

CIT GROUP INC  
Form 10-K  
March 01, 2007

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

**FORM 10-K**

Annual Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934  
*For the fiscal year ended December 31, 2006*

or

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 No.)

**505 Fifth Avenue, New York, New York**

(Address of Registrant's principal executive offices)

**10017**

(Zip Code)

**(212) 771-0505**

Registrant's telephone number including area code:

Securities registered pursuant to Section 12(b) of the Act:

**Title of each class**

Preferred Stock, Series A par value \$0.01 per share  
Common Stock, par value \$0.01 per share  
5 7/8% Notes due October 15, 2008

**Name of each exchange on which registered**

New York Stock Exchange  
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No .

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this Chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of voting common stock held by non-affiliates of the registrant, based on the New York Stock Exchange Composite Transaction closing price of Common Stock (\$52.29 per share, 198,398,318 shares of common stock outstanding), which occurred on June 30, 2006, was \$10,374,248,048. For purposes of this computation, all officers and directors of the registrant are deemed to be affiliates. Such determination shall not be deemed an admission that such officers and directors are, in fact, affiliates of the registrant. At February 15, 2007, 193,497,734 shares of CIT's common stock, par value \$0.01 per share, were outstanding.

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

### DOCUMENTS INCORPORATED BY REFERENCE

List here under the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424 (b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

Portions of the registrant's definitive proxy statement relating to the 2007 Annual Meeting of Stockholders are incorporated by reference into Part III hereof to the extent described herein.

See pages 115 to 117 for the exhibit index.

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## Part One

# ITEM 1. Business

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## OVERVIEW

### BUSINESS DESCRIPTION

CIT Group Inc., a Delaware corporation ( we, CIT or the Company ), is a leading commercial and consumer finance company providing financing and leasing products and services to clients in a wide variety of industries around the globe. Founded in 1908, CIT has a premium brand focused on providing clients with customized financial solutions based on a unique combination of financial, intellectual and relationship capital.

Diversification is a hallmark of CIT, with a broad suite of franchise businesses serving customers in over 30 industries and 50 countries. The majority of our businesses focuses on commercial clients ranging from small to large companies with particular emphasis on the middle-market. We serve a wide variety of industries including manufacturing, transportation, retailing, wholesaling, healthcare, communications, energy and various service-related industries. We also provide financing to consumers in the home and education lending markets. Each business has industry alignment and focuses on specific sectors, products and markets, with portfolios diversified by client and geography.

Our principal product and service offerings include:

#### Products

Asset based loans

Secured lines of credit

Leases operating, capital and leveraged

Vendor finance programs

Import and export financing

Debtor-in-possession / turnaround financing

Acquisition and expansion financing

Project financing

Mortgage loans

Small business loans

Student loans

Letters of credit / trade acceptances

Services

Financial risk management

Asset management and servicing

Merger and acquisition advisory services

Debt restructuring

Credit protection

Accounts receivable collection

Commercial real estate advisory services

Debt underwriting and syndication

Insurance

Capital markets structuring

Asset generation is a core strength of CIT. We source transactions through direct marketing efforts to borrowers, lessees, manufacturers, vendors, distributors and to end-users through referral sources and other intermediaries. In addition, our business units work together both in referring transactions between units (i.e. cross-selling) and by combining various products and services to meet our customers' overall financing needs. We also buy and sell participations in syndications of finance receivables and lines of credit and periodically purchase and sell finance receivables on a whole-loan basis.

Credit adjudication and servicing are also core strengths. We have disciplined underwriting standards and employ sophisticated portfolio risk management models to achieve desired portfolio demographics. Our collection and servicing operations are centralized across businesses and geographies providing efficient client interfaces and uniform customer experiences.

We generate revenue by earning interest income on the loans we hold on our balance sheet, collecting rentals on the equipment we lease, and earning fee and other income for the financial services we provide. In addition, we syndicate and sell certain finance receivables and equipment to leverage our origination capabilities, reduce concentrations, manage our balance sheet and improve profitability.

At December 31, 2006, we had managed assets of \$74.2 billion comprised of an owned loan and lease portfolio of \$67.9 billion and a securitized portfolio of \$6.3 billion. We also serviced over \$3 billion of third party assets under fee-based contracts at year-end. We fund our business in the global capital markets and value our debt ratings as summarized on page 48. Common stockholders' equity at December 31, 2006 was \$7.3 billion.

## BUSINESS SEGMENTS

CIT meets customers' financing needs through five business segments organized into two groups. These businesses were realigned and renamed on January 1, 2006 to better serve our clients and clarify market focus.

### CIT Group Inc.

#### **Commercial Finance Group**

#### **Corporate Finance**

Lending, leasing and other financial services to middle-market companies, through industry focused sales teams, including Healthcare, Communications, Media and Entertainment, and Energy and Infrastructure.

#### **Transportation Finance**

Large ticket equipment leases and other secured financing to companies in aerospace, rail and defense industries.

#### **Trade Finance**

Factoring, lending, credit protection, receivables management and other trade products to retail supply chain companies.

#### **Specialty Finance Group**

#### **Vendor Finance**

Innovative financing and leasing solutions to manufacturers, distributors and customer end-users around the globe, including major global relationships.

#### **Consumer and Small Business Lending**

Secured, guaranteed and private loans to consumers, including home lending and student loans, as well as to small businesses, through broker and intermediary relationships.

### **Managed Assets by Segment**

At December 31, 2006 (dollars in billions)

### **Managed Assets by Region**

At December 31, 2006

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## COMMERCIAL FINANCE GROUP

### Corporate Finance

Our Corporate Finance segment provides a full spectrum of financing alternatives to borrowers ranging from small companies to large multinationals with emphasis on the middle market. We service clients in a broad array of industries with focused specialized groups serving communications, media and entertainment; energy and infrastructure; healthcare; industrial; and sponsor finance sectors in the U.S. and abroad.

We offer loan structures ranging from term loans secured by accounts receivable, inventories and fixed assets to working capital facilities based on operating cash flow and enterprise valuation. Loans may be fixed or variable rate, senior or subordinated and revolving or term. Our clients typically use the proceeds for working capital, asset growth, acquisitions, debtor-in-possession financing, and debt restructurings. Additionally, we provide equipment lending and leasing products including loans, leases, wholesale and retail financing packages, operating leases, and sale-leaseback arrangements to meet our customer's needs.

We also offer clients an array of financial and advisory services through an investment-banking unit. The unit offers capital markets structuring and syndication capabilities, financial risk management services, including interest rate and currency hedges, and advisory services for mergers and acquisitions, commercial real estate and balance sheet restructuring.

Industry focused teams originate business through various intermediaries, referral sources, strategic partnerships and direct calling. We maintain relationships with selected banks, finance companies, hedge funds and other lenders both to obtain business leads and distribute our products. We also purchase and sell participation interests in syndicated loans from and to other financial institutions.

### Transportation Finance

Our Transportation Finance segment specializes in providing customized leasing and secured financing primarily to end-users of aircraft, railcars, and locomotives. Our products include operating leases, single investor leases, sale and leaseback arrangements, and leveraged leases, as well as loans secured by equipment. Our typical customers are major and regional domestic and international airlines, North American railroad companies, and middle-market to larger-sized companies. We generate new business through direct calling, supplemented with transactions introduced by intermediaries and other referrals.

This segment has been servicing the aerospace and rail industries for over 25 years and has built a global presence with operations in the United States, Canada, Europe and Asia. We have extensive experience in managing equipment over its full life cycle, including purchasing new equipment, equipment maintenance, estimating residual values and re-marketing by re-leasing or selling equipment.

The commercial aerospace customers include leading U.S. and foreign commercial airlines. As of December 31, 2006, our commercial aerospace financing and leasing portfolio was \$7.1 billion, consisting of 237 aircraft with a weighted average age of approximately 5 years placed with 92 clients. We have strong relationships across the entire aerospace industry, including the major manufacturers, parts suppliers and carriers. These relationships provide us with access to technical information, which enhances our customer service and provides opportunities to

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finance new business. In 2005, we opened our international aerospace servicing center in Dublin, Ireland, putting us closer to our growing international client base and providing us with favorable tax treatment for certain aircraft leasing operations conducted offshore. See

Concentrations section of *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* and Note 16 Commitments and Contingencies of *Item 8. Financial Statements and Supplementary Data* for further discussion of our aerospace portfolio.

Our dedicated rail equipment group maintains relationships with several leading railcar manufacturers and calls directly on railroads and rail shippers in North America. Our rail portfolio, which totaled \$4.1 billion at December 31, 2006, includes leases to all of the U.S. and Canadian Class I railroads (railroads with annual revenues of at least \$250 million) and other non-rail companies such as shippers and power and energy companies. The operating lease fleet primarily includes: covered hopper cars used to ship grain and agricultural products, plastic pellets and cement; gondola cars for coal, steel coil and mill service; open hopper cars for coal and aggregates; center beam flat cars for lumber; boxcars for paper and auto parts; and tank cars. Our railcar operating lease fleet has an average age of approximately 7 years and approximately 87% (based on net investment) were manufactured in 1997 or later. Our total rail fleet includes approximately 107,000 railcars and 500 locomotives that we own, lease or service.

### Trade Finance

Our Trade Finance segment provides factoring, receivable and collection management products, and secured financing to companies in the apparel, textile, furniture, home furnishings, electronics and other industries. Although primarily U.S.-based, we have increased our international business in Asia and Europe through strategic acquisitions and targeted international calling.

We offer a full range of domestic and international customized credit protection, lending and outsourcing services that include working capital and term loans, factoring, receivable management outsourcing, bulk purchases of accounts receivable, import and export financing and letter of credit programs.

We provide financing to our clients through the purchase of accounts receivable owed to our clients by their customers. We also guarantee amounts due to our clients' suppliers under letters of credit collateralized by accounts receivable and other

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assets. The purchase of accounts receivable is traditionally known as factoring and results in the payment by the client of a factoring fee that is commensurate with the underlying degree of credit risk and recourse, and which is generally a percentage of the factored receivables or sales volume. We also may advance funds to our clients, typically in an amount up to 80% of eligible accounts receivable, charging interest on the advance (in addition to any factoring fees), and satisfying the advance by the collection of the factored accounts receivable. We integrate our clients' operating systems with ours to facilitate the factoring relationship.

Clients use our products and services for various purposes, including improving cash flow, mitigating or reducing credit risk, increasing sales, and improving management information. Further, with our TotalSource<sup>SM</sup> product, our clients can out-source their bookkeeping, collection, and other receivable processing to us. These services are attractive to industries outside the traditional factoring markets. We generate business regionally from a variety of sources, including direct calling efforts and referrals from existing clients and other sources.

### SPECIALTY FINANCE GROUP

#### Vendor Finance

We are a leading global vendor finance company with thousands of vendor relationships and operations serving customers in over 30 countries. We have significant vendor programs in information technology, telecommunications equipment, healthcare and other diversified asset types across multiple industries. Through our global relationships with industry-leading equipment vendors, including manufacturers, dealers, and distributors, we deliver customized financing solutions to both commercial and consumer customers of our vendor partners in a wide array of programs.

Our vendor alliances feature traditional vendor finance programs, joint ventures, profit sharing and other transaction structures with large, sales-oriented partners. In the case of joint ventures, we engage in financing activities jointly with the vendor through a distinct legal entity that is jointly owned. We also use virtual joint ventures, by which we originate the assets on our balance sheet, and share the economic outcomes from the customer financing activity. A key part of these partnership programs is coordinating with the vendor's business planning process and product offering systems to improve execution and reduce cycle times.

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These alliances allow our vendor partners to focus on their core competencies, reduce capital needs and drive incremental sales volume. As a part of these programs, we offer our partners (1) financing to the commercial and consumer end users for the purchase or lease of products, (2) enhanced sales tools such as asset management services, efficient loan processing and real-time credit adjudication, and (3) a single point of contact in our regional servicing hubs to facilitate global sales. In turn, these alliances provide us with a highly efficient origination platform as we leverage our partners' sales forces.

Vendor Finance includes a small and mid-ticket commercial business, which focuses on leasing office equipment, computers and other technology products primarily in the United States and Canada. We originate products through relationships with manufacturers, dealers, distributors and other intermediaries as well as through direct calling.

Vendor Finance also houses CIT Insurance Services, through which we offer insurance and financial protection products in key markets and around the world. We leverage our existing distribution capabilities and alliances with insurance and financial services providers enabling us to offer protection products for small business and middle market clients and consumers. Our offerings to middle market and small business customers range from commercial property & casualty, employee benefits, key person life insurance, and high net worth personal line coverage. For our consumer clients, we offer property coverage, debt protection, credit insurance, as well as supplemental insurance programs. Revenues and profits from Insurance Services are reflected in the business unit with the underlying client relationship.

### Consumer and Small Business Lending

Our Consumer and Small Business segment includes our home lending, student lending and small business lending operations, as well as CIT Bank, a Utah-based industrial bank with deposit-taking capabilities. Our consumer and small business lending activities are principally focused on the U.S. market.

The home lending unit primarily originates, purchases and services loans secured by first liens on detached, single-family, residential properties. Products include fixed and variable-rate closed-end loans and variable-rate lines of credit. The portfolio includes limited second liens and interest only loans but there are no negative amortization products. Customers borrow to finance a home purchase, refinance an existing mortgage, consolidate debts, pay education expenses or for other purposes. Loans are originated through brokers and correspondents with a high proportion of applications processed over the Internet via BrokerEdge<sup>SM</sup>, a proprietary system. Through experienced lending professionals and automation, we provide rapid turnaround time from application to loan funding, which is critical to broker relationships. We also buy and sell individual loans and portfolios of loans from and to banks, thrifts and other originators of consumer loans to maximize the value of our origination network, manage risk and improve profitability. Consumer mortgages are serviced out of our centralized servicing center in Oklahoma City, Oklahoma.

Our student lending unit, which markets under the name Student Loan Xpress, offers student loan products, services, and solutions to students, parents, schools, and alumni associations. We offer government-guaranteed student loans made under the Federal Family Education Loan Program (FFELP), including

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consolidation loans, Stafford loans and Parent Loans for Undergraduate Students (PLUS). Also, in select circumstances, we offer non-federally guaranteed or private education loans to supplement the FFELP loans. We originate and acquire loans through direct consumer marketing, performed either by us or through arrangements with sales-oriented partners, school channel referrals and periodically purchase bulk portfolios of loans from others. The majority of our student loan portfolio is consolidation loans, but our portfolio of Stafford and PLUS loans has continued to grow as we expand our school-oriented sales team. During 2006, we invested in building our in-house servicing capabilities and are now servicing over half of our student loan portfolio in our Cleveland facility.

Our small business lending unit originates and services Small Business Administration and conventional loans for commercial real estate financing, construction, business acquisition and business succession financing. We are a SBA preferred lender and have been recognized as the nation's #1 SBA Lender (based on 7(a) program volume) in each of the last seven years. Loans are granted to qualifying clients in the retail, wholesale, manufacturing and service sectors with franchise finance, medical, dental and daycare being a sampling of the industries we serve. We earn interest revenue on receivables we keep on-balance sheet and recognize gains on receivables sold. We also earn fees for servicing third party assets, which approximated \$2.1 billion at year end.

CIT Bank, with assets of \$2.8 billion and deposits of \$2.3 billion, is located in Salt Lake City, Utah and provides favorable funding rates for various consumer and small business financing programs in both the local and national marketplace. CIT Bank also originates certain loans generated by bank affiliation programs with manufacturers and distributors of consumer products. The Bank is chartered by the state of Utah as



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an industrial bank and is subject to regulation and examination by the Federal Deposit Insurance Corporation and the Utah Department of Financial Institutions.

See Concentrations section of *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* for further discussion of our home and student lending portfolios.

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### 2006 SEGMENT PERFORMANCE

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#### Earnings and Return Summary (dollars in millions)

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	Net Income	Return on Equity
Corporate Finance	\$ 310.9	15.3%
Transportation Finance	307.9	20.7%
Trade Finance	176.2	25.9%
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Total Commercial Finance Group	795.0	18.8%
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Vendor Finance	314.5	27.5%
Consumer & Small Business Lending	155.4	13.9%
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Total Specialty Finance Group	469.9	20.6%
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Corporate and Other	(249.1)	(4.5)%
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Total	\$ 1,015.8	15.0%

See the Results by Business Segments and Concentrations sections of *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Item 7A. Quantitative and Qualitative Disclosures about Market Risk*, and Notes 5 and 20 of *Item 8. Financial Statements and Supplementary Data*, for additional information.

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### EMPLOYEES

CIT employed approximately 7,345 people at December 31, 2006, of which approximately 5,620 were employed in the United States and approximately 1,725 were outside the United States.

### COMPETITION

Our markets are highly competitive, based on factors that vary depending upon product, customer, and geographic region. Our competitors include captive and independent finance companies, commercial banks and thrift institutions, industrial banks, leasing companies, insurance companies, hedge funds, manufacturers, and vendors. Many bank holding, leasing, finance, and insurance companies that compete with us have formed substantial financial services operations with global reach. On a local level, community banks and smaller independent finance and mortgage companies are competitive with substantial local market positions. Many of our competitors are large companies that have substantial capital, technological, and marketing resources. Some of these competitors are larger than we are and may have access to capital at a lower cost than we do. The markets for most of our products have a large number of competitors.

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We compete primarily on the basis of financing terms, structure, client service, and price. From time to time, our competitors seek to compete aggressively on the basis of these factors and we may lose market share to the extent we are unwilling to match competitor product structure, pricing or terms that do not meet our credit standards or return requirements.

Other primary competitive factors include industry experience, equipment knowledge, and relationships. In addition, demand for an industry's services and products and industry regulations will affect demand for our products in some industries.

