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

|X| 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**<br>(State or other jurisdiction of incorporation or organization) | **65-1051192**<br>(IRS Employer Identification Number) |
| **11 West 42nd Street New York, New York**<br>(Address of Registrant s principal executive offices) | **10036**<br>(Zip Code) |
| **(212) 461-5200**<br>(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. 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, 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

CIT GROUP INC. AND SUBSIDIARIES

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

| | September 30, 2012 | December 31, 2011 |
|---|---|---|

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| 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[(1)] | 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[(1)] | 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[(1)] | 19,985.5 | 19,477.7 |
| Operating lease equipment, net (see Note 5 for amounts pledged)[(1)] | 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 |
| **Total Assets** | **$43,580.9** | **$45,226.7** |
| **Liabilities** | | |
| 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 |
| **Total Liabilities** | **35,490.0** | **36,335.7** |
| **Stockholders Equity** | | |
| 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) |
| **Total Common Stockholders Equity** | 8,086.0 | 8,888.5 |
| Noncontrolling minority interests | 4.9 | 2.5 |
| **Total Equity** | **8,090.9** | **8,891.0** |
| **Total Liabilities and Equity** | **$43,580.9** | **$45,226.7** |

(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. In the following table, certain prior period balances have been conformed to current period presentation.*

| | | |
|---|---|---|
| **Assets** | | |
| 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 |

| | | |
|---|---|---|
| **Total Assets** | **$13,259.0** | **$13,700.5** |
| Liabilities | | |
| Beneficial interests issued by consolidated VIEs (classified as long-term borrowings) | $ 9,760.1 | $ 9,875.5 |
| **Total Liabilities** | **$ 9,760.1** | **$ 9,875.5** |

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





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** |
| **Interest income** | | | | |
| 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 |
| **Interest expense** | | | | |
| 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) |
| **Non-interest income** | | | | |
| 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 |
| **Other expenses** | | | | |
| 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) |

| | Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **Basic loss per common share** | $ (1.52) | $ (0.16) | $ (4.09) | $ (0.08) |
| **Diluted loss per common share** | $ (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** |
| **Loss before noncontrolling interests** | $(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) |
| **Comprehensive loss before noncontrolling interests** | (303.4) | (60.5) | (827.4) | (43.8) |
| Comprehensive income (loss) attributable to noncontrolling interests | (0.8) | 0.6 | (2.9) | (2.9) |
| **Comprehensive loss** | $(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)

| | Common Stock | Paid-in Capital | (Accumulated Deficit) Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Noncontrolling Minority Interests | Total Equity |
|---|---|---|---|---|---|---|---|
| **December 31, 2011** | **$2.0** | **$8,459.3** | **$ 532.1** | **$ (92.1)** | **$(12.8)** | **$ 2.5** | **$8,891.0** |
| 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) |
| **September 30, 2012** | **$2.0** | **$8,491.0** | **$(290.0)** | **$(100.3)** | **$(16.7)** | **$ 4.9** | **$8,090.9** |
| **December 31, 2010** | **$2.0** | **$8,434.1** | **$ 505.4** | **$ (9.6)** | **$ (8.8)** | **$(2.3)** | **$8,920.8** |
| 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 |
| **September 30, 2011** | **$2.0** | **$8,453.8** | **$ 488.5** | **$ (39.4)** | **$(12.5)** | **$ 0.7** | **$8,893.1** |

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** |
| **Cash Flows From Operations** | | |
| 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 |

| | Nine Months Ended September 30, | |
|---|---|---|
| (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 |
| **Cash Flows From Investing Activities** | | |
| 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 |
| **Cash Flows From Financing Activities** | | |
| 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 |
| **Unrestricted cash and cash equivalents, end of period** | **$ 5,371.7** | **$ 4,863.7** |
| **Supplementary Cash Flow Disclosure** | | |
| Interest paid | $ 972.3 | $ 1,546.7 |
| Federal, foreign, state and local income taxes (paid), net | $ 7.1 | $ (55.0) |
| **Supplementary Non Cash Flow Disclosure** | | |
| 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**

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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**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)

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| 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[(1)] | $21,265.1 | $21,973.5 |

[(1)] *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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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:

- 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.

