 2013							
Beginning balance	$221.9	$29.8	$27.4	$ 88.0	$367.1	$	$0.1	$367.2
Provision for credit losses	4.4	(0.7)	(0.8)	13.5	16.4			16.4
Other[1]	0.6	(0.4)	(1.4)	0.8	(0.4)			(0.4)
Gross charge-offs[2][3]	(9.1)	(1.2)	(0.7)	(25.6)	(36.6)			(36.6)
Recoveries	0.2	1.1	1.4	6.8	9.5			9.5
Allowance balance end of period	$218.0	$28.6	$25.9	$ 83.5	$356.0	$	$0.1	$356.1
	Quarter Ended September 30, 2012							
Beginning balance	$271.3	$28.5	$29.8	$ 84.6	$414.2	$	$	$414.2
Provision for credit losses	(22.0)	8.9	4.3	8.8				
Other[1]	3.4	0.5	(3.2)	1.0	1.7			1.7
Gross charge-offs[2]	(10.9)	(2.9)	(3.2)	(18.5)	(35.5)			(35.5)
Recoveries	5.9		3.2	8.4	17.5			17.5
Allowance balance end of period	$247.7	$35.0	$30.9	$ 84.3	$397.9	$	$	$397.9

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Total Commercial	Consumer	Corporate and Other	Total
	Nine Months Ended September 30, 2013							
Beginning balance	$229.9	$ 36.3	$27.4	$ 85.7	$ 379.3	$	$	$ 379.3
Provision for credit losses	24.5	(4.9)	(1.7)	32.7	50.6		(0.1)	50.5
Other[1]	(3.8)	(0.3)	(2.8)	(1.3)	(8.2)		0.2	(8.0)
Gross charge-offs[2][3]	(43.6)	(4.5)	(2.3)	(58.6)	(109.0)			(109.0)
Recoveries	11.0	2.0	5.3	25.0	43.3			43.3
Allowance balance end of period	$218.0	$ 28.6	$25.9	$ 83.5	$ 356.0	$	$ 0.1	$ 356.1
	Nine Months Ended September 30, 2012							
Beginning balance	$262.2	$ 29.3	$29.0	$ 87.3	$ 407.8	$	$	$ 407.8
Provision for credit losses	8.4	16.6	5.9	20.1	51.0	0.5		51.5
Other[1]	(4.7)	0.8	(1.4)	0.7	(4.6)			(4.6)

	Nine Months Ended September 30, 2013							
Gross charge-offs[2]	(36.5)	(11.7)	(6.6)	(51.9)	(106.7)	(1.0)		(107.7)
Recoveries	18.3		4.0	28.1	50.4	0.5		50.9
Allowance balance end of period	$247.7	$ 35.0	$30.9	$ 84.3	$ 397.9	$	$	$ 397.9

[1] [3] *See following table for footnote explanation.*

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

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Total Commercial	Consumer	Corporate and Other	Total
September 30, 2013								
Allowance balance:								
Loans individually evaluated for impairment	$ 30.5	$	$ 2.0	$	$ 32.5	$	$	$ 32.5
Loans collectively evaluated for impairment	187.0	28.6	23.9	83.0	322.5		0.1	322.6
Loans acquired with deteriorated credit quality[4]	0.5			0.5	1.0			1.0
Allowance balance end of period	$ 218.0	$ 28.6	$ 25.9	$ 83.5	$ 356.0	$	$0.1	$ 356.1
Other reserves[1]	$ 19.4	$ 0.9	$ 8.8	$	$ 29.1	$	$	$ 29.1
Finance receivables:								
Loans individually evaluated for impairment	$ 209.6	$ 9.1	$ 16.2	$ 22.4	$ 257.3	$	$	$ 257.3
Loans collectively evaluated for impairment	8,962.9	1,964.5	2,279.6	4,834.0	18,041.0	3,459.7		21,500.7
Loans acquired with deteriorated credit quality[4]	60.3			4.4	64.7			64.7
Ending balance	$9,232.8	$1,973.6						