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### REGULATION

In some instances, our operations are subject to supervision and regulation by federal, state, and various foreign governmental authorities. Additionally, our operations may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions. This oversight may serve to:

- regulate credit granting activities, including establishing licensing requirements, if any, in various jurisdictions,

- establish maximum interest rates, finance charges and other charges,

- regulate customers' insurance coverages,

- require disclosures to customers,

- govern secured transactions,

- set collection, foreclosure, repossession and claims handling procedures and other trade practices,

- prohibit discrimination in the extension of credit and administration of loans, and

- regulate the use and reporting of information related to a borrower's credit experience and other data collection.

Certain of our subsidiaries are subject to regulation from various agencies. The CIT Bank, a Utah industrial bank wholly owned by CIT, is subject to regulation and examination by the Federal Deposit Insurance Corporation and the Utah Department of Financial Institutions. CIT Small Business Lending Corporation, a Delaware corporation, is licensed by and subject to regulation and examination by the U.S. Small Business Administration. CIT Capital Securities L.L.C., a Delaware limited liability company, is a broker-dealer licensed by the National Association of Securities Dealers, and is subject to regulation by the NASD and the Securities and Exchange Commission. CIT Bank Limited, an English corporation, is licensed as a bank and subject to regulation and examination by the Financial Service Authority of the United Kingdom.

Our insurance operations are conducted through the Equipment Insurance Company, a Vermont corporation, and Highlands Insurance Company Limited, a Barbados company. Each company is licensed to enter into insurance contracts. The local regulators in Vermont and Barbados regulate them. In addition, we have various banking corporations in France, Italy, Belgium, Sweden, and the Netherlands and broker-dealer entities in Canada and the United Kingdom, each of which is subject to regulation and examination by banking regulators and securities regulators in their home country.

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### GLOSSARY OF TERMS

**Average Earning Assets (AEA)** is the average during the reporting period of finance receivables, operating lease equipment, financing and leasing assets held for sale, and some investments, less the credit balances of factoring clients. We use this average for certain key profitability ratios, including return on AEA and net finance revenue as a percentage of AEA.

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**Average Finance Receivables (AFR)** is the average during the reporting period of finance receivables and includes loans and finance leases. It excludes operating lease equipment. We use this average to measure the rate of net charge-offs on an owned basis for the period.

**Average Managed Assets (AMA)** is the average earning assets plus the average of finance receivables previously securitized and still managed by us. We use this average to measure the rate of net charge-offs on a managed basis for the period, to monitor overall credit performance, and to monitor expense control.

**Capital** is the sum of common equity, preferred stock, and preferred capital securities.

**Derivative Contract** is a contract whose value is derived from a specified asset or an index, such as interest rates or foreign currency exchange rates. As the value of that asset or index changes, so does the value of the derivative contract. We use derivatives to reduce interest rate, foreign currency or credit risks. We also offer derivatives to our own customers to enable those customers to reduce their own interest rate, foreign currency or credit risks. The derivative contracts we use include interest-rate swaps, cross-currency swaps, foreign exchange forward contracts, and credit default swaps.

**Efficiency Ratio** is the percentage of salaries and general operating expenses (including provision for restructuring) to Total Net Revenue before provision for credit losses. We use the efficiency ratio to measure the level of expenses in relation to revenue earned.

**Finance Revenue** includes interest income on finance receivables and rental income on operating leases.

**Financing and Leasing Assets** include loans, capital and finance leases, leveraged leases, operating leases, assets held for sale, and other investments.

**Lease capital and finance** is an agreement in which the party who owns the property (lessor) permits another party (lessee) to use the property with substantially all of the economic benefits and risks of ownership passed to the lessee.

**Lease leveraged** is a lease in which a third party, a long-term creditor, provides non-recourse debt financing. We are party to these lease types either as a creditor or as the lessor.

**Lease tax-optimized leveraged lease** is a lease in which we are the lessor and a third-party creditor has a priority claim to the leased equipment. We have an increased risk of loss in the event of default in comparison to other leveraged leases, because they typically feature higher leverage to increase tax benefits.

**Lease operating** is a lease in which we retain beneficial ownership of the asset, collect rental payments, recognize depreciation on the asset, and retain the risks of ownership, including obsolescence.

**Managed Assets** are comprised of finance receivables, operating lease equipment, financing and leasing assets held for sale, some investments, and receivables securitized and still managed by us. The change in managed assets during a reporting period is one of our measurements of asset growth.

**Net Finance Revenue** reflects finance revenue after interest expense and depreciation on operating lease equipment, which is a direct cost of equipment ownership. This subtotal is a key measure in the evaluation of our business.

**Net Finance Revenue after Credit Provision** reflects net finance revenue after credit costs. This subtotal is also called risk adjusted revenue by management as it reflects the periodic cost of credit risk.

**Net Income Available to Common Shareholders ( net income )** reflects net income after preferred dividends and is utilized to calculate return on common equity and other performance measurements.

**Non-GAAP Financial Measures** are balances, amounts or ratios that do not readily agree to balances disclosed in financial statements presented in accordance with accounting principles generally accepted in the U.S. We use non-GAAP measures to provide additional information and insight into how current operating results and financial position of the business compare to historical operating results and the financial position of the business and trends, as well as adjusting for certain nonrecurring or unusual transactions.

**Non-performing Assets** include loans placed on non-accrual status, due to doubt of collectibility of principal and interest, and repossessed assets.

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**Other Revenue** includes syndication fees, gains from dispositions of receivables and equipment, factoring commissions, loan servicing and other fees (also known as non-spread revenue ).

**Retained Interest** is the portion of the interest in assets we retain when we sell assets in a securitization transaction.

**Residual Values** represent the estimated value of equipment at the end of the lease term. For operating leases, it is the value to which the asset is depreciated at the end of its useful economic life (i.e., salvage or scrap value ).

**Return on Common Equity (ROE)** is net income available to common stockholders, expressed as a percentage of average common equity, and is a key measurement of profitability.

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**Special Purpose Entity (SPE)** is a distinct legal entity created for a specific purpose in order to isolate the risks and rewards of owning its assets and incurring its liabilities. We typically use SPEs in securitization transactions, joint venture relationships, and certain structured leasing transactions.

**Syndication and Sale of Receivables** result from originating leases and receivables with the intent to sell a portion, or the entire balance, of these assets to other financial institutions. We earn and recognize fees and/or gains on sales, which are reflected in other revenue, for acting as arranger or agent in these transactions.

**Tangible Metrics** exclude goodwill, other intangible assets, and some comprehensive income items. We use tangible metrics in measuring capitalization.

**Total Net Revenue** is the total of net finance revenue and other revenue.

**Yield-related Fees** are collected in connection with our assumption of underwriting risk in certain transactions in addition to interest income. We recognize yield-related fees, which include prepayment fees and certain origination fees, in Finance Revenue over the life of the lending transaction.

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## ITEM 1A. Risk Factors

You should carefully consider the following discussion of risks, and the other information provided in this Annual Report on Form 10-K. The risks described below are not the only ones facing us. Additional risks that are presently unknown to us or that we currently deem immaterial may also impact our business.

### **WE MAY BE ADVERSELY AFFECTED BY DETERIORATION IN ECONOMIC CONDITIONS THAT IS GENERAL OR SPECIFIC TO INDUSTRIES, PRODUCTS OR GEOGRAPHIES.**

A recession or downturn in the economy or affecting specific industries, geographic locations and / or products could make it difficult for us to originate new business, given the resultant reduced demand for consumer or commercial credit. In addition, a downturn in certain industries may result in a reduced demand for the products that we finance in that industry or negatively impact collection and asset recovery efforts.

As a result, credit quality may also be impacted during an economic slowdown or recession as borrowers may fail to meet their debt payment obligations. Adverse economic conditions may also result in declines in collateral values. Accordingly, higher credit and collateral related losses could impact our financial position or operating results.

### **WE COMPETE WITH A VARIETY OF FINANCING SOURCES FOR OUR CUSTOMERS.**

Our markets are highly competitive and are characterized by competitive factors that vary based upon product and geographic region. Our competitors are varied and include captive and independent finance companies, commercial banks and thrift institutions, industrial banks, community banks, leasing companies, hedge funds, insurance companies, mortgage companies, manufacturers and vendors.

Competition from both traditional competitors and new market entrants has intensified in recent years due to a strong economy, growing marketplace liquidity and increasing recognition of the attractiveness of the commercial finance markets. In addition, the rapid growth of the securitization markets is dramatically expanding access to capital, which is the principal barrier to entry into these markets.

We compete primarily on the basis of pricing, terms and structure. To the extent that our competitors compete aggressively on any combination of those factors, we could lose market share. Should we match competitors' terms, it is possible that we could experience margin compression and/or increased losses.

**INVESTMENT IN AND REVENUES FROM OUR FOREIGN OPERATIONS ARE SUBJECT TO THE RISKS ASSOCIATED WITH TRANSACTING BUSINESS IN FOREIGN COUNTRIES.**

An economic recession or downturn, increased competition, or business disruption associated with the political or regulatory environments in the international markets in which we operate could adversely affect us. In addition, while we generally hedge our translation and transaction exposures, foreign currency exchange rate fluctuations, or the inability to hedge effectively in the future, could have a material adverse effect on the investment in international operations and the level of international revenues that we generate from international asset based financing and leasing. Reported results from our operations in foreign countries may fluctuate from period to period due to exchange rate movements in relation to the U.S. dollar, particularly exchange rate movements in the Canadian dollar, which is our largest non-U.S. exposure.

**ITEM 1A. RISK FACTORS**

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**WE MAY NOT BE ABLE TO REALIZE OUR ENTIRE INVESTMENT IN THE EQUIPMENT WE LEASE.**

The realization of equipment values (residual values) at the end of the term of a lease is an important element in the leasing business. At the inception of each lease, we record a residual value for the leased equipment based on our estimate of the future value of the equipment at the expected disposition date. Experienced internal equipment management specialists, as well as external consultants determine residual values.

A decrease in the market value of leased equipment at a rate greater than the rate we projected, whether due to rapid technological or economic obsolescence, unusual wear and tear on, or use of, the equipment or other factors, would adversely affect the residual values of such equipment. Further, certain equipment residual values, including commercial aerospace residuals, are dependent on the manufacturer's / vendor's warranties, reputation and other factors. Consequently, there can be no assurance that our estimated residual values for equipment will be realized.

The degree of residual realization risk varies by transaction type. Capital leases bear the least risk because contractual payments cover approximately 90% of the equipment's cost at the inception of the lease. Operating leases have a higher degree of risk because a smaller percentage of the equipment's value is covered by contractual cashflows at lease inception. We record periodic depreciation expense on operating lease equipment based upon estimates of the equipment's useful life and the estimated future value of the equipment at the end of its useful life. Leveraged leases bear the highest level of risk as third parties have a priority claim on equipment cashflows.

**OUR RESERVES FOR CREDIT LOSSES MAY PROVE INADEQUATE OR WE MAY BE NEGATIVELY AFFECTED BY CREDIT RISK EXPOSURES.**

Our business depends on the creditworthiness of our customers. We maintain a consolidated reserve for credit losses on finance receivables that reflects management's judgment of losses inherent in the portfolio. We periodically review our consolidated reserve for adequacy considering economic conditions and trends, collateral values and credit quality indicators, including past charge-off experience and levels of past due loans and non-performing assets. We cannot be certain that our consolidated reserve for credit losses will be adequate over time to cover credit losses in our portfolio because of unanticipated adverse changes in the economy or events adversely affecting specific customers, industries or markets. If the credit quality of our customer base materially decreases, or if our reserves for credit losses are not adequate, our business, financial condition and results of operations may suffer.

In addition to customer credit risk associated with originating loans and leases, we are also exposed to other forms of credit risk including counterparties to our derivative transactions, loan sales, syndications and equipment purchases. These counterparties include other financial institutions, manufacturers and our customers. To the extent that our credit underwriting processes or credit risk judgments fail to adequately identify or assess such risks, or if the credit quality of our derivative counterparties, customers, manufacturers, or other parties with which we conduct business materially deteriorates, we may be exposed to credit risk related losses that may negatively impact our financial condition, results of operations or cash flows.

**OUR LIQUIDITY OR ABILITY TO RAISE CAPITAL MAY BE LIMITED.**

We rely upon access to the capital markets to fund asset growth and to provide sources of liquidity. We actively manage and mitigate liquidity risk by: 1) maintaining diversified sources of funding; 2) maintaining committed alternate sources of funding; 3) maintaining a contingency funding plan to be implemented in the event of market disruption; and 4) issuing debt with maturity schedules designed to mitigate refinancing risk. Although we believe that we will maintain sufficient access to the capital markets, adverse changes in the economy, deterioration in our business performance or changes in our credit ratings could limit our access to these markets.

**WE MAY BE ADVERSELY AFFECTED BY SIGNIFICANT CHANGES IN INTEREST RATES.**

Although we generally employ a matched funding approach to managing our interest rate risk, including matching the repricing characteristics of our assets with our liabilities, significant increases in market interest rates, or the perception that an increase may occur, could adversely affect both our ability to originate new finance receivables and our ability to grow. Conversely, a decrease in interest rates could result in accelerated prepayments of owned and managed finance receivables.

**THE REGULATED ENVIRONMENT IN WHICH WE OPERATE MAY ADVERSELY AFFECT US.**

Our domestic operations are subject, in certain instances, to supervision and regulation by state and federal authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions. Noncompliance with applicable statutes or regulations could result in the suspension or revocation of any license or registration at issue, as well as the imposition of civil fines and criminal penalties.

The financial services industry is heavily regulated in many jurisdictions outside the United States. As a result, growing our international operations may be challenged by the varying requirements of these jurisdictions. Given the evolving nature of regulations in many of these jurisdictions, it may be difficult for us to meet these requirements even after we establish operations and receive regulatory approvals. Our inability to remain in compliance with regulatory requirements in a particular jurisdiction could have a material adverse effect on our operations in that market and on our reputation generally.

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**OUR ACQUISITION OR DISPOSITION OF BUSINESSES OR ASSET PORTFOLIOS MAY ADVERSELY AFFECT OUR BUSINESS.**

As part of our long-term business strategy, we may pursue acquisitions of other companies or asset portfolios as well as dispose of non-strategic businesses or asset portfolios. Future acquisitions may result in potentially dilutive issuances of equity securities and the incurrence of additional debt, which could have a material adverse effect on our business, financial condition and results of operations. Such acquisitions may involve numerous other risks, including: difficulties in integrating the operations, services, products and personnel of the acquired company; the diversion of management's attention from other business concerns; entering markets in which we have little or no direct prior experience; and the potential loss of key employees of the acquired company. In addition, acquired businesses and asset portfolios may have credit-related risks arising from substantially different underwriting standards associated with those businesses or assets.

In the event of future dispositions of our businesses or asset portfolios, there can be no assurance that we will receive adequate consideration for those businesses or assets at the time of their disposition or will be able to adequately replace the volume associated with the businesses or asset portfolios that we dispose of with higher-yielding businesses or asset portfolios having acceptable risk characteristics. As a result, our future disposition of businesses or asset portfolios could have a material adverse effect on our business, financial condition and results of operations.

**OTHER REVENUE MAY BE MORE VOLATILE THAN NET FINANCE REVENUE.**

We are pursuing strategies to leverage our expanded asset generation capability and diversify our revenue base to increase other revenue as a percentage of total revenue. We invested in infrastructure and personnel focused on increasing other revenue in order to generate higher levels of syndication and participation income, advisory fees, servicing fees and other types of fee income. While these revenue streams do not involve the assumption of underwriting risk, they are dependent on prospective market conditions and, therefore, can be more volatile than interest on loans and rentals on leased equipment.

Reduced liquidity in the capital markets could reduce the level of revenue and gains on sales and syndications. Disruption to the capital markets, our failure to implement these initiatives successfully, or the failure of such initiatives to result in increased asset and revenue levels, could adversely affect our financial position and results of operations.

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## ITEM 1B. Unresolved Staff Comments

There are no unresolved SEC staff comments.

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## ITEM 2. Properties

CIT operates in the United States, Canada, Europe, Latin America, Australia and the Asia-Pacific region. CIT occupies approximately 2.3 million square feet of office space, the majority of which is leased. Such office space is suitable and adequate for our needs and we utilize, or plan to utilize, substantially all of our leased office space.

ITEM 2. PROPERTIES

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## ITEM 3. Legal Proceedings

### **NORVERGENCE RELATED LITIGATION**

Several lawsuits were filed against various financial institutions, including CIT, relating to equipment leases the financial institutions had acquired from NorVergence Inc. ( NorVergence Leases ), a reseller of telecommunications and internet services to businesses. The complaints alleged that NorVergence misrepresented the capabilities of the equipment leased to its customers and overcharged for the equipment, and that the NorVergence Leases are unenforceable. Plaintiffs sought rescission, punitive damages, treble damages and attorneys' fees. All of these actions as against CIT have been either settled or dismissed, except for one action commenced as a mass action in NorVergence's bankruptcy case, which currently has only four remaining plaintiffs.

Beginning in August 2004, the Attorneys General of several states commenced investigations of NorVergence and financial institutions that purchased NorVergence Leases, including CIT. CIT entered into settlement agreements with the Attorneys General in each of these states, except for Texas. CIT also has produced documents for transactions related to NorVergence at the request of the Federal Trade Commission ( FTC ) and pursuant to a subpoena in a grand jury proceeding being conducted by the U.S. Attorney for the Southern District of New York in connection with an investigation of transactions related to NorVergence.

On July 14, 2006, the trustee appointed in NorVergence's bankruptcy case filed a complaint against 44 defendants, including CIT and other financing companies. The trustee alleges that the defendants aided and abetted NorVergence in the commission of fraud. CIT denies these allegations and this litigation is not expected to have a material adverse effect on the Company's financial statements.

### **OTHER LITIGATION**

In addition, there are various legal proceedings that have been brought against CIT in the ordinary course of business. While the outcomes of the NorVergence related litigation and the ordinary course legal proceedings, and the related activities, are not certain, based on present assessments, management does not believe that they will have a material adverse effect on the Company's financial statements.

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## ITEM 4. Submission of Matters to a Vote of Security Holders

We did not submit any matters to a vote of security holders during the three months ended December 31, 2006.