**Finance Receivables**[(1)] **by Risk Rating** (dollars in millions)

| Grade: | Corporate Finance Other | Corporate Finance SBL | Transportation Finance | Trade Finance | Vendor Finance U.S. | Vendor Finance International | Commercial | Consumer |
|---|---|---|---|---|---|---|---|---|
| **September 30, 2012** | | | | | | | | |
| 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 |
| **December 31, 2011** | | | | | | | | |
| 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 |

(1) *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.*





***Past Due and Non-accrual Loans***

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

**Finance Receivables**[(1)] **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[(1)] |
|---|---|---|---|---|---|---|
| **September 30, 2012** | | | | | | |

| | 30 59 Days Past Due | 60 89 Days Past Due | 90 Days or Greater | Total Past Due | Current | Total Finance Receivables[(1)] |
|---|---|---|---|---|---|---|
| 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 |

(1) *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)

| | September 30, 2012 | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Held for Investment | Held for Sale | Total | Held for Investment | Held for Sale | Total |
| 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 |

| | 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.





**Impaired Loans** (dollars in millions)

| | September 30, 2012 | | | Nine Months Ended September 30, 2012 | Nine Months Ended September 30, 2011 |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Average Recorded Investment |
| **With no related allowance recorded:** | | | | | |
| Commercial | | | | | |
| Corporate Finance Other | $207.6 | $231.5 | $ | $204.8 | $ 150.1 |

| | | | | 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 |
| **With an allowance recorded:** | | | | | |
| Commercial | | | | | |
| Corporate Finance Other | 122.4 | 142.6 | 40.1 | 113.1 | 111.6 |
| Corporate Finance SBL | 1.4 | 1.6 | 0.5 | 12.4 | 46.9 |
| Transportation Finance | 42.2 | 43.0 | 9.4 | 29.0 | 52.0 |
| Trade Finance | 18.4 | 20.5 | 4.0 | 13.8 | 28.6 |
| Total Commercial Impaired Loans[1] | 470.3 | 573.4 | 54.0 | 474.2 | 548.9 |
| Total Loans Impaired at Convenience Date[2] | 114.2 | 287.6 | 1.8 | 157.6 | 476.2 |
| Total | $584.5 | $861.0 | $55.8 | $631.8 | $1,025.1 |

| | | | | Year ended |
|---|---|---|---|---|
| | December 31, 2011 | | | December 31, 2011 |
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
| **With no related allowance recorded:** | | | | |
| Commercial | | | | |
| Corporate Finance Other | $197.0 | $ 298.7 | $ | $160.6 |
| Corporate Finance SBL | 38.3 | 70.7 | | 41.3 |
| Transportation Finance | | | | 6.6 |
| Trade Finance | 60.1 | 72.2 | | 73.7 |
| Vendor Finance U.S. | 10.5 | 24.6 | | 16.9 |
| Vendor Finance International | 8.0 | 20.7 | | 11.6 |
| **With an allowance recorded:** | | | | |
| Commercial | | | | |
| Corporate Finance Other | 101.0 | 112.0 | 31.7 | 109.5 |
| Corporate Finance SBL | 31.9 | 34.7 | 7.4 | 43.9 |
| Transportation Finance | 45.6 | 58.1 | 9.0 | 50.7 |
| Trade Finance | 15.1 | 18.0 | 5.3 | 25.9 |
| Total Commercial Impaired Loans | 507.5 | 709.7 | 53.4 | 540.7 |
| Total Loans Impaired at Convenience date[2] | 186.7 | 605.4 | 5.4 | 418.3 |
| Total | $694.2 | $1,315.1 | $58.8 | $959.0 |

[1] *Interest income recorded while the loans were impaired was not material for the quarters and year-to-date periods ended September 30, 2012 and 2011.*

[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 the 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 Loans that have been restructured pursuant to a Trouble Debt Restructuring;

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

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

n Loans to borrowers in industries or countries experiencing 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;

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, which may become difficult to locate, collect or subject to pilferage in a liquidation.

**Loans 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 Convenience Date.

**Loans Acquired with Deteriorated Credit Quality** (dollars in millions)

| | September 30, 2012[1] | | | December 31, 2011[1] | | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Outstanding Balance[2] | Allowance for Loan Losses | Carrying Amount | Outstanding Balance[2] | Allowance for Loan Losses |
| Commercial | $112.7 | $282.9 | $1.8 | $185.6 | $599.0 | $5.4 |
| Consumer | 1.5 | 4.7 | | 1.1 | 6.4 | |
| Total loans | $114.2 | $287.6 | $1.8 | $186.7 | $605.4 | $5.4 |

[1] *The table excludes amounts in Assets Held for Sale with carrying amounts of $2 million and $117 million at September 30, 2012 and December 31, 2011, and outstanding balances of $14 million and $286 million at September 30, 2012 and December 31, 2011.*

[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.*

| | Quarter Ended September 30, 2012 | | Quarter Ended September 30, 2011 | |
|---|---|---|---|---|
| | Provision for Credit Losses | Net Charge-offs | Provision for Credit Losses | Net Charge-offs (Recoveries) |
| Commercial | $(0.4) | $(0.1) | $(3.2) | $ 4.6 |
| Consumer | | | (0.2) | (0.2) |
| Total | $(0.4) | $(0.1) | $(3.4) | $ 4.4 |





| | Nine Months Ended September 30, 2012 | | Nine Months Ended September 30, 2011 | |
|---|---|---|---|---|
| | Provision for Credit Losses | Net Charge-offs | Provision for Credit Losses | Net Charge-offs (Recoveries) |
| Commercial | $(3.0) | $0.6 | $51.6 | $101.0 |
| Consumer | 0.3 | 0.3 | (0.5) | (0.5) |
| Total | $(2.7) | $0.9 | $51.1 | $100.5 |

The following table presents the changes to the accretable discount related to all loans accounted for under ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*). Amounts include discount relating to non-accrual loans, for which accretion has been suspended.

**Accretable Discount Activity for Loans Accounted for Under ASC 310-30 at Emergence Date** (dollars in millions):

| | Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Accretable discount, beginning of period | $24.1 | $135.4 | $ 80.0 | $207.2 |
| Accretion | (1.9) | (4.9) | (6.7) | (30.4) |
| Disposals/transfers[1] | (2.2) | (12.2) | (53.3) | (58.5) |
| Accretable discount, end of period | $20.0 | $118.3 | $ 20.0 | $118.3 |

[1] *Amounts include transfers of non-accretable to accretable discounts, which were not material for the quarters and year-to-date periods ended September 30, 2012 and 2011.*

**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
- Borrower has declared bankruptcy
- Growing doubt about the borrower s ability to continue as a going concern
- Borrower has 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 CIT determines the borrower is 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 are classified as TDRs are individually evaluated and measured for impairment. 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, 2012 and December 31, 2011 was $321.5 million and $445.2 million, of which 35% and 63%, respectively, were on non-accrual. Corporate Finance receivables accounted for 91% of the total TDRs at September 30, 2012 and 88% at December 31, 2011. At September 30, 2012 and December 31, 2011, there were $6.1 million and $27.8 million, respectively, of commitments to lend additional funds to borrowers whose loan terms have been modified in TDRs.





The tables that follow present additional information related to modifications qualifying as TDRs that occurred during the quarters and nine month periods ended September 30, 2012 and 2011.

**Recorded investment of TDRs that occurred during the periods ended September 30, 2012 and 2011** (dollars in millions)

| | Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Commercial | | | | |
| Corporate Finance Other | $22.7 | $34.4 | $31.3 | $ 70.2 |
| Corporate Finance SBL | 4.6 | 1.4 | 11.6 | 11.9 |
| Transportation Finance | | | | 25.3 |
| Trade Finance | | 5.6 | | 19.2 |
| Vendor Finance U.S. | 0.2 | 0.8 | 2.4 | 2.8 |
| Vendor Finance International | 0.4 | | 1.4 | 2.8 |
| Total | $27.9 | $42.2 | $46.7 | $132.2 |

**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, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Commercial | | | | |
| Corporate Finance Other | $ | $0.1 | $12.0 | $ 0.1 |
| Corporate Finance SBL | 1.0 | 4.2 | 3.7 | 5.6 |
| Transportation Finance | | | | 25.3 |
| Vendor Finance U.S. | 0.1 | | 0.5 | |