## Part Two

## ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the New York Stock Exchange. The following table sets forth the high and low reported closing prices for CIT's common stock for each of the quarterly periods in the two years ended December 31, 2006.

Common Stock Price	2006		2005	
	High	Low	High	Low
First Quarter	\$55.05	\$51.38	\$46.07	\$37.40
Second Quarter	\$55.95	\$48.89	\$43.17	\$35.45
Third Quarter	\$53.51	\$42.44	\$46.80	\$42.60
Fourth Quarter	\$56.35	\$47.74	\$52.62	\$43.62

During the year ended December 31, 2006, we paid a dividend of \$0.20 per common share each quarter for a total of \$0.80 per share. During the year ended December 31, 2005, we paid a dividend of \$0.13 per common share for the first quarter and \$0.16 for each of the following three quarters for a total of \$0.61 per share. On January 16, 2007, the Board of Directors approved a quarterly dividend of \$0.25 per share to be paid February 28, 2007, to shareholders of record on February 15, 2007.

Our dividend practice is to pay a dividend while maintaining a strong capital base. The declaration and payment of future dividends are subject to the discretion of our Board of Directors. Any determination as to the payment of dividends, including the level of dividends, will depend on, among other things, general economic and business conditions, our strategic and operational plans, our financial results and condition, contractual, legal and regulatory restrictions on the payment of dividends by us, and such other factors as the Board of Directors may consider to be relevant.

As of February 15, 2007, there were 93,253 beneficial owners of CIT common stock.

All equity compensation plans in effect during 2006 were approved by our shareholders, and are summarized in the following table.

	Number of Securities to be Issued Upon Exercise of Outstanding Options <sup>(1)</sup>	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A))
	(A)	(B)	(C)
Equity Compensation Plans Approved by Security Holders	14,988,882	\$41.78	9,891,709



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(1) Excludes 263,523 unvested restricted shares and 2,434,281 unvested performance shares outstanding under the Long-Term Equity Compensation Plan. We had no equity compensation plans that were not approved by shareholders. For further information on our equity compensation plans, including the weighted average exercise price, see *Item 8. Financial Statements and Supplementary Data*, Note 15.

### ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY

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The following table details the repurchase activity of CIT common stock during the quarter ended December 31, 2006.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
Balance at September 30, 2006	15,078,794			1,271,597
October 1 - 31, 2006	443,100	\$49.59	443,100	828,497
November 1 - 30, 2006	402,900	\$51.99	402,900	425,597
December 1 - 31, 2006	185,300	\$54.00	185,300	240,297
<b>Total Purchases</b>	<b>1,031,300</b>			
Reissuances <sup>(1)</sup>	849,530			
<b>Balance at December 31, 2006</b>	<b>15,260,564</b>			

(1) Includes the issuance of shares of our common stock upon exercise of stock options and the vesting of restricted stock.

On January 16, 2007, our Board of Directors approved a continuation of the common stock repurchase program to acquire up to an additional 5 million shares of our outstanding common stock in conjunction with employee equity compensation programs, in addition to the 240,297 shares remaining from the previous program (approved on January 17, 2006). The program authorizes the Company to purchase shares on the open market, in other privately negotiated transactions or a combination thereof from time to time over a two-year period beginning January 17, 2007. The repurchased common stock is held as treasury shares and may be used for the issuance of shares under CIT's employee stock plans. Acquisitions under the share repurchase program will be made from time to time at prevailing prices as permitted by applicable laws, and subject to market conditions and other factors. The program may be discontinued at any time and is not expected to have a significant impact on our capitalization.

On January 24, 2007, the Company agreed to purchase \$500 million of its common stock through an accelerated stock buyback program with BNP Paribas (BNP). The program concludes on June 28, 2007. The Company's Board of Directors authorized this accelerated repurchase program in addition to the previously discussed increase in the Company's share repurchase program approved on January 16, 2007.

## ITEM 6. Selected Financial Data

The following tables set forth selected consolidated financial information regarding our results of operations and balance sheets. The data presented below should be read in conjunction with *Item 7. Management's Discussion and Analysis of Financial Condition and Results of*

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Operations and Item 7A. Quantitative and Qualitative Disclosures about Market Risk and Item 8. Financial Statements and Supplementary Data.

(dollars in millions, except per share data)

	At or for the Years Ended December 31,				At or for the Three Months Ended December 31, 2002	At or for the Year Ended September 30, 2002
	2006	2005	2004	2003		
<b>Results of Operations</b>						
Total net revenue	\$ 3,036.4	\$ 2,772.6	\$ 2,422.4	\$ 2,162.4	\$ 596.9	\$ 2,551.7
Provision for credit losses	222.2	217.0	214.2	387.3	133.4	788.3
Salaries and general operating expenses	1,382.6	1,113.8	1,012.1	888.2	227.5	903.3
Net income (loss)	1,015.8	936.4	753.6	566.9	141.3	(6,698.7)(2)
Net income (loss) per share(1) diluted	5.00	4.44	3.50	2.66	0.67	(31.66)
Dividends per share(1)	0.80	0.61	0.52	0.48	0.12	
<b>Balance Sheet Data</b>						
Total finance receivables	\$ 55,064.9	\$ 44,294.5	\$ 35,048.2	\$ 31,300.2	\$ 27,621.3	\$ 28,459.0
Reserve for credit losses	659.3	621.7	617.2	643.7	760.8	777.8
Operating lease equipment, net	11,017.9	9,635.7	8,290.9	7,615.5	6,704.6	6,567.4
Goodwill and intangible assets, net	1,008.4	1,011.5	596.5	487.7	400.9	402.0
Total assets	77,067.9	63,386.6	51,111.3	46,342.8	41,932.4	42,710.5
Total debt	60,704.8	47,864.5	37,724.8	33,668.6	31,938.5	32,713.7
Total stockholders' equity	7,751.1	6,962.7	6,055.1	5,394.2	4,870.7	4,757.8
<b>Selected Data and Ratios</b>						
<b>Profitability</b>						
Net income (loss) as a percentage of average common stockholders' equity	15.0%	15.1%	13.2%	10.9%	11.7%	(125.1)%
Net finance revenue as a percentage of AEA	3.11%	3.40%	3.94%	3.64%	4.22%	4.57%
Efficiency ratio	46.2%	41.1%	41.8%	41.1%	38.1%	35.4%
<b>Credit Quality</b>						
60+ days contractual delinquencies	2.40%	1.71%	1.73%	2.16%	3.63%	3.76%
Net credit losses	0.45%	0.60%	0.91%	1.77%	2.32%	1.67%
Reserve for credit losses, excluding specific reserves as a percentage of finance receivables, excluding student lending	1.30%	1.31%	1.46%	1.49%	1.57%	1.32%
<b>Other</b>						
Total managed assets	\$ 74,163.2	\$ 62,866.4	\$ 53,470.6	\$ 49,735.6	\$ 46,357.1	\$ 47,622.3
Tangible stockholders' equity to managed assets	9.4%	9.8%	10.7%	10.4%	10.4%	9.9%

(1) Net income (loss) and dividend per share calculations for the periods preceding September 30, 2002 assume that common shares outstanding as a result of the July 2002 IPO (basic and diluted of 211.6 million and 211.7 million) were outstanding during such historical periods.

(2) Includes goodwill impairment charge of \$6,511.7 million.

## ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and

## ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

### INTRODUCTION

In the following discussion we use financial terms that are relevant to our business. You can find a glossary of other key terms used in our business in Part I *Item 1. Business* section.

This Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk contain certain non-GAAP financial measures. See *Non-GAAP Financial Measurements* for reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures.

<b>KEY PERFORMANCE METRICS AND MEASUREMENTS</b>	
<p><b>Profitability</b> Our ability to generate income on investments to produce returns to our shareholders and build our capital base to support future growth. We measure our performance in this area with:</p>	<ul style="list-style-type: none"> <li>● Net income per common share (EPS);</li> <li>● Net income as a percentage of average common equity (ROE); and</li> <li>● Net income as a percentage of average earning assets (ROA).</li> </ul>
<p><b>Asset Generation</b> Our ability to originate new business, build our earning assets and generate other revenue. We measure our performance in these areas with:</p>	<ul style="list-style-type: none"> <li>● Origination volumes by segment;</li> <li>● Sales force productivity; and</li> <li>● Levels of financing and leasing assets and managed assets.</li> </ul>
<p><b>Revenue Generation</b> Our ability to lend money at rates in excess of our cost of borrowing, earn rentals on the equipment we lease, and generate other revenue. We measure our performance in this area with:</p>	<ul style="list-style-type: none"> <li>● Finance revenue as a percentage of average earning assets (AEA);</li> <li>● Net finance revenue as a percentage of AEA;</li> <li>● Operating lease revenue as a percentage of average operating lease equipment (AOL); and</li> <li>● Levels of net finance revenue and other revenue.</li> </ul>
<p><b>Liquidity and Market Rate Risk Management</b> Our ability to obtain funding at competitive rates, which depends on maintaining quality assets, strong capital ratios, and credit ratings, and our ability to manage our interest rate and currency rate risk, where our goal is to substantially insulate our interest margins and profits from movements in market interest rates and foreign currency exchange rates. We measure our liquidity and market rate risk management with:</p>	<ul style="list-style-type: none"> <li>● Various interest sensitivity and liquidity measurements, which we discuss in <i>Risk Management</i>.</li> </ul>

<b>KEY PERFORMANCE METRICS AND MEASUREMENTS (continued)</b>	
<p><b>Credit Risk Management</b> Our ability to evaluate the credit-worthiness of our customers, both during the credit granting process and after the advancement of funds, and to maintain high-quality assets while balancing income potential with adequate credit loss reserve levels. We assess our credit risk management with:</p>	<ul style="list-style-type: none"> <li>● Non-performing assets as a percentage of finance receivables;</li> <li>● Delinquent assets as a percentage of finance receivables;</li> </ul>

	<ul style="list-style-type: none"> <li>● Reserve for credit losses as a percentage of finance receivables, delinquent assets, and non-performing assets;</li> <li>● Concentration risk by geographic region, industry and customer; and</li> <li>● Net charge-offs as a percentage of average finance receivables.</li> </ul>
<p><b>Equipment and Residual Risk Management</b> Our ability to evaluate collateral risk in leasing and lending transactions and to remarket equipment at lease termination. We measure these activities with:</p>	<ul style="list-style-type: none"> <li>● Gains and losses on equipment sales; and</li> <li>● Equipment utilization and value of equipment off-lease.</li> </ul>
<p><b>Expense Management</b> Our ability to maintain efficient operating platforms and infrastructure in order to run our business at competitive cost levels. We track our efficiency with:</p>	<ul style="list-style-type: none"> <li>● Efficiency ratio, which is the ratio of operating expenses to total net revenue; and</li> <li>● Operating expenses as a percentage of average managed assets ( AMA ).</li> </ul>
<p><b>Capital Management</b> Our ability to maintain a strong capital base to support our debt credit ratings and asset growth. We measure our performance in this area with:</p>	<ul style="list-style-type: none"> <li>● Tangible capital base;</li> <li>● Tangible book value per common share; and</li> <li>● Tangible capital as a percentage of managed assets.</li> </ul>

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PROFITABILITY AND KEY BUSINESS TRENDS

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**Income Metrics**

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Diluted earnings per share increased 13% and 27% in 2006 and 2005, while net income grew 8% in 2006 and 24% in 2005, as we continued to execute on our strategies to leverage our origination platforms and to optimize the use of our capital. Specifically, improvements were driven by:

Record loan and lease origination volume	New business origination volume for both 2006 and 2005, excluding factoring, reached record levels due to strong growth in originations across most businesses, reflecting additional sales personnel as well as improved sales force productivity.
Broad-based asset growth	Managed assets grew 18% during both 2006 and 2005, led by asset growth in our consumer portfolios (student lending and home lending) and in a number of commercial portfolios (aerospace, healthcare and communications, media and entertainment).
Increased total net revenue, including other revenue (which we also refer to as non-spread revenue )	Total net revenue increased, reflecting strong asset growth coupled with improved other revenue due to strong fee and other income, as well as higher gains from asset sales and syndications.
Lower tax expense	The income tax rate reductions over the past two years reflect the continued relocation and funding of certain aerospace assets offshore and improved earnings from international operations.
Stable credit metrics, including reduced charge-offs	Charge-offs as a percentage of finance receivables were 0.45% in 2006, versus 0.60% and 0.91% in the prior two years, as charge-offs in the commercial portfolios were lower in both years.

These improvements were tempered by lower margins (net finance revenue as a percentage of AEA), reflecting a change in asset mix, and higher funding costs due to higher short-term interest rates coupled with longer term debt maturities and competitive market conditions. In addition, higher operating expenses, which reflected investments in our sales force, new business lines, technology and other back-office expenses in support of growth initiatives, tempered income.

Noteworthy items that impacted operating business trends during 2006 are summarized below and include the corresponding effect on diluted earnings per share.

Tax expense includes favorable items totaling \$69.7 million, primarily in Transportation Finance due to the relocation and funding of aircraft assets to lower tax jurisdictions, resulting in a release of deferred income tax liabilities (\$0.34 diluted EPS increase);

In conjunction with the relocation of the Transportation Finance aerospace assets, we incurred \$3.6 million in after-tax debt prepayment charges on higher cost debt related to these aerospace assets (\$0.02 decrease);

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We initiated a program in Transportation Finance to sell our remaining engines used to power older, out-of-production aircraft totaling \$20 million, along with certain types of older, under-performing rail cars totaling \$40 million. These assets were reclassified to held for sale and reduced to estimated fair value, resulting in an after-tax loss of approximately \$9.2 million (\$0.05 decrease); and

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CIT GROUP INC 2006

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After-tax charges totaling \$15.7 million were recorded in Corporate and Other, comprised of termination benefits relating to business realignments and expenses associated with the exit of a New York city office building (\$0.07 decrease).

Noteworthy items, which are reconciled to the comparable GAAP measure in *Non-GAAP Financial Measurements*, added \$54.2 million (\$0.26 diluted EPS) and \$34.7 million (\$0.16 diluted EPS) to net income in 2005 and 2004. Excluding the noteworthy items in all years, net income increased 10% and 23% for 2006 and 2005 and diluted earnings per share increased 15% and 25%. The earnings per share growth rates exceeded the net income growth rates, primarily due to a reduction in share count resulting from common share repurchases and the issuance of preferred stock. In 2006, we began expensing of employee stock options under new accounting rules. We continue to report prior year option expense amounts only as proforma disclosure in Note 2.

See *Non-GAAP Financial Measurements* for additional information.

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### Return Metrics

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Return on average common equity was 15.0%, 15.1% and 13.2% for 2006, 2005 and 2004 (14.3%, 14.2% and 12.6% excluding noteworthy items). Return on average earning assets was 1.75%, 1.95% and 1.93% (1.68%, 1.83% and 1.84% excluding noteworthy items) for the same period. The contrast between the trends in the return on equity and return on assets is due to the 2005 capital initiatives (including stock repurchases and preferred stock issuance) and the higher proportion of lower yielding student and home lending assets in 2006 and 2005.

Average earning assets grew 21% and 23%, and ending managed assets grew 18% during both 2006 and 2005. Our focus remains on prudent portfolio growth, as we continue to supplement growth with strategic acquisitions, and to leverage our origination platforms via the syndication or sale of receivables to generate other revenue. Origination volume, excluding factoring, grew in excess of 30% in both 2006 and 2005 and increased to a record \$41.3 billion, due to strong growth in originations across most businesses, reflecting additional sales personnel as well as improved sales force productivity.

We generate revenue by earning interest income on the loans we hold on our balance sheet, collecting rentals on the equipment we lease, and earning fees and other income for the financial services we provide. In addition, we syndicate and sell certain finance receivables and equipment to leverage our origination capabilities, reduce concentrations, manage the balance sheet and improve profitability. In conjunction with our strategy to diversify and grow our revenue streams, with other revenue being a larger component, we will continue to pursue opportunities to leverage our platforms by originating, distributing and managing assets for third party investors. In 2007, we plan to execute a collateralized loan obligation structure, and evaluate transactions with third party investors to redeploy capital related to our commercial aerospace assets. These transactions are part of our asset management strategy.

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REVENUE

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Revenue (dollars in millions)

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The trend in our total net revenues in the three-year period from 2004-2006 reflects both asset growth and a focus on other revenue growth, including strong fee and other income, as well as higher syndication fees and loan and lease equipment sale gains. Non-spread revenue accounted for 41% of net revenue in 2006 and 2005, up from 37% in 2004. Excluding noteworthy items discussed in *Profitability and Key Business Trends*, other revenue was 41% in 2006 and 39% in 2005.

See *Non-GAAP Financial Measurements* for additional information.

## NET FINANCE REVENUE

### Net Finance Revenue for the years ended December 31 (dollars in millions)

	2006	2005	2004
Finance income loans and capital leases	\$ 3,973.3	\$ 3,018.7	\$ 2,363.8
Rental income on operating leases	1,720.6	1,496.5	1,397.0
Finance revenue	5,693.9	4,515.2	3,760.8
Less: Interest expense	2,867.8	1,912.0	1,260.1
Depreciation on operating lease equipment	1,023.5	968.0	965.4
Net finance revenue	\$ 1,802.6	\$ 1,635.2	\$ 1,535.3
Average Earning Assets ( AEA )	\$ 58,003.3	\$ 48,128.2	\$ 39,011.3
<b>As a % of AEA:</b>			
Finance income loans and capital leases	6.85%	6.27%	6.06%
Rental income on operating leases	2.96%	3.11%	3.58%
Finance revenue	9.81%	9.38%	9.64%
Less: Interest expense	4.94%	3.97%	3.23%
Depreciation on operating lease equipment	1.76%	2.01%	2.47%
Net finance revenue	3.11%	3.40%	3.94%

### As a % of AOL:



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	2006	2005	2004
Rental income on operating leases	16.45%	17.03%	17.86%
Depreciation on operating lease equipment	9.79%	11.02%	12.34%
Net operating lease revenue	6.66%	6.01%	5.52%
Average Operating Lease Equipment ( AOL )	\$ 10,458.8	\$ 8,788.5	\$ 7,821.2

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CIT GROUP INC 2006

Net finance revenue increased 10% and 7% from the prior year in 2006 and 2005, due to 21% and 23% increases in average earning assets. Net finance revenue declined in 2006 and 2005 as a percentage of average earning assets as summarized in the table below:

**Years ended December 31**

	2006	2005
Net finance revenue prior year	3.40%	3.94%
Change in asset mix	(0.10)%	(0.30)%
Asset/liability management	(0.13)%	(0.15)%
Other factors	(0.06)%	(0.09)%
Net finance revenue current year	3.11%	3.40%

The growth of the lower rate, U.S. government guaranteed student lending portfolio reduced finance revenue percentages, as net finance revenue as a percentage of AEA excluding student lending was 3.43% and 3.64% in 2006 and 2005. The affect of asset/liability management reflects rising borrowing costs due to higher market interest rates, coupled with our more conservative liquidity profile in 2006 and 2005, including the continued maturity extension of the debt portfolio and increased alternative liquidity facilities and slightly higher leverage. The remaining variance reflects competitive pricing from increased liquidity sources for customers in many of our lending businesses and lower yield-related fees. The lower yield-related fees in both years reflected liquidity in the market place, along with a shift in fees normally reflected in net finance revenue to other revenue due to our syndication efforts.

In both 2006 and 2005, the proportion of longer-lived aerospace and rail assets in Transportation Finance increased from the preceding year. These longer-lived assets have lower rental rates and lower annual depreciation rates as a percentage of the average operating lease assets than small to mid-ticket leasing assets in Vendor Finance and Corporate Finance. As a result, operating lease rentals and depreciation expense each declined as a percentage of average operating lease assets during both years. The increase in net operating lease margin as a percentage of operating lease assets reflected strengthening rental rates in both aerospace and rail, including the impact of higher interest rates. Our commercial aircraft portfolio was fully utilized at December 31, 2006 and the rail fleet was virtually fully utilized during 2006. See *Concentrations Operating Leases* for additional information regarding operating lease assets.

**OTHER REVENUE**

**Other Revenue for the years ended December 31** (dollars in millions)

	2006	2005	2004
Fees and other income	\$ 546.1	\$ 473.7	\$ 430.5
Gains on receivable sales and syndication fees	298.3	163.3	88.1
Factoring commissions	233.4	235.7	227.0
Gains on sales of leasing equipment	122.8	91.9	101.6
Gains on securitizations	47.0	39.1	59.1

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Charges related to transportation assets transferred to held for sale	(15.0)	(86.6)	
Gain on sale of real estate investment		115.0	
Gain on sale of micro-ticket leasing business unit		44.3	
Gain on sale of business aircraft		22.0	
Gain on derivatives		43.1	
Charge related to manufactured housing assets held for sale		(20.0)	(15.7)
Net gain (loss) on venture capital investments	1.2	15.9	(3.5)
	<u>          </u>	<u>          </u>	<u>          </u>
Total other revenue	\$ 1,233.8	\$ 1,137.4	\$ 887.1
	<u>          </u>	<u>          </u>	<u>          </u>

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS

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We continue to emphasize growth and diversification of other revenues to improve our overall profitability.

**Fees and other income**, which include securitization-related servicing fees and accretion, other servicing fees, merger and advisory fees and miscellaneous fees, increased 15% and 10% over the prior year in 2006 and 2005. The 2006 increase was broad based across most businesses, with the increase most notable in Vendor Finance (both U.S. and International) and Corporate Finance. The 2006 results also benefited from a \$16.4 million gain in Transportation Finance relating to insurance proceeds received on an aircraft lost in an on-the-ground casualty event.

**Factoring commissions** trends reflect strong volumes, including incremental volume from international acquisitions, offset by a slight drop in commission rates.

**Gains on receivable sales and syndication fees** virtually doubled during 2006 and 2005 over the prior years, as we sold or syndicated approximately \$10.8 billion or 26% of our origination volume in 2006, versus \$4.7 billion (15%) in 2005. Syndication fees were up, predominantly in Corporate Finance (healthcare, communications, media and entertainment). Gains on receivable sales for 2006 were higher, driven by the Consumer (home lending and student lending) and Small Business Lending segment. The Consumer segment activity also included sales to manage our portfolio to targeted demographics and credit criteria.

**Gains on sales of leasing equipment** increased in 2006 over the prior year reflecting strong end of lease activity, particularly in the Transportation Finance rail business and the international businesses of Vendor Finance.

**Gains on securitization** increased in 2006 following a decline in 2005. Gains as a percentage of volume securitized were 1.3%, 0.9% and 1.3% in 2006, 2005 and 2004 (on volume of \$3.6 billion, \$4.3 billion and \$4.4 billion). The lower 2005 gain percentage was primarily due to tighter spreads on vendor receivables sold.

The following items of note, the majority of which were the result of capital allocation activities, also impacted other revenue.

**Gain on sale of real estate** resulted from the 2005 sale of an investment in a residential complex in New York City.

**Charges related to transportation assets transferred to held for sale** resulted from the mark-to-market adjustment associated with the reclassification in 2006 to available for sale of our remaining spare engines used to power older, out-of-production aircraft totaling \$20 million, along with certain types of older, underperforming rail cars totaling \$40 million. During 2005, approximately \$190 million of aircraft and related assets in the Transportation Finance portfolio were reclassified, all of which have been sold or have commitments.

**Gain on sale of micro-ticket leasing business** is the fourth quarter 2005 sale of the micro-ticket leasing business unit handling point-of-sale terminals in Vendor Finance.

**Gain on sale of business aircraft portfolio** resulted from the 2005 sale of the majority of the portfolio, approximately \$900 million (in assets).

**Gain on derivatives** relate to the 2005 mark-to-market of certain compound cross-currency swaps that did not qualify for hedge accounting treatment. All of these swaps were either terminated or had matured as of December 31, 2005.

**Charge related to manufactured housing assets held for sale** resulted from the accelerated liquidation and reclassification to available for sale of manufactured housing assets in Vendor Finance.

## CREDIT METRICS

Overall, credit metrics remained strong in 2006. Net charge-offs declined again with broad-based reductions in net losses. Following low levels in 2005, the trend in our delinquency and non-performing metrics reflected some normalization in 2006 due to increases in Consumer and Small Business Lending and Trade Finance.

### Past Due Loans (60 days or more) as of December 31 (dollars in millions, % as a percentage of finance receivables)

	2006		2005		2004	
<b>Owned Past Dues:</b>						
Corporate Finance	\$ 105.2	0.55%	\$ 86.9	0.64%	\$ 93.4	0.71%
Transportation Finance	15.3	0.72%	17.0	0.90%	26.9	1.47%
Trade Finance	101.8	1.46%	39.3	0.59%	88.0	1.42%
<b>Total Commercial Finance Group</b>	<b>222.3</b>	<b>0.79%</b>	<b>143.2</b>	<b>0.64%</b>	<b>208.3</b>	<b>0.99%</b>
Vendor Finance	200.7	2.83%	251.8	3.47%	241.9	3.15%
Consumer and Small Business Lending	898.9	4.52%	363.2	2.46%	157.8	2.52%
<b>Total Specialty Finance Group</b>	<b>1,099.6</b>	<b>4.08%</b>	<b>615.0</b>	<b>2.79%</b>	<b>399.7</b>	<b>2.87%</b>
<b>Total</b>	<b>\$1,321.9</b>	<b>2.40%</b>	<b>\$758.2</b>	<b>1.71%</b>	<b>\$608.0</b>	<b>1.73%</b>
<b>Total, excluding student loans</b>	<b>\$ 921.8</b>	<b>1.98%</b>	<b>\$625.5</b>	<b>1.59%</b>	<b>\$608.0</b>	<b>1.73%</b>
<b>Managed Past Dues:</b>						
Corporate Finance	\$ 114.8	0.54%	\$105.5	0.64%	\$133.6	0.83%
Transportation Finance	15.3	0.69%	17.0	0.83%	26.9	1.47%
Trade Finance	101.8	1.46%	39.3	0.59%	88.0	1.42%
<b>Total Commercial Finance Group</b>	<b>231.9</b>	<b>0.77%</b>	<b>161.8</b>	<b>0.64%</b>	<b>248.5</b>	<b>1.03%</b>
Vendor Finance	340.1	2.91%	357.6	3.00%	360.7	2.77%
Consumer and Small Business Lending	955.8	4.52%	446.0	2.77%	269.2	3.44%
<b>Total Specialty Finance Group</b>	<b>1,295.9</b>	<b>3.95%</b>	<b>803.6</b>	<b>2.87%</b>	<b>629.9</b>	<b>3.02%</b>
<b>Total</b>	<b>\$1,527.8</b>	<b>2.42%</b>	<b>\$965.4</b>	<b>1.81%</b>	<b>\$878.4</b>	<b>1.95%</b>
<b>Total, excluding student loans</b>	<b>\$1,127.7</b>	<b>2.07%</b>	<b>\$832.6</b>	<b>1.74%</b>	<b>\$878.4</b>	<b>1.95%</b>

Excluding student lending, owned delinquencies were \$921.8 million (1.98%) and \$625.5 million (1.59%) at December 31, 2006 and 2005. We exclude student lending receivables from this delinquency metric as they are largely guaranteed by the U.S. Government. Non-performing assets trends followed that of delinquencies, with the increase due to home lending and Trade Finance.

Delinquency metrics remained low in our Commercial Finance Group. The 2006 increase in Corporate Finance was due to a \$40 million account with a bankrupt water bottling company. Trade Finance delinquency trends were driven primarily by fluctuations in non-accrual loans, including the 2005 work-out of one significant account.

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Vendor Finance delinquency decreased in 2006, reflecting lower delinquency levels in the International vendor finance operations, while the increase in 2005 reflected higher delinquency levels in the U.S. and International portfolios.

Consumer and Small Business Lending delinquency increased in 2006 driven by home lending and student lending. Consumer home lending delinquencies rose to \$451.4 million (4.43%) at December 31, 2006, from \$185.5 million (2.18%) last year and \$116.4 million (2.27%) at December 31, 2004, reflecting the effects of both portfolio seasoning and softer real estate and mortgage market conditions. Student lending delinquencies were \$400.1 million (4.71%) at December 31, 2006, up from \$132.7 million (2.63%) at December 31, 2005. The higher delinquency in the student loan portfolio is not indicative of potential loss due to the underlying U.S. government guarantee.

See *Concentrations - Home Lending* for additional information.

### ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS

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#### Non-performing Assets as of December 31 (dollars in millions, % as a percentage of finance receivables)

	2006		2005		2004	
<b>Non-performing assets:</b>						
Corporate Finance	\$150.4	0.79%	\$165.4	1.21%	\$193.0	1.48%
Transportation Finance	7.9	0.37%	22.3	1.18%	4.6	0.25%
Trade Finance	60.4	0.87%	5.3	0.08%	56.8	0.92%
<b>Total Commercial Finance Group</b>	<b>218.7</b>	<b>0.78%</b>	<b>193.0</b>	<b>0.87%</b>	<b>254.4</b>	<b>1.21%</b>
Vendor Finance	78.2	1.10%	112.1	1.54%	124.7	1.62%
Consumer and Small Business Lending	473.6	2.38%	216.1	1.46%	160.5	2.56%
<b>Total Specialty Finance Group</b>	<b>551.8</b>	<b>2.05%</b>	<b>328.2</b>	<b>1.49%</b>	<b>285.2</b>	<b>2.05%</b>
<b>Total</b>	<b>\$770.5</b>	<b>1.40%</b>	<b>\$521.2</b>	<b>1.18%</b>	<b>\$539.6</b>	<b>1.54%</b>
<b>Total, excluding student loans</b>	<b>\$770.5</b>	<b>1.65%</b>	<b>\$521.2</b>	<b>1.33%</b>	<b>\$539.6</b>	<b>1.54%</b>
Non accrual loans	\$662.0	1.42%	\$460.7	1.18%	\$458.4	1.31%
Repossessed assets	108.5	0.23%	60.5	0.15%	81.2	0.23%
<b>Total non-performing assets</b>	<b>\$770.5</b>	<b>1.65%</b>	<b>\$521.2</b>	<b>1.33%</b>	<b>\$539.6</b>	<b>1.54%</b>

Non-performing asset trends were up over 2005 levels, driven by higher levels in Consumer and Small Business Lending and Trade Finance. Two noteworthy 2006 transactions within Corporate Finance include the previously mentioned \$40 million water bottling account, partially offset by a \$16 million charge-off on a power generation facility. Improvements during 2005 in Trade Finance, Corporate Finance and Vendor Finance were partially offset by increased non-accrual assets in Transportation Finance (aerospace) and the home lending business of Consumer and Small Business Lending. Repossessed asset inventory increased in our home lending business during 2006. Repossessed assets are carried at the lower of book value or estimated fair value.

## RESERVE AND PROVISION FOR CREDIT LOSSES

**Reserve and Provision for Credit Losses for the years ended December 31** (dollars in millions)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Balance beginning of period	\$ 621.7	\$ 617.2	\$ 643.7
Provision for credit losses – finance receivables (by segment)			
Corporate Finance	23.0	24.3	77.7
Transportation Finance	1.3	4.6	7.3
Trade Finance	36.6	22.9	23.4
Vendor Finance	57.1	70.7	85.2
Consumer and Small Business Lending	73.4	57.1	56.7
Corporate and Other, including specific reserving actions	30.8	37.4	(36.1)
Total provision for credit losses	222.2	217.0	214.2
Reserves relating to acquisitions, other	40.4	38.6	60.5
Additions to reserve for credit losses, net	262.6	255.6	274.7
Net charge-offs			
Corporate Finance	23.0	26.1	79.2
Transportation Finance	1.4	53.6	6.6
Trade Finance	37.4	22.9	23.3
Vendor Finance	61.2	72.8	87.0
Consumer and Small Business Lending	102.0	75.7	65.0
Net charge-offs – prior to telecommunication charge-offs	225.0	251.1	261.1
Telecommunications			40.1
Total net charge-offs	225.0	251.1	301.2
Balance end of period	\$ 659.3	\$ 621.7	\$ 617.2
Reserve for credit losses as a percentage of finance receivables, excluding student loans	1.42%	1.58%	1.76%
Reserve for credit losses, excluding reserves related to impaired loans and hurricane reserves, as a percentage of finance receivables, excluding student loans	1.30%	1.31%	1.46%

We present the metrics excluding student loans, as virtually the entire student loan portfolio (other than private loans, which are not guaranteed) is covered by U.S. government guarantees for approximately 98% of the balance.

The reserve for credit losses increased in amount in both 2006 and 2005 due to portfolio growth. The reserve percentage excluding student loans and specific reserves related to impaired loans was stable in 2006, as the impact of historic loss indicators in the form of lower net charge-offs was mitigated by changes in forward-looking credit risk and loss indicators in the form of higher delinquency and non-performing asset levels.

We determine the reserve for credit losses using three key components: (1) specific reserves for collateral and cash flow dependent loans that are impaired under SFAS 114, (2) reserves for estimated losses inherent in the portfolio based upon historical and projected credit risk, and (3) reserves for estimated risks inherent in the portfolio based upon economic environment risk and other factors. The components of the reserve for credit losses were as follows:

**For the years ended December 31** (dollars in millions)200620052004

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Specific reserves related to impaired loans	\$ 53.4	\$ 76.5	\$110.3
Specific hurricanes reserves	4.4	34.6	
Estimated losses, economic, other risk factors	601.5	510.6	506.9
	<hr/>	<hr/>	<hr/>
Total reserve for credit losses	\$659.3	\$621.7	\$617.2
	<hr/>	<hr/>	<hr/>

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS

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Specific reserves are most influenced by our Commercial Finance businesses, where credit trends were stable to improving in 2006. The trend in the estimated losses / other risk factors component of the reserve reflected the amount and mix of asset growth as well as the inflection point in our credit metrics during the first half of 2006, including the seasoning of the home lending portfolio.

The specific reserves, in accordance with SFAS 114, include \$10.0 million at December 31, 2006 and \$40.0 million at December 31, 2005 related to a power generation facility, which was placed on non-performing status in the fourth quarter of 2005. The specific reserve was reduced due to advancement of the bankruptcy proceedings and other market factors, which led to an improved outlook for overall asset realization values. In the 2006 fourth quarter, we recorded a \$16.0 million charge-off and redeployed the remaining specific reserve. Also in the 2006 fourth quarter, we provisioned \$21.0 million of specific reserves related to an estimated shortfall on a \$40 million water bottling account that declared bankruptcy. The remainder of the SFAS 114 reserve relates to various accounts in Trade Finance and Corporate Finance. During 2006, we re-assessed the projected amounts required to cover remaining exposures related to hurricanes Katrina and Rita. As a result, approximately \$23.0 million was released from the specific reserve and provisioned to other components of the reserve for credit losses. The 2004 balance included amounts related to U.S. commercial airline hub carriers. Recent events in the bankruptcy proceedings of these carriers have improved our outlook for related asset recovery.

Charge-offs declined \$26.1 million (10%) and \$50.1 million (17%) from the prior year in 2006 and 2005, versus increases of 2% and 1% in the provision for credit losses in 2006 and 2005. The contrasting trend reflects the factors discussed above. The credit in the corporate and other provision in 2004 corresponds to the charge-off of specifically reserved telecommunication accounts.

The consolidated reserve for credit losses is intended to provide for losses inherent in the portfolio. We estimate the ultimate outcome of collection efforts and realization of collateral values, among other things. We may make additions or reductions to the consolidated reserve for credit losses depending on changes in economic conditions or credit metrics, including past due and non-performing accounts, or other events affecting specific obligors or industries. We continue to believe that the credit risk characteristics of the portfolio are well diversified by geography, industry, borrower, and collateral type. The portion of the reserve related to inherent estimated loss and estimation risk reflects our evaluation of trends in our key credit metrics, as well as our assessment of risk in specific industry sectors.

Based on currently available information and our portfolio assessment, we believe that our total reserve for credit losses is adequate.

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**Net Charge-offs (chargeoffs net of recoveries) for the years ended December 31**  
(dollars in millions, % as a percentage of average finance receivables)

	2006		2005		2004	
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Owned</b>						
Corporate Finance	\$ 23.0	0.15%	\$ 26.1	0.20%	\$119.3	0.93%
Transportation Finance	1.4	0.08%	53.6	2.34%	6.6	0.37%
Trade Finance	37.4	0.55%	22.9	0.34%	23.3	0.37%
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Commercial Finance Group	61.8	0.26%	102.6	0.46%	149.2	0.71%

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Vendor Finance	61.2	0.83%	72.8	0.95%	86.9	1.19%
Consumer and Small Business Lending	102.0	0.57%	75.7	0.66%	65.1	1.37%
Total Specialty Finance Group	163.2	0.65%	148.5	0.78%	152.0	1.26%
Total	\$225.0	0.45%	\$251.1	0.60%	\$301.2	0.91%
Total, excluding student loans	\$225.0	0.52%	\$251.1	0.67%	\$301.2	0.91%
<b>Managed</b>						
Corporate Finance	\$ 33.4	0.19%	\$ 43.5	0.27%	\$163.8	1.04%
Transportation Finance	1.4	0.08%	53.6	2.34%	6.6	0.37%
Trade Finance	37.4	0.55%	22.9	0.34%	23.3	0.37%
Total Commercial Finance Group	72.2	0.27%	120.0	0.48%	193.7	0.81%
Vendor Finance	90.0	0.80%	111.3	0.97%	131.3	1.15%
Consumer and Small Business Lending	124.2	0.67%	103.3	0.83%	84.9	1.35%
Total Specialty Finance Group	214.2	0.72%	214.6	0.90%	216.2	1.22%
Total	\$286.4	0.50%	\$334.6	0.68%	\$409.9	0.99%
Total, excluding student loans	\$286.4	0.58%	\$334.6	0.74%	\$409.9	0.99%

**Owned Charge-Offs**

(as a percentage of average finance receivables)

**Managed Charge-Offs**

(as a percentage of average managed receivables)

Net charge-offs were low in 2006. Overall, the net charge-off trends in the tables above remained positive and declined in 2006 and 2005 across virtually every segment. This improving trend continued through the first half of 2006, but reversed as net charge-offs trended upward in the second half of the year. Net charge-offs continued to benefit from strong recoveries, which approximated 20 basis points for each of the above periods. Along with the improvement in the owned portfolio, net charge-offs on securitized assets declined in each segment during 2006. As a percentage of average securitized assets, securitized portfolio net charge-offs were 0.93%, 1.12% and 1.28% in 2006, 2005 and 2004, reflecting improvements in vendor assets sold and in Corporate Finance, partially offset by the seasoning of the consumer home lending portfolio.

Corporate Finance net charge-offs continue to run at very low historic levels, as several businesses, including global sponsor finance, construction and communications, media and entertainment ended 2006 with recoveries in excess of charge-offs. Approximately \$40 million of telecommunication charge-offs

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**ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS**

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were taken in 2004, versus negligible amounts in 2005 and 2006, as those periods benefited from recoveries of previous charged off assets. Some businesses within Corporate Finance that increased net charge-offs during 2006 include healthcare, as that business has grown substantially, and energy and infrastructure, which recorded a \$16 million charge on a power generation facility in the fourth quarter.

Transportation Finance 2005 charge-offs included \$48.5 million in airline receivable charge-offs on two bankrupt U.S. hub carriers.

After two years of low net charge-offs, net charge-offs in Trade Finance increased during 2006 to more normalized levels.

The 2006 improvement in Vendor Finance was driven by the U.S. operations, whereas 2005 improvements were due to improved credit in the international units.

Excluding student lending, owned charge-offs in Consumer and Small Business Lending were 0.94% and 1.01% for 2006 and 2005. Consumer and Small Business Lending charge-offs in 2006 and 2005 were up in amount but down as a percentage of average finance receivables, reflecting portfolio growth. The improvement in 2006 was driven by Small Business Lending, which offset an increase in the home lending business.

See *Concentrations* for more information.

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**NET FINANCE REVENUE AFTER CREDIT PROVISION (RISK ADJUSTED REVENUE)**

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**Net Finance Revenue after Credit Provision (Risk Adjusted Revenue) for the years ended December 31**  
(dollars in millions)

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	2006	2005	2004
Net finance revenue	\$ 1,802.6	\$ 1,635.2	\$ 1,535.3
Provision for credit losses	222.2	217.0	214.2
Net finance revenue after credit provision (risk adjusted revenue)	\$ 1,580.4	\$ 1,418.2	\$ 1,321.1
<b>As a % of AEA:</b>			
Net finance revenue	3.11%	3.40%	3.94%
Provision for credit losses	0.39%	0.45%	0.55%
Net finance revenue after credit provision (risk adjusted revenue)	2.72%	2.95%	3.39%

The increase in risk-adjusted revenue from 2004 through 2006 largely reflects portfolio growth, as well as continued low charge-offs, offset by spread compression. The current year provision for credit losses was in excess of net charge-offs (excluding the energy account charge-off) leading to increased reserves. During 2005, we recorded a \$34.6 million provision for credit losses related to estimated hurricane losses. Excluding this item, risk adjusted revenue as a percentage of AEA was 3.02% for 2005.

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## SALARIES AND GENERAL OPERATING EXPENSES

Salaries and General Operating Expenses for the years ended December 31 (dollars in millions)

	2006	2005	2004
Salaries and employee benefits	\$ 903.5	\$ 695.8	\$ 612.2
Other general operating expenses	479.1	418.0	399.9
Provision for restructuring	19.6	25.2	
Salaries and general operating expenses	\$ 1,402.2	\$ 1,139.0	\$ 1,012.1
Efficiency ratio <sup>(1)</sup>	46.2%	41.1%	41.8%
Efficiency ratio (excluding noteworthy items) <sup>(2)</sup>	45.1%	41.5%	41.5%
Headcount	7,345	6,340	5,860

(1) The efficiency ratio is the ratio of salaries and general operating expenses (including restructuring charges) to total net revenues (before provision for credit losses)

(2) The efficiency ratios exclude the noteworthy items outlined in *Non-GAAP Reconciliations*.

Over the past two of years, we have focused on growing CIT. In other sections of this document we detail our double-digit revenue and asset increases. Those initiatives have increased salaries and general operating expenses. This build-out period, which began in 2005 and continued through 2006, has in many areas reached targeted expansion levels and management expects higher productivity benefits to follow.

The increased expenses primarily related to personnel, as we added over 1,000 employees during 2006 and almost 500 during 2005. The majority of the hires related to growing our sales force in existing lines and establishing new businesses, such as mergers and acquisitions advisory services, as well as growth of our international operations. Beyond these factors, other drivers of the increase include acquisitions (healthcare and European factoring), marketing initiatives (particularly in student lending), technology investments and other back office expenses in support of the growth initiatives. The 2006 expenses also include, for the first time, \$30.8 million relating to the adoption of SFAS 123R, Share-Based Payment, which mandates the expensing of stock options.

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The 2005 increase from 2004 was largely due to incremental operating expenses associated with acquisitions (student lending and healthcare), investments made in our sales and marketing functions and higher incentive-based compensation. The 2006 and 2005 restructuring charges are largely employee termination benefits.

Management is focusing on prospectively improving the efficiency ratio by increasing revenue generation associated with new business initiatives and the build-out of our sales force, and by continuing to raise overall operating efficiency through consolidation of certain back office functions along with other expense saving initiatives.

See Note 23 for additional information.

### INCOME TAXES

#### Provision for Income Taxes for the years ended December 31 (dollars in millions)

	2006	2005	2004
Provision for income taxes	\$ 364.4	\$ 464.2	\$483.2
Effective tax rate	25.8%	32.8%	39.0%
Tax liability reductions / State & Local NOL valuation adjustments	(4.9)%	(2.4)%	
Provision for income taxes, excluding liability reductions and State & Local NOL valuation adjustments	30.7%	35.2%	39.0%

#### ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS

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The effective tax rate differs from the U.S. federal tax rate of 35% primarily due to state and local income taxes, foreign earnings taxed at lower rates, as well as permanent differences between book and tax treatment of certain items. The reductions in the effective tax rate from 2004 through 2006, excluding the reversals and liability releases, reflects our strategy to relocate and fund certain aerospace assets offshore, favorable tax treatment for certain aircraft leasing operations conducted offshore, coupled with improved international earnings and reduced state and local income taxes.

The 2006 provision for income taxes was reduced by \$69.7 million, primarily due to a \$72.5 million release of deferred income tax liabilities from the relocation and funding of certain aerospace assets to lower tax jurisdictions. The 2006 provision also included a \$6.8 million reversal of state net operating loss (NOL) valuation allowances (net of state deferred tax write-offs), reflecting management's updated assessment with respect to higher expected loss utilization, and \$9.6 million in additional tax expense, including an amount relating to the enactment of a tax law change during the second quarter of 2006 that reduced benefits relating to certain leveraged lease transactions.

The 2005 provision for income taxes benefited from the release of a \$17.0 million deferred tax liability associated with the offshore aerospace initiative and the release of a tax liability of \$17.6 million relating to our international operations, as we finalized a tax filing position based on a favorable opinion received from the local tax authorities.

As of December 31, 2006, CIT has U.S. federal NOLs of approximately \$77.5 million acquired in the 2005 purchase of Education Lending Group, which expire in various years beginning in 2023. In addition, we have various state NOLs that will expire in various years beginning in 2007. Federal and state operating losses may be subject to annual use limitations under section 382 of the Internal Revenue Code of 1986, as amended, and other limitations under certain state laws. Management believes that CIT will have sufficient taxable income in future years and can avail itself of tax planning strategies in order to fully utilize these federal loss carryforwards. Accordingly, we do not believe a valuation allowance is required with respect to these federal NOLs. However, based on management's assessment as to realizability, the net deferred tax liability includes a valuation allowance relating to state NOLs of approximately \$10.4 million and \$19 million as of December 31, 2006 and 2005.

We have open tax years in the U.S., Canada and other jurisdictions that are currently under examination by the applicable taxing authorities, and certain tax years that may in the future become subject to examination. Management regularly evaluates the adequacy of our related tax reserves, taking into account our open tax return positions, tax assessments received, tax law changes and third-party indemnifications. We believe that our tax reserves are appropriate. The final determination of tax audits could affect our tax reserves.

The Company, as required by regulation, has made payments totaling approximately \$75 million to Revenue Canada (CRA) in connection with disputed tax positions related to certain leasing transactions. We are engaged in settlement discussions with CRA with respect to these

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transactions, the outcome and timing of which is uncertain. These leasing transactions were originated by a predecessor prior to being acquired in a stock transaction by the Company. The predecessor shareholders provided an indemnification with respect to the tax attributes of these transactions. Management of the Company believes that the settlement of these transactions with CRA, or with the indemnifiers, would not have a material impact on the Company's financial position, cash flows or results of operations.

See Note 14 and *Non-GAAP Financial Measurements* for additional information.

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CIT GROUP INC 2006

### FINANCING AND LEASING ASSETS

#### Financing and Leasing Assets by Segment as of December 31 (dollars in millions)

	2006	2005	2004	% Change	
				06 vs. 05	05 vs. 04
<b>Commercial Finance Group</b>					
<b>Corporate Finance</b>					
Finance receivables	\$18,989.5	\$13,652.5	\$13,075.9	39.1%	4.4%
Operating lease equipment, net	204.4	177.7	475.7	15.0%	(62.6)%
Financing and leasing assets held for sale	563.1	253.5	110.7	122.1%	129.0%
Owned assets	19,757.0	14,083.7	13,662.3	40.3%	3.1%
Finance receivables securitized and managed by CIT	1,568.7	2,525.3	2,915.5	(37.9)%	(13.4)%
Managed assets	21,325.7	16,609.0	16,577.8	28.4%	0.2%
<b>Transportation Finance</b>					
Finance receivables	2,123.3	1,895.4	1,829.7	12.0%	3.6%
Operating lease equipment, net	9,846.3	8,408.5	6,736.5	17.1%	24.8%
Financing and leasing assets held for sale	75.7	150.3		(49.6)%	
Owned assets	12,045.3	10,454.2	8,566.2	15.2%	22.0%
<b>Trade Finance</b>					
Finance receivables	6,975.2	6,690.0	6,204.1	4.3%	7.8%
<b>Specialty Finance Group</b>					
<b>Vendor Finance</b>					
Finance receivables	7,102.5	7,264.4	7,677.4	(2.2)%	(5.4)%
Operating lease equipment, net	967.2	1,049.5	1,078.7	(7.8)%	(2.7)%
Financing and leasing assets held for sale	529.3	720.3	1,185.8	(26.5)%	(39.3)%
Owned assets	8,599.0	9,034.2	9,941.9	(4.8)%	(9.1)%
Finance receivables securitized and managed by CIT	4,057.8	3,921.6	4,165.5	3.5%	(5.9)%
Managed assets	12,656.8	12,955.8	14,107.4	(2.3)%	(8.2)%
<b>Consumer and Small Business Lending</b>					
Finance receivables - home lending	9,647.7	8,199.7	4,896.8	17.7%	67.5%

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Finance receivables	student lending	8,488.9	5,051.0		68.1%	
Finance receivables	small business lending	1,200.7	1,238.6	1,128.3	(3.1)%	9.8%
Finance receivables	other	537.1	302.9	236.0	77.3%	28.3%
Financing and leasing	assets held for sale	625.6	496.2	344.3	26.1%	44.1%
Owned assets		20,500.0	15,288.4	6,605.4	34.1%	131.5%
Home lending finance receivables securitized and managed by CIT		634.8	838.8	1,228.7	(24.3)%	(31.7)%
Managed assets		21,134.8	16,127.2	7,834.1	31.1%	105.9%
<b>Other</b>	<b>Equity Investments</b>	25.4	30.2	181.0	(15.9)%	(83.3)%
<b>Managed assets</b>		<b>\$74,163.2</b>	<b>\$62,866.4</b>	<b>\$53,470.6</b>	<b>18.0%</b>	<b>17.6%</b>

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS

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**Total Managed Assets as of December 31**  
(dollars in billions)

Managed assets grew by 18% in 2006, reflecting record new business volume and portfolio acquisitions. Moreover, the growth was on balance sheet, as securitized assets continued to decline. Growth was broad based in all segments with the exception of Vendor Finance, which experienced runoff in the Dell U.S. venture. We continued our discipline of allocating capital to businesses with higher risk-adjusted returns by liquidating non-strategic portfolios.

See *Non-GAAP Financial Measurements* for reconciliation of managed assets.

**BUSINESS VOLUMES, SALES/SYNDICATIONS,  
ACQUISITIONS AND DISPOSITIONS**

**Total Business Volumes (excluding factoring)**  
**For the years ended December 31** (dollars in billions)

In 2006, we continued our strategy to advance our sales culture and delivered another year of record new business volume growth. New business volume (excluding factoring) was up 32% in both 2006 and 2005. The increased 2006 volume reflected our expanded market coverage and increased productivity per salesperson, as our industry alignments, entrance into growth industries and expanded cross-sell efforts continued to produce results.

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**Total Business Volume (excluding factoring)**  
For the years ended December 31 (dollars in millions)

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	2006	2005	2004
Corporate Finance	\$ 14,448.1	\$ 8,737.3	\$ 7,378.9
Transportation Finance	3,137.2	2,264.1	1,333.7
Vendor Finance	8,245.3	9,752.9	9,138.9
Consumer and Small Business Lending	15,485.9	10,496.2	5,705.1
<b>Total new business volume</b>	<b>\$ 41,316.5</b>	<b>\$ 31,250.5</b>	<b>\$ 23,556.6</b>

As part of a strategic initiative to leverage origination platforms and broaden our revenue generation, we increased our sales and syndication activities during 2006. During prior years, most of the asset sales activity involved consumer receivables. In 2006, consumer receivables sales were significant, but commercial sales and syndications, primarily from the Corporate Finance segment, grew in prominence. In total, we syndicated or sold 26% of new business volume in 2006 and 15% in 2005. We syndicated or sold \$5.0 billion of commercial loans in 2006, up from \$1.3 billion in the prior year. In the consumer segment, loan sales were up 68%, from \$3.5 billion to \$5.8 billion.

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**ACQUISITIONS**

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**Acquisition Summary** (dollars in millions)

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Asset Type	Assets	Closing	Segment
Vendor Finance	\$2,000	1st quarter 2007	Vendor Finance
Diversified equipment	700	4th quarter 2006	Corporate Finance, Transportation Finance and Vendor Finance

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Rail (serviced fleet)	90	4th quarter 2006	Transportation Finance
Factoring	165	2nd quarter 2006	Trade Finance
Healthcare	500	3rd quarter 2005	Corporate Finance
Factoring	860	1st quarter 2005	Trade Finance
Student loans	4,300	1st quarter 2005	Consumer and Small Business Lending

With the exception of the student loan acquisition, these acquisitions were add-ons to existing CIT businesses and are not reflected in our new business volume in the year of acquisition. The Vendor Finance acquisition, which closed on January 2, 2007, significantly leverages our existing expertise in managing vendor relationships across Europe. The businesses acquired provide asset finance to customers of industrial equipment and technology manufacturers and suppliers throughout the United Kingdom and Germany. Approximately 60% of the purchased assets were originated in the UK, with the balance in Germany. The fourth quarter 2006 bolt-on acquisition included assets that complemented existing CIT businesses, such as rail and technology. The 2006 factoring acquisition broadened our international exposure through the purchase of a German factoring business. The 2005 healthcare acquisition was key in our plan to grow this product line, which offers high growth and strong returns.

### DISPOSITIONS

#### Disposition Summary (dollars in millions)

Asset Type	Assets	Closing	Segment
Micro-ticket leasing	\$300	4th quarter 2005	Vendor Finance
Manufactured housing	400	1st/4th quarters 2005	Vendor Finance
Business aircraft	920	2nd quarter 2005	Corporate Finance
Venture capital	150	1st /2nd quarters 2005	Corporate and Other

In addition to normal course sales and syndications in a prior table, we periodically dispose of receivables and other assets that we determine do not meet our risk-adjusted return criteria or do not fit in with our strategic direction, including growth and scale characteristics. This guided the disposition initiatives above, thereby freeing up the corresponding capital for redeployment. We also targeted in 2006 and 2005 Transportation Finance commercial aircraft and rail assets for sale and reduced them to estimated fair value via charges to income.

### RESULTS BY BUSINESS SEGMENT

For the 2004 through 2006 periods, capital is allocated to the segments by applying different leverage ratios to each business unit using market capitalization and risk criteria. The capital allocations reflect the relative risk of individual asset classes within segments and range from approximately 2% of managed assets for U.S. government guaranteed loans to approximately 15% of managed assets for longer-term assets such as aerospace and rail. As discussed in *Risk Management*, we continue to advance our capital allocation disciplines by implementing processes and systems which will lead to driving risk-based capital allocations down to the transactional level. Therefore, segment capital allocation percentages may be refined prospectively. We expect the refined sub-segment allocation percentages to range between 1% and 20%.

Certain corporate expenses are not allocated to the operating segments. These non-allocated expenses, which are reported in Corporate and Other, consist primarily of the following: (1) provisions for credit losses in excess of net charge-offs; (2) equity-based compensation, including stock option expense; (3) expenses related to certain corporate support functions; (4) certain funding costs, as the segment results reflect debt transfer pricing that matches assets and liabilities from an interest rate and maturity perspective; (5) certain tax provisions relating primarily to international operations; and (6) dividends on preferred securities. Beginning with the first quarter of 2007, we will be allocating certain corporate expenses, primarily items 1, 2 and 3 above, to the segments to measure the segment performances on a more fully allocated basis.

#### Results by Business Segment for the years ended December 31 (dollars in millions)

2006

2005

2004

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<b>Net Income</b>			
Corporate Finance	\$ 310.9	\$ 275.3	\$ 230.1
Transportation Finance	307.9	129.9	87.0
Trade Finance	176.2	184.7	161.1
<b>Total Commercial Finance Group</b>	<b>795.0</b>	<b>589.9</b>	<b>478.2</b>
Vendor Finance	314.5	293.5	239.4
Consumer & Small Business Lending	155.4	99.8	75.2
<b>Total Specialty Finance Group</b>	<b>469.9</b>	<b>393.3</b>	<b>314.6</b>
Corporate & Other	(249.1)	(46.8)	(39.2)
<b>Total</b>	<b>\$ 1,015.8</b>	<b>\$ 936.4</b>	<b>\$ 753.6</b>

<b>Return on Equity</b>			
Corporate Finance	15.3%	16.0%	13.9%
Transportation Finance	20.7%	9.9%	10.5%
Trade Finance	25.9%	27.1%	25.7%
<b>Total Commercial Finance Group</b>	<b>18.8%</b>	<b>15.8%</b>	<b>15.4%</b>
Vendor Finance	27.5%	24.5%	20.9%
Consumer & Small Business Lending	13.9%	12.0%	18.4%
<b>Total Specialty Finance Group</b>	<b>20.6%</b>	<b>19.1%</b>	<b>19.8%</b>
Corporate and other	(4.5)%	(1.9)%	(3.7)%
<b>Total</b>	<b>15.0%</b>	<b>15.1%</b>	<b>13.2%</b>

With the exception of Trade Finance (due to increased charge-offs in 2006), all segments reported a sequential improvement in net income for both 2006 and 2005. The particularly strong increase in Transportation Finance net income from 2005 reflected the deferred tax liability release associated with the continued relocation and funding of aircraft assets in lower tax jurisdictions coupled with a higher level of allocated tax benefits.

Higher corporate expenses offset the improved segment performances and included amounts as shown in the table below:

**Corporate for the years ended December 31** (dollars in millions)

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Unallocated expenses	\$(202.6)	\$ (84.0)	\$ (75.6)
Real estate investment gain		69.7	
Mark-to-market on non-accounting hedge derivatives		24.4	
Hurricane charges		(27.7)	
Specific Argentine and telecommunication provisions			26.4
Preferred stock dividends	(30.2)	(12.7)	
Restructuring charges, early termination of NYC lease / legal settlement	(15.7)	(23.2)	
Gain on debt redemption			25.5
Venture capital operating (losses)/income(1)	(0.6)	6.7	(15.5)
<b>Total after tax</b>	<b>\$(249.1)</b>	<b>\$ (46.8)</b>	<b>\$ (39.2)</b>

(1) Venture capital operating losses and income include realized and unrealized gains and losses related to venture capital investments as well as interest costs and other operating expenses associated with these portfolios.

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The increase in unallocated corporate expenses from 2005 was due primarily to the impact of higher unallocated overhead, including incremental staff expenses, increased equity-based compensation, including expenses relating to stock options and higher unallocated funding costs. The higher corporate funding expense reflects lengthening the term of our liabilities, as we extended debt maturities in both 2006 and 2005. As discussed above, consistent with our internal management reporting, this incremental expense was not charged to the segments.

The prior year derivative amounts related to certain compound derivative contracts, which did not qualify for hedge accounting treatment and were terminated in, or had matured by, the fourth quarter of 2005.

Results by business segment are discussed below. See Note 20 *Business Segment Information* for additional details.

### Corporate Finance

Net income improved 13% in 2006 and 20% in 2005 from the preceding year, reflecting broad-based profitability improvements across most businesses. The 2006 net income improvements were particularly strong in healthcare and in communications, media & entertainment (CM&E), driven by revenue growth, while the 2005 improvements reflected lower charge-offs.

Total net revenues increased 20% in 2006 and 4% in 2005 from the prior year. Finance margins as a percentage of earning assets were essentially flat with 2005. Other revenue increased 16% in 2006, reflecting higher fees, including syndication and advisory fees, particularly in CM&E and healthcare.

Charge-offs in 2006 were flat with the prior year in both amount and percentage of receivables (at approximately 20 basis points). Recoveries remained high and increased approximately \$15 million over 2005.

Return on risk-adjusted capital was relatively stable in all periods.

Volume was higher across virtually all of the businesses and up over 65% from last year. Healthcare led the growth, up three fold, and included a number of long-term care facilities. The new syndication business contributed \$1.6 billion of the increase while communications, media and entertainment increased by \$1 billion.

Owned assets grew over 40% from last year-end, with strength in healthcare, a new syndicated loan business and communications, media & entertainment. Healthcare has been a key driver since a 2005 acquisition. As part of our strategy to increase other revenues, we increased our syndication and receivable sale activity during 2006, which is reflected by the increase in held for sale assets. We started a new group to concentrate on this activity, as well as utilized existing business platforms. Along with the strengthening telecommunications sector, during 2006 we signed deals with major sports teams and in the entertainment industry. Securitized assets were lower as we shifted strategy to sales and syndications during 2006.

### Transportation Finance

Net income trends were impacted by the noteworthy items discussed in *Profitability and Key Business Trends*. Excluding these items, net income was \$251.0 million in 2006 and \$133.2 million in 2005. On this basis, the improvement reflected a strong increase in operating lease net revenues (operating lease rental income less the related equipment depreciation expense), including strong aerospace rental prepayment fees and recoveries of past due rents from certain bankrupt U.S. commercial airlines along with a significant reduction in the effective tax rate due to the continued relocation of aircraft to Ireland coupled with higher allocated tax benefits. Current year other revenue also benefited from a gain relating to insurance proceeds on an aircraft lost on the ground in a casualty event.

Excluding the noteworthy items, total net revenues improved 49% in 2006 and 20% in 2005, as net finance revenue as a percentage of average earning assets improved approximately 30 basis points in 2006 and other revenue benefited from the above-mentioned casualty gain.

Credit metrics remained strong. There were minimal charge-offs in 2006, and delinquency and non-performing assets declined from 2005, as the prior year included significant exposures to two large bankrupt carriers.

Excluding the noteworthy items discussed in *Profitability and Key Business Trends*, return on risk-adjusted capital was 17.2% in 2006 and 11.0% in 2005.

New business volume increased over the two years on aircraft deliveries and rail growth. Aerospace was up \$0.9 billion from last year while rail increased \$0.2. In 2006, we committed to the purchase of 44 additional commercial aircraft. See Note 16 *Commitments and Contingencies* for additional information.



Asset growth of over 17% in aerospace was driven by new deliveries from our order book and loans to major carriers. During 2006 we placed nineteen new aircraft from our order book. We had no commercial off-lease aircraft at year-end 2006, down from ten at year-end 2005. Rail demand remains strong, with our fleet virtually fully utilized. Continued strength in the rail industry provided opportunities to grow our rail assets over 18% to \$4.2 billion.

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### Trade Finance

Net income fell 5% in 2006 from the prior year, following the 15% increase in 2005 from 2004. The decline in the current year was due to higher charge-offs, which returned to more normalized levels.

Total net revenues increased 3% in 2006 and 10% in 2005 from the preceding year, as net finance margin as a percentage of average earning assets improved in both years. Other revenue improved modestly in both years, as slightly lower commission income rates offset higher factoring volume. Asset levels and profitability benefited from acquisitions in the first quarter of 2005 and in the second quarter of 2006, the latter of which was international.

Delinquency and non-performing accounts were up from relatively low levels at December 31, 2005.

Return on risk adjusted capital was stable, in the 26% - 27% range for all periods presented, fluctuating in line with the net income trends.

During 2006 we took a step to broaden our factoring business with a European acquisition, which helped increase assets from last year.

### Vendor Finance

Net income improved from the prior year by 7% in 2006 and 23% in 2005, reflecting strong growth in the international operations. The current year improvement was driven primarily by higher other revenue and reduced charge-offs. The 2005 results included a \$26.8 million after tax gain on the sale of our domestic micro-ticket leasing point of sale unit, offset by an \$11.9 million after tax loss on the disposition of manufactured housing receivables.

Total net revenues increased 4% in 2006 and 9% in 2005. Other revenue increased 7% in 2006, reflecting strong other revenue from asset sales and syndication activity in our global operations. The net finance revenue decline from 2005 reflects a 7% drop in average earning asset levels, primarily driven by a decline in Dell assets in the U.S. vendor program, the 2005 sale of the high margin, non-strategic micro-ticket assets and the disposition of manufactured housing receivables.

Credit metrics trends remained positive. Net charge-offs improved in both years and both delinquency and non-performing asset levels were down from 2005, in both amount and percentage of assets.

Return on risk-adjusted capital improved in both periods, reflecting the net income improvements.

Excluding Dell in the U.S., new business volume increased worldwide 13% in 2006 from 2005. However, in total, volume was down 15% due to a 39% decline in Dell volume in the U.S. as explained below. The international increase was the result of additional new vendors and growth of the international businesses. During the year, we announced new strategic partnerships with several large international companies.

International assets grew 16% in 2006; while in total, managed assets were down from last year primarily due to Dell U.S. The U.S. Dell program declined 18% to \$3.7 billion from December 2005, due to the combination of a decline in the overall Dell financed sales volume coupled with Dell exercising its right to purchase a portion of the receivables originated by the DFS joint venture.

### Consumer and Small Business Lending

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Net income increased 56% in 2006 and 33% in 2005 from the prior year, reflecting higher earnings in all businesses - home lending, student lending and small business lending.

Total net revenues increased 39% in 2006 and 36% in 2005 from the prior year. Net finance margin, though up \$89.1 million (36%) from 2005, was down approximately 25 basis points as a percentage of AEA, reflecting the growth in the lower margin federally guaranteed student lending portfolio. Other revenue increased 43% in 2006, reflecting higher gains on sales of home lending and student lending receivables. Average earning assets increased 54% in 2006 and 138% in 2005, reflecting strong home lending growth and the acquisition of the student lending business in the first quarter of 2005.

We grew the deposit funding at CIT Bank by \$2.1 billion during 2006, to \$2.4 billion, slightly ahead of our plans. These broker-originated deposits are primarily fixed rate.

Net charge-offs, though up in amount due to growth and seasoning in the home lending portfolio, were down 9 basis points from 2005, primarily due to improvements in Small Business Lending. Home lending charge-offs as a percentage of receivables were up 7 basis points from 2005.

Return on risk-adjusted capital declined from 2004, primarily due to the allocation of capital related to goodwill associated with the first quarter 2005 acquisition of the student lending business.

New business volume increased 48% over last year on strong loan originations at Student Loan Xpress, which was more than double last year. Home lending volumes were up 14%, as we slowed the growth in that portfolio during the second half of the year. Home lending whole loan purchases were \$3.6 billion or approximately 48% of new business volume, with the remainder generated through our broker origination network.

Managed assets were up 31% for the year primarily due to strong growth in the student lending business, which grew by approximately \$3.5 billion in 2006. In the home lending business we strategically supplemented our originations with bulk purchases. See *Concentrations* section for more detail on home and student lending.

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CIT GROUP INC 2006

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### CONCENTRATIONS

#### Ten Largest Accounts

Our ten largest financing and leasing asset accounts in the aggregate represented 4.6% of our total financing and leasing assets at December 31, 2006 (the largest account being less than 1.0%), 4.5% at December 31, 2005, and 5.3% at December 31, 2004. The largest accounts primarily consist of companies in the energy, transportation, and retail industries. The decline from 2004 is due to the growth in our consumer portfolios.

One of our top 10 accounts is with a power and energy company in bankruptcy proceedings. In July 2006, non-recourse debt associated with leveraged leases on two collateralized power generation facilities was refinanced and existing defaults were cured. See *Reserve for Credit Losses* for discussion of another transaction with the same lessee.

### OPERATING LEASES

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#### Operating Leases as of December 31 (dollars in millions)

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	2006	2005	2004
Transportation Finance Aerospace	\$ 6,274.0	\$5,327.1	\$4,461.0
Transportation Finance Rail and Other	3,572.3	3,081.4	2,275.5
Vendor Finance	967.2	1,049.5	1,078.7
Corporate Finance	204.4	177.7	475.7
Total	\$11,017.9	\$9,635.7	\$8,290.9

The increases in the Transportation Finance Aerospace portfolio reflect deliveries of nineteen new commercial aircraft from our order book, as well as the purchase of eight new aircraft. Commercial aircraft on operating lease were 192 at December 31, 2006, up from 182 last year and 167 in 2004. The increase in rail and other was due to the reclassification of railcars formerly under leveraged leases to operating leases coupled with strong rail volume, which allowed us to expand our railcar operating lease portfolio from approximately 43,000 at the end of 2004 to 93,000 at December 31, 2006. Railcar utilization remained very high with approximately 97% of our fleet in use.

The decline in the Vendor Finance operating lease portfolio reflects a general market trend toward financing equipment through finance leases and loans, rather than operating leases.

The decline in Corporate Finance operating leases since 2004 is primarily due to the 2005 sale of the business aircraft portfolio.

## LEVERAGED LEASES

### Leveraged Lease Portfolio as of December 31 (dollars in millions)

	2006	2005	2004
Project finance	\$192.7	\$ 360.1	\$ 334.9
Commercial aerospace non-tax optimized	95.2	232.1	336.6
Commercial aerospace tax optimized	43.1	135.2	221.0
Rail	137.2	260.8	233.9
Other	28.1	32.5	115.4
<b>Total leveraged lease transactions</b>	<b>\$496.3</b>	<b>\$1,020.7</b>	<b>\$1,241.8</b>
<b>As a percentage of finance receivables</b>	<b>0.9%</b>	<b>2.3%</b>	<b>3.5%</b>

The major components of our net investments in leveraged leases include: 1) power and utility project finance transactions, 2) commercial aerospace transactions, including tax-optimized leveraged leases, which generally have increased risk of loss in default for lessors in relation to conventional lease structures due to additional leverage and the recourse of the third-party lender to the equipment in these transactions; and 3) rail transactions. The reduction in the project finance balance reflects the previously discussed refinancing of two power generation facilities, which resulted in the classification of these transactions as conventional capital leases. The decline in the aerospace balances generally reflects the debt restructuring and reclassification to operating leases in conjunction with our initiative to relocate and fund certain assets overseas. The 2006 decline in rail is due to the remarketing of the equipment under operating lease agreements at the expiration of the original lease transactions.

## ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS

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### JOINT VENTURE RELATIONSHIPS

Our strategic relationships with industry-leading equipment vendors are a significant origination channel for our financing and leasing activities. These vendor alliances include traditional vendor finance programs, joint ventures and profit sharing structures. Our vendor programs with Dell, Snap-on and Avaya are among our largest alliances. We have multiple program agreements with Dell, the largest of which is Dell Financial Services (DFS), covering originations in the U.S. The agreements provide Dell with the option to purchase CIT's 30% interest in DFS in February 2008 and extends CIT's right to purchase a percentage of DFS finance receivables through January 2010. Dell's option to purchase CIT's interest is based on a formula tied to DFS profitability, with the resulting value expected to range between \$100 million and \$345 million. The joint venture agreement with Snap-on runs until January 2009. The Avaya agreement, which relates to profit-sharing on a CIT direct origination program, was extended during the second quarter of 2006, until September 2009, pursuant to a renewal provision in the agreement.

Our financing and leasing assets include amounts related to the dell, snap-on, and avaya joint venture programs. These amounts include receivables originated directly by cit as well as receivables purchased from joint venture entities.

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Returns relating to the joint venture relationships (i.e., net income as a percentage of average managed assets) for 2006 were comparable to the Vendor Finance segment returns. A significant reduction in origination volumes from any of these alliances could have a material impact on our asset and net income levels. For additional information regarding certain of our joint venture activities, see Note 19 *Certain Relationships and Related Transactions*.

### Joint Venture Relationships as of December 31 (dollars in millions)

	2006	2005	2004
<b>Owned Financing and Leasing Assets</b>			
Dell U.S.	\$1,307.9	\$1,986.3	\$1,980.7
Dell International	1,667.9	1,528.3	1,408.7
Snap-on	1,001.2	1,035.7	1,114.7
Avaya Inc	478.0	563.0	620.7
<b>Securitized Financing and Leasing Assets</b>			
Dell U.S.	\$2,394.5	\$2,526.1	\$2,484.1
Dell International	122.3	34.2	5.1
Snap-on	39.2	55.4	64.8
Avaya Inc	446.1	460.5	599.6

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### GEOGRAPHIC COMPOSITION (%)

#### Geographic Concentrations by Obligor as of December 31

	2006	2005	2004
<b>State</b>			
California	9.3%	9.8%	10.3%
Texas	7.2	7.5	7.8
New York	6.6	6.7	6.8
All other states	55.8	54.9	52.8
<b>Total U.S.</b>	<b>78.9%</b>	<b>78.9%</b>	<b>77.7%</b>
<b>Country</b>			
Canada	5.6%	6.1%	5.5%
England	3.4	3.5	3.9
China	1.2	1.0	1.2
Mexico	1.1	0.9	1.1
Germany	1.1	0.8	1.2
Australia	1.0	1.1	1.3
France	0.9	1.0	1.4
All other countries	6.8	6.7	6.7
<b>Total International</b>	<b>21.1%</b>	<b>21.1%</b>	<b>22.3%</b>

The table summarizes significant state concentrations greater than 5.0% and international concentrations in excess of 1.0% of our owned financing and leasing portfolio assets. International assets increased in amount during 2006, but were flat as a percentage of owned financing and leasing portfolio assets due to the increased size of the U.S. student lending portfolio. For each period presented, our managed asset geographic composition did not differ significantly from our owned asset geographic composition.

**INDUSTRY COMPOSITION**

Our industry composition is detailed in Note 5 *Concentrations*. We believe the following discussions, covering certain industries, are of interest to investors.

**Aerospace****Aerospace as of December 31** (dollars in millions)

	2006		2005		2004	
	Net Investment <sup>(2)</sup>	Number	Net Investment <sup>(2)</sup>	Number	Net Investment	Number
<b>Commercial Aerospace Portfolio:</b>						
<b>By Region:</b>						
Europe	\$2,880.2	88	\$2,348.4	75	\$2,160.0	72
U.S. and Canada	1,288.0	60	1,243.6	62	1,057.7	66
Asia Pacific	1,705.6	52	1,569.0	52	1,242.4	46
Latin America	835.4	27	533.7	20	611.3	25
Africa / Middle East	402.1	10	257.2	6	54.2	3
<b>Total</b>	<b>\$7,111.3</b>	<b>237</b>	<b>\$5,951.9</b>	<b>215</b>	<b>\$5,125.6</b>	<b>212</b>
<b>By Manufacturer:</b>						
Boeing	\$3,105.7	124	\$2,644.6	124	\$2,558.8	133
Airbus	3,996.2	113	3,269.0	84	2,536.9	70
Other	9.4		38.3	7	29.9	9
<b>Total</b>	<b>\$7,111.3</b>	<b>237</b>	<b>\$5,951.9</b>	<b>215</b>	<b>\$5,125.6</b>	<b>212</b>
<b>By Body Type<sup>(1)</sup>:</b>						
Narrow body	\$5,168.9	179	\$4,331.0	165	\$3,894.9	168
Intermediate	1,690.3	43	1,347.2	27	842.7	18
Wide body	242.7	15	235.4	16	358.1	17
Other	9.4		38.3	7	29.9	9
<b>Total</b>	<b>\$7,111.3</b>	<b>237</b>	<b>\$5,951.9</b>	<b>215</b>	<b>\$5,125.6</b>	<b>212</b>
<b>By Product:</b>						
Operating lease	\$6,274.0	192	\$5,327.1	182	\$4,324.6	167
Leveraged lease (other)	95.2	4	232.1	10	336.6	12
Leveraged lease (tax optimized)	43.1	1	135.2	7	221.0	9
Capital lease	151.9	6	67.7	3	137.4	6
Loan	547.1	34	189.8	13	106.0	18
<b>Total</b>	<b>\$7,111.3</b>	<b>237</b>	<b>\$5,951.9</b>	<b>215</b>	<b>\$5,125.6</b>	<b>212</b>
Number of accounts	92		93		92	
Weighted average age of fleet (years)	5		6		6	
Largest customer net investment	\$ 288.6		\$ 277.3		\$286.4	
Off-lease aircraft			10		2	

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- (1) *Narrow body are single aisle design and consist primarily of Boeing 737 and 757 series and Airbus A320 series aircraft. Intermediate body are smaller twin aisle design and consist primarily of Boeing 767 series and Airbus A330 series aircraft. Wide body are large twin aisle design and consist primarily of Boeing 747 and 777 series and McDonnell Douglas DC10 series aircraft.*
- (2) *Balances include aircraft held for sale.*

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Our top five commercial aerospace exposures totaled \$1,230.0 million at December 31, 2006. Four of the top five exposures are to carriers outside of the U.S. The largest exposure to a U.S. carrier at December 31, 2006 was \$245.8 million.

The regional aircraft portfolio at December 31, 2006 consisted of 64 planes with a net investment of \$161.2 million. The carriers are primarily located in North America and Europe. Loans make up approximately 63% of the portfolio, operating leases account for about 32% of the portfolio, and the remaining are capital leases. At December 31, 2005, the portfolio consisted of 104 planes with a net investment of \$275.3 million.

Aerospace depreciation expense for the years ended December 31, 2006, 2005 and 2004 totaled \$299.4 million, \$248.4 million, and \$215.8 million (including a \$14.8 million impairment charge).

The following is a list of our exposure to aerospace carriers that have filed for bankruptcy protection and the current status of our aircraft at December 31, 2006:

**Delta Air Lines** On September 14, 2005, Delta Air Lines announced that it had filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. During the fourth quarter of 2005, we charged off \$13.2 million of our outstanding balances. Currently, we have two operating leases for \$32.7 million secured by two Boeing aircraft.

**Northwest Airlines** On September 14, 2005, Northwest Airlines announced that it had filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. During the fourth quarter of 2005, we charged off \$35.3 million of our outstanding balances. Currently, our Northwest Airlines exposure includes one operating lease for \$7.8 million on a Boeing aircraft and floating rate loans totaling \$134.5 million on 12 Airbus aircraft.

Our aerospace assets include both operating and capital leases as well as secured loans. Management considers current lease rentals as well as relevant and available market information (including third-party sales for similar equipment, published appraisal data and other marketplace information) both in determining undiscounted future cash flows when testing for the existence of impairment and in determining estimated fair value in measuring impairment. We adjust the depreciation schedules of commercial aerospace equipment on operating leases or residual values underlying capital leases when projected fair value at the end of the lease term is less than the projected book value at the end of the lease term. We review aerospace assets for impairment annually, or more often should events or circumstances warrant. Aerospace equipment is defined as impaired when the expected undiscounted cash flow over its expected remaining life is less than its book value. We factor historical information, current economic trends and independent appraisal data into the assumptions and analyses we use when determining the expected undiscounted cash flow. Included among these assumptions are the following:

Lease terms

Remaining life of the asset

Lease rates

Remarketing prospects

Maintenance costs

See *Item 8. Financial Statements and Supplementary Data*, Note 16 *Commitments and Contingencies* for additional information regarding commitments to purchase additional aircraft and Note 5 *Concentrations* for further discussion on geographic and industry concentrations.

### Home Lending

**Managed Home Lending Portfolio Statistics for the years ended December 31** (dollars in millions)

	2006	2005	2004
Managed assets	\$ 10,522.5	\$ 9,174.5	\$6,298.5
Portfolio assets	\$ 9,887.7	\$ 8,335.7	\$5,069.8
% of first mortgages	89%	92%	92%
Average loan size	\$ 120.9	\$ 118.3	\$101.0
Top state concentrations	California, Florida, Texas, Illinois, New York	California, Florida, Texas, Illinois, New York	California, Florida, Texas, Ohio, Pennsylvania
Top state concentrations (%)	44%	42%	45%
Fixed-rate mortgage %	43%	43%	56%
Average loan-to-value	82%	81%	80%
Average FICO score	636	633	631
Delinquencies (sixty days or more)	4.76%	2.89%	3.59%
Net charge-offs-managed basis	0.96%	0.82%	1.11%
Net charge-offs-owned basis	0.80%	0.73%	1.09%

**ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The home lending unit primarily originates, purchases and services loans secured by first liens on detached, single-family, residential properties. Products include fixed and variable-rate closed-end loans and variable-rate lines of credit. The portfolio includes limited second liens and interest only loans and no negative amortization products, option arms or LTVs greater than 100%. Loans are originated through brokers with a high proportion of applications processed over the internet via BrokerEdge<sup>SM</sup>, a proprietary system. We also buy and sell individual loans and portfolios of loans from and to banks, thrifts and other originators of consumer loans to maximize the value of our origination network, manage risk and improve profitability.

Delinquencies and net charge-offs on this portfolio increased in 2006 and we expect that trend to continue in 2007 due to softening in the home lending sector and portfolio seasoning, stemming from our decision to slow growth in the portfolio. Based on management's assessment of the portfolio and related environment, we expect home lending net charge-offs on an owned basis to approximate 120 basis points in 2007, up from 80 basis points in 2006. Note, this expectation was factored into the company's previously-issued 2007 guidance.

**Student Lending (Student Loan Xpress)**

The Consumer Finance student lending portfolio, which is marketed as Student Loan Xpress, totaled \$8.8 billion at December 31, 2006, representing 12.9% of owned and 11.8% of managed assets. Loan origination volumes totaled \$8.7 billion (including \$6.3 billion in 2006) for the period of CIT ownership (beginning in February 2005). Student Loan Xpress has arrangements with certain financial institutions to sell selected loans and works jointly with these financial institutions to promote these relationships.

Finance receivables, including held for sale, by product type for our student lending portfolio are as follows:

**Finance Receivables by Product Type at December 31** (dollars in millions)

	2006	2005
Consolidation loans	\$7,399.8	\$4,668.7
Other U.S. Government guaranteed loans	1,064.1	568.7
Private (non-guaranteed) loans and other	308.8	30.4
Total	\$8,772.7	\$5,267.8

Delinquencies (sixty days or more) were \$400.1 million, 4.56% of finance receivables at December 31, 2006 compared to \$132.7 million, 2.52% at December 31, 2005.

Top 5 state concentrations (California, New York, Texas, Pennsylvania, and Ohio) represented an aggregate 35.0% and 37.5% of the portfolio at December 31, 2006 and 2005.

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## RISK MANAGEMENT

Our business activities involve various elements of risk. We consider the principal types of risk to be credit risk (including credit, collateral and equipment risk) and market risk (including interest rate, foreign currency and liquidity risk). Managing risks is essential to conducting our businesses and to our profitability. Accordingly, our risk management systems and procedures are designed to identify and analyze key business risks, to set appropriate policies and limits, and to continually monitor these risks and limits by means of reliable administrative and information systems, along with other policies and programs. Within the Office of the Chairman, the Vice Chairman and Chief Lending Officer oversees credit and equipment risk management across the businesses while the Vice Chairman and Chief Financial Officer oversees market risk management.

We review and monitor credit exposures, both owned and managed, on an ongoing basis to identify, as early as possible, customers that may be experiencing declining creditworthiness or financial difficulty, and periodically evaluate the performance of our finance receivables across the entire organization. We monitor concentrations by borrower, industry, geographic region and equipment type, and we set or modify exposure limits as conditions warrant, to minimize credit concentrations and the risk of substantial credit loss. We have maintained a standard practice of reviewing our aerospace portfolio regularly and, in accordance with SFAS No. 13 and SFAS No. 144, we test for asset impairment based upon projected cash flows and relevant market data with any impairment in value charged to earnings.

In conjunction with our capital allocation initiatives, we have enhanced our credit risk management practices, including portfolio modeling, probability of default analysis, further development of risk-based pricing tools, and reserve for credit loss analysis.

Our Asset Quality Review Committee is comprised of members of senior management, including the Vice Chairman and Chief Lending Officer, the Vice Chairman and Chief Financial Officer, the Chief Credit and Risk Officer, the Controller and the Director of Credit Audit. Periodically, this committee meets with senior executives of our business units and corporate credit risk management group to review portfolio performance, including the status of individual financing and leasing assets, owned and managed, to obligors with higher risk

profiles. In addition, this committee periodically meets with the Chief Executive Officer of CIT to review overall credit risk, including geographic, industry and customer concentrations, and the reserve for credit losses.

## CREDIT RISK MANAGEMENT

We have formal underwriting policies and procedures to evaluate financing and leasing assets for credit and collateral risk during the credit granting process and periodically after the advancement of funds. These guidelines set forth our underwriting parameters based on: (1) Target Market Definitions, which delineate the markets, industries, geographies and products that our businesses are permitted to target, and (2) Risk Acceptance Criteria, which details acceptable transaction structures, credit profiles and required risk-adjusted returns.

We have enhanced our credit risk management process by implementing a two-tier risk metrics system to capture and analyze credit risk based on probability of obligor default and loss given default. Probability of default is determined by evaluating the borrower creditworthiness including analyzing credit history, financial condition, cash flow adequacy, financial performance and management quality. Loss given default ratings, which estimate the loss if an account goes into default, are predicated on transaction structure, collateral valuation and related guarantees (including recourse from manufacturers, dealers or governments).

We are implementing processes and systems to drive risk-based pricing models to the individual transaction level based on the aforementioned credit metrics to ensure that transactions meet acceptable risk-adjusted return criteria. Each of our business units has developed and implemented a formal credit management process customized to the products/services they offer, the clients they serve and the industries in which they operate.



CIT has entered into a limited number of credit default swaps to economically hedge certain CIT credit exposures. Also, we have selectively executed offsetting derivative transactions with financial institutions and our customers as a service to our customers in order to mitigate their respective interest rate and currency risks. The counter party exposure related to these transactions is monitored and evaluated in conjunction with our normal underwriting policies and procedures.

**Commercial Lending and Leasing** The commercial credit management process begins with the initial evaluation of credit risk and underlying collateral at the time of origination and continues over the life of the finance receivable or operating lease, including collecting past due balances and liquidating underlying collateral. Credit personnel review a potential borrower's financial condition, results of operations, management, industry, customer base, operations, collateral and other data, such as third party credit reports, to thoroughly evaluate the customer's borrowing and repayment ability. Transactions are graded according to the two-tier risk metrics system described above. Credit facilities are subject to approval within our overall credit approval and underwriting guidelines and are issued commensurate with the credit evaluation performed on each borrower.

**Consumer and Small Ticket Lending and Leasing** For consumer transactions and certain small-ticket lending and leasing transactions, we employ proprietary automated credit scoring models by loan type. The complex statistical models and algorithms are developed, tested and maintained in-house by our credit risk management sciences group. The models emphasize, among other things, occupancy status, length of residence, employment, debt to income ratio (ratio of total installment debt and housing expenses to gross monthly income), bank account references, credit bureau information and combined loan to value ratio for consumers, while small business models encompass financial performance metrics, length of time in business, industry category and geographic location. The models are used to assess a potential borrower's credit standing and repayment ability considering the value or adequacy of property offered as collateral. We also utilize external credit bureau scoring, behavioral models and judgment in the credit adjudication and collection processes.

We regularly evaluate the consumer loan portfolio and the small ticket leasing portfolio using past due, vintage curve and other statistical tools to analyze trends and credit performance by transaction type, including analysis of specific credit characteristics and other selected subsets of the portfolios. Adjustments to credit scorecards and lending programs are made when deemed appropriate. Individual underwriters are assigned credit authority based upon their experience, performance and understanding of the underwriting policies and procedures of our consumer and small-ticket leasing operations. A credit approval hierarchy also exists to ensure that an underwriter with the appropriate level of authority reviews all applications.

## **EQUIPMENT/RESIDUAL RISK MANAGEMENT**

We have developed systems, processes and expertise to manage the equipment and residual risk in our leasing businesses. Our process consists of the following: 1) setting residual value at transaction inception; 2) systematic residual reviews; and 3) monitoring of residual realizations. Reviews for impairment are performed at least annually. Residual realizations, by business unit and product, are reviewed as part of our ongoing financial and asset quality review, both within the business units and by senior management.

## **Portfolio Analytics**

We monitor concentrations by borrower, industry, geographic region and equipment type, and we set or modify exposure limits as conditions warrant, to minimize credit concentrations and the risk of substantial credit loss. Owned and managed credit exposures are reviewed on an ongoing basis to identify sectors of the economy that may be experiencing declining creditworthiness or financial difficulty as soon as possible and underwriting criteria and risk tolerances are adjusted accordingly.

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We continue to advance our capital allocation disciplines through the implementation of processes and systems, which will drive risk-based equity allocations down to the transaction level and stress test loss scenarios. We expanded our proactive portfolio management activities to place greater emphasis on whole loan sales and syndications and broadened our risk mitigation techniques to include risk-sharing arrangements, credit insurance and credit derivatives. Additionally, we have migrated our credit data files to a centralized credit manager system, which will further our portfolio analytical capabilities and allow us to analyze cross industry and cross border performance correlations.

## **Supervision and Oversight**

The Corporate Credit Risk Management group, which reports to the Vice Chairman and Chief Lending Officer, oversees and manages credit risk throughout CIT. This group includes senior credit executives in each of the business units. Our Executive Credit Committee includes the Chief

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Executive Officer, the Chief Lending Officer and members of the Corporate Credit Risk Management group. The committee approves transactions, which are outside of established target market definitions and risk acceptance criteria, corporate exceptions as delineated within the individual business unit credit authority, and transactions that exceed the business units' credit authority.

The Corporate Credit Risk Management group also includes an independent credit audit function. The credit audit group reviews the credit management processes at each business unit and monitors compliance with established corporate policies. The credit audit group examines adherence with established credit policies and procedures and tests for inappropriate credit practices, including whether potential problem accounts are being detected and reported on a timely basis.

CIT also maintains a standing Asset Quality Review Committee, which is charged with reviewing aggregate portfolio performance, including the status of individual financing and leasing assets, owned and managed, to obligors with higher risk profiles. The committee is comprised of members of senior management, including the Vice Chairman and Chief Lending Officer, the Vice Chairman and Chief Financial Officer, the Chief Credit and Risk Officer, the Controller and the Director of Credit Audit and meets with senior business unit executives to understand portfolio performance dynamics. This committee also periodically meets with the Chief Executive Officer of CIT to review overall credit risk, including geographic, industry and customer concentrations, and the reserve for credit losses.

### MARKET RISK MANAGEMENT

We engage in transactions in the normal course of business that expose us to market risks. Market risk is the risk of loss arising from changes in values of financial instruments, and includes interest rate risk, foreign exchange risk, derivative counterparty credit risk and liquidity risk. We conduct what we believe are appropriate management practices and maintain policies designed to effectively mitigate such risks. The objectives of our market risk management efforts are to preserve the economic and accounting returns of our assets by matching the repricing and maturity characteristics of our assets with that of our liabilities. Strategies for managing market risks associated with changes in interest rates and foreign exchange rates are an integral part of the process, because those strategies affect our future expected cash flows as well as our cost of capital.

Our Capital Committee sets policies, oversees and guides the interest rate and currency risk management process, including the establishment and monitoring of risk metrics, and ensures the implementation of those policies. Other risks monitored by the Capital Committee include derivative counterparty credit risk and liquidity risk. The Capital Committee meets periodically and includes the Chief Executive Officer, Vice Chairman and Chief Financial Officer, Vice Chairman and Chief Lending Officer, Vice Chairman - Specialty Finance, Vice Chairman - Commercial Finance, Treasurer, and Controller.

### INTEREST RATE AND FOREIGN EXCHANGE RISK MANAGEMENT

**Interest Rate Risk Management** We monitor our interest rate sensitivity on a regular basis by analyzing the impact of interest rate changes upon the financial performance of the business. We also consider factors such as the strength of the economy, customer prepayment behavior and re-pricing characteristics of our assets and liabilities.

We evaluate and monitor risk through two primary metrics:

Margin at Risk (MAR), which measures the impact of changing interest rates upon interest income over the subsequent twelve months.

Value at Risk (VAR), which measures the net economic value of assets by assessing the market value of assets, liabilities and derivatives.

We regularly monitor and simulate our degree of interest rate sensitivity by measuring the characteristics of interest-sensitive assets, liabilities, and derivatives. The Capital Committee reviews the results of this modeling periodically.

The first interest rate sensitivity modeling technique (MAR) that we employ includes the creation of prospective twelve-month baseline and rate shocked net interest income simulations. At the date that we model interest rate sensitivity, we derive the baseline net interest income considering the current level of interest-sensitive assets, the current level of interest-sensitive liabilities, and the current level of derivatives. Our baseline simulation assumes that, over the next successive twelve months, market interest rates (as of the date of our simulation) are held constant and that no new loans or leases are extended. Once we calculate the baseline net interest income, we instantaneously raise market interest rates, which we previously held constant, 100 basis points across the entire yield curve, and a rate shocked simulation is run in which all interest rate sensitive assets, liabilities and derivatives are immediately reset. We then measure interest rate sensitivity as the difference between the calculated baseline and the rate shocked net interest income.

An immediate hypothetical 100 basis point increase in the yield curve on January 1, 2007 would reduce our net income by an estimated \$5 million after-tax over the next twelve months. A corresponding decrease in the yield curve would cause an increase in our net income of a like amount. A 100 basis point increase in the yield curve on January 1, 2006 would have reduced our net income by an estimated \$14 million after tax, while a corresponding decrease in the yield curve would have increased our net income by a like amount.

The second interest rate modeling technique (VAR) we employ is focused on the net economic value of the firm by modeling the current market value of assets, liabilities and derivatives, to determine our market value baseline. Once the baseline market value is calculated, we raise market interest rates 100 basis points across the entire yield curve, and new market values are estimated. By modeling the economic value of the portfolio we are able to understand how the economic value of the balance sheet would change under specific interest rate scenarios.

An immediate hypothetical 100 basis point increase in the yield curve on January 1, 2007 would increase our economic value by \$287 million before income taxes. A 100 basis point increase in the yield curve on January 1, 2006 would have increased our economic value by \$51 million before income taxes.

Although we believe that these measurements provide an estimate of our interest rate sensitivity, they do not account for potential changes in the credit quality, size, composition, and prepayment characteristics of our balance sheet, nor do they account for other business developments that could affect our net income or for management actions that could be taken. Accordingly, we can give no assurance that actual results would not differ materially from the estimated outcomes of our simulations. Further, such simulations do not represent our current view of future market interest rate movements.

A comparative analysis of the weighted average principal outstanding and interest rates on our debt before and after the effect of interest rate swaps is shown on the following table.

(dollars in millions)

	Before Swaps		After Swaps	
<b>For the year ended December 31, 2006</b>				
Commercial paper, variable-rate senior notes and secured borrowings	\$26,290.4	5.14%	\$29,532.7	5.22%
Fixed-rate senior and subordinated notes and deposits	26,349.9	5.69%	23,107.6	5.73%
Composite	\$52,640.3	5.41%	\$52,640.3	5.45%
<b>For the year ended December 31, 2005</b>				
Commercial paper, variable-rate senior notes and secured borrowings	\$20,823.7	3.57%	\$24,225.2	3.87%
Fixed-rate senior and subordinated notes and deposits	22,362.6	5.33%	18,961.1	5.14%
Composite	\$43,186.3	4.48%	\$43,186.3	4.43%
<b>For the year ended December 31, 2004</b>				
Commercial paper, variable-rate senior notes and secured borrowings	\$15,138.8	1.88%	\$18,337.9	2.59%
Fixed-rate senior and subordinated notes and deposits	19,755.6	5.64%	16,556.5	5.08%
Composite	\$34,894.4	4.01%	\$34,894.4	3.77%

The weighted average interest rates before swaps do not necessarily reflect the interest expense that we would have incurred over the life of the borrowings had we managed the interest rate risk without the use of such swaps.

We offer a variety of financing products to our customers, including fixed and variable-rate loans of various maturities and currency denominations, and a variety of leases, including operating leases. Changes in market interest rates, relationships between short-term and long-term market interest rates, or relationships between different interest rate indices (i.e., basis risk) can affect the interest rates charged on interest-earning assets differently than the interest rates paid on interest-bearing liabilities, and can result in an increase in interest expense relative to finance income. We measure our asset/liability position in economic terms through duration measures and sensitivity analysis, and we measure the effect on earnings using maturity gap analysis. Our asset portfolio is generally comprised of loans and leases of short to

intermediate term. As such, the duration of our asset portfolio is generally less than three years. We target to closely match the duration of our liability portfolio with that of our asset portfolio. As of December 31, 2006, our liability portfolio duration was slightly longer than our asset portfolio duration.

A matched asset/liability position is generally achieved through a combination of financial instruments, including commercial paper, deposits, medium-term notes, long-term debt, interest rate and currency swaps, foreign exchange contracts, and through securitization. We do not speculate on interest rates or foreign exchange rates, but rather seek to mitigate the possible impact of such rate fluctuations encountered in the normal course of business. This process is ongoing due to prepayments, refinancings and actual payments varying from contractual terms, as well as other portfolio dynamics.

#### ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS

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We periodically enter into structured financings (involving the issuance of both debt and an interest rate swap with corresponding notional principal amount and maturity) to manage liquidity and reduce interest rate risk at a lower overall funding cost than could be achieved by solely issuing debt.

As part of managing exposure to interest rate, foreign currency, and, in limited instances, credit risk, CIT, as an end-user, enters into various derivative transactions, all of which are transacted in over-the-counter markets with other financial institutions acting as principal counterparties. Derivatives are utilized to eliminate or mitigate economic risk, and our policy prohibits entering into derivative financial instruments for speculative purposes. To ensure both appropriate use as a hedge and to achieve hedge accounting treatment, whenever possible, substantially all derivatives entered into are designated according to a hedge objective against a specific or forecasted liability or, in limited instances, assets. The notional amounts, rates, indices, and maturities of our derivatives closely match the related terms of the underlying hedged items.

CIT utilizes interest rate swaps to exchange variable-rate interest underlying forecasted issuances of commercial paper, specific variable-rate debt instruments, and, in limited instances, variable-rate assets for fixed-rate amounts. These interest rate swaps are designated as cash flow hedges and changes in fair value of these swaps, to the extent they are effective as a hedge, are recorded in other comprehensive income. Ineffective amounts are recorded in interest expense. Interest rate swaps are also utilized to effectively convert fixed-rate interest on specific debt instruments to variable-rate amounts. These interest rate swaps are designated as fair value hedges and changes in fair value of these swaps are effectively recorded as an adjustment to the carrying value of the hedged item, as the offsetting changes in fair value of the swaps and the hedged items are recorded in earnings.

The following table summarizes the composition of our interest rate sensitive assets and liabilities before and after swaps:

	Before Swaps		After Swaps	
	Fixed rate	Variable rate	Fixed rate	Variable rate
<b>December 31, 2006</b>				
Assets	51%	49%	51%	49%
Liabilities	55%	45%	50%	50%
<b>December 31, 2005</b>				
Assets	49%	51%	49%	51%
Liabilities	50%	50%	44%	56%

Total interest sensitive assets were \$64.1 billion and \$51.9 billion at December 31, 2006 and 2005. Total interest sensitive liabilities were \$57.1 billion and \$45.6 billion at December 31, 2006 and 2005.

**Foreign Exchange Risk Management** To the extent local foreign currency borrowings are not raised, CIT utilizes foreign currency exchange forward contracts to hedge or mitigate currency risk underlying foreign currency loans to subsidiaries and the net investments in foreign operations. These contracts are designated as foreign currency cash flow hedges or net investment hedges and changes in fair value of these contracts are recorded in other comprehensive income along with the translation gains and losses on the underlying hedged items. Translation gains and losses of the underlying foreign net investment, as well as offsetting derivative gains and losses on designated hedges, are reflected in other comprehensive income in the Consolidated Balance Sheet.

CIT also utilizes cross-currency swaps to hedge currency risk underlying foreign currency debt and selected foreign currency assets. The swaps that meet hedge accounting criteria are designated as foreign currency cash flow hedges or foreign currency fair value hedges and changes in fair

value of these contracts are recorded in other comprehensive income (for cash flow hedges), or effectively as a basis adjustment (including the impact of the offsetting adjustment to the carrying value of the hedged item) to the hedged item (for fair value hedges) along with the transaction gains and losses on the underlying hedged items. CIT also has certain cross-currency swaps that economically hedge exposures, but do not qualify for hedge accounting treatment.

**Other Market Risk Management** CIT has entered into credit default swaps to economically hedge certain CIT credit exposures. These swaps do not meet the requirements for hedge accounting treatment and, therefore, are recorded at fair value, with both realized and unrealized gains or losses recorded in other revenue in the Consolidated Statement of Income. See Note 9 - *Derivative Financial Instruments* for further discussion, including notional principal balances of interest rate swaps, foreign currency exchange forward contracts, cross-currency swaps, credit default swaps and other derivative contracts.

## DERIVATIVE RISK MANAGEMENT

We enter into interest rate and currency swaps, foreign exchange forward contracts, and in limited instances, credit default swaps and commodity swaps as part of our overall risk management practices. We assess and manage the external and internal risks associated with these derivative instruments in accordance with the overall operating goals established by our

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Capital Committee. External risk is defined as those risks outside of our direct control, including counterparty credit risk, liquidity risk, systemic risk, legal risk and market risk. Internal risk relates to those operational risks within the management oversight structure and includes actions taken in contravention of CIT policy.

The primary external risk of derivative instruments is counterparty credit exposure, which is defined as the ability of a counterparty to perform its financial obligations under a derivative contract. We control the credit risk of our derivative agreements through counterparty credit approvals, pre-established exposure limits and monitoring procedures.

The Capital Committee, in conjunction with Corporate Risk Management, approves each counterparty and establishes exposure limits based on credit analysis and market value. All derivative agreements are entered into with major money center financial institutions rated investment grade by nationally recognized rating agencies, with the majority of our counterparties rated AA or better. Credit exposures are measured based on the current market value and potential future exposure of outstanding derivative instruments. Exposures are calculated for each derivative contract and are aggregated by counterparty to monitor credit exposure.

## LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risk of being unable to meet potential cash outflows promptly and cost-effectively. Factors that could cause such a risk to arise might be a disruption of a securities market or other source of funds. We actively manage and mitigate liquidity risk by maintaining diversified sources of funding and committed alternate sources of funding, and we maintain and periodically review a contingency funding plan to be implemented in the event of any form of market disruption. Additionally, we target our debt issuance strategy to achieve a maturity pattern designed to reduce refinancing risk. The primary funding sources are commercial paper (U.S., Canada and Australia), long-term debt (U.S. and International) and asset-backed securities (U.S. and Canada). Additional sources of liquidity are loan and lease payments from customers, whole-loan asset sales and loan syndications.

Outstanding commercial paper totaled \$5.4 billion at December 31, 2006, compared with \$5.2 billion and \$4.2 billion at December 31, 2005 and 2004. Our targeted U.S. program size is \$6.0 billion in addition to programs targeted to aggregate \$500 million in Canada and Australia. Our goal is to maintain committed bank lines in excess of aggregate outstanding commercial paper. We have aggregate bank facilities of \$7.3 billion in multi-year facilities. We also maintain committed bank lines of credit to provide backstop support of commercial paper borrowings and local bank lines to support our international operations.

During 2006, we grew deposits at CIT Bank, a Utah industrial bank, by approximately \$2.1 billion to \$2.3 billion. These deposits, which are broker originated, have an average maturity of approximately 2 years. This action represents further execution on our liquidity risk management plan to broaden our funding sources and decrease our reliance on capital markets. Our plan is to fund a portion of the Bank's assets, which include a portion of the home lending and student lending portfolios, with Bank deposits. Our longer-term goal is to have 10% of our total funding base in the form of Bank deposits.

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We maintain registration statements with the Securities and Exchange Commission (SEC) covering debt securities that we may sell in the future. At December 31, 2006, we had \$5.4 billion and Euros 0.8 billion of registered, but unissued, debt securities available under existing shelf registration statements, under which we may issue debt securities and other capital market securities. Term-debt issued during 2006 totaled \$18.6 billion: \$10.1 billion in variable-rate medium-term notes and \$8.5 billion in fixed-rate notes. Consistent with our strategy of managing debt refinancing risk, the weighted average maturity of term-debt issued in 2006 was approximately five years. Included with the fixed-rate notes are issuances under a retail note program in which we offer fixed-rate senior, unsecured notes utilizing numerous broker-dealers for placement to retail accounts. During 2006, we issued \$0.9 billion under this program having maturities of between 2 and 15 years. As part of our strategy to further diversify our funding sources, \$4.3 billion of foreign currency denominated debt was issued during 2006. We plan on continuing to utilize diversified sources of debt funding to meet our strategic global growth initiatives.

To further strengthen our funding capabilities, we maintain committed asset-backed facilities and shelf registration statements, which cover a range of assets from equipment to consumer home lending receivables and trade accounts receivable. While these are predominately in the U.S., we also maintain facilities for Canadian domiciled assets. As of December 31, 2006, we had approximately \$5.6 billion of availability in our committed asset-backed facilities and \$3.3 billion of registered, but unissued, securities available under public shelf registration statements relating to our asset-backed securitization program.

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We also target and monitor certain liquidity metrics to ensure both a balanced liability profile and adequate alternate liquidity availability as outlined in the following table:

#### Liquidity Measurements

Liquidity Measurement	Current Target	December 31,	
		2006	2005
Commercial paper to total debt	Maximum of 15%	9%	11%
Short-term debt to total debt	Maximum of 35%	24%	29%
Bank lines to commercial paper	Minimum of 100%	148%	131%
Aggregate alternate liquidity* to short-term debt	Minimum of 100%	125%	110%

\* Aggregate alternate liquidity includes available bank facilities, asset-backed facilities and cash.

Our credit ratings are an important factor in meeting our earnings and net finance revenue targets as better ratings generally correlate to lower cost of funds and broader market access. The following credit ratings have been in place since September 30, 2002 with the exception of the positive outlooks that were upgraded from stable in 2006:

#### CREDIT RATINGS

	Short-Term	Long-Term	Outlook
DBRS	R-1L	A	Positive
Fitch	F1	A	Positive
Moody's	P-1	A2	Stable
Standard & Poor's	A-1	A	Positive

The credit ratings stated above are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal by the assigning rating organization. Each rating should be evaluated independently of any other rating.

We have certain covenants contained in our legal documents that govern our funding structures. The most significant covenant in CIT's indentures and credit agreements is a negative pledge provision, which limits granting or permitting liens on our assets, but provides for exceptions for certain ordinary course liens needed to operate our business. In addition, our credit agreements also contain a minimum net worth requirement of \$4.0 billion.

The following tables summarize significant contractual payments and projected cash collections, and contractual commitments at December 31, 2006:

### Payments and Collections by Year (dollars in millions)(1)

	Total	2007	2008	2009	2010	2011+
Commercial paper	\$ 5,365.0	\$ 5,365.0	\$	\$	\$	\$
Deposits	2,399.6	905.9	945.3	352.6	74.8	121.0
Variable-rate senior unsecured notes	19,184.3	5,103.4	6,367.9	3,890.6	819.9	3,002.5
Fixed-rate senior unsecured notes	29,107.1	4,163.4	2,664.6	1,410.6	3,069.0	17,799.5
Non-recourse, secured borrowings	4,398.5	1,002.8	2.8	274.9		3,118.0
Preferred capital securities	250.3					250.3
Lease rental expense	379.7	53.2	47.3	32.1	27.0	220.1
<b>Total contractual payments</b>	<b>61,084.5</b>	<b>16,593.7</b>	<b>10,027.9</b>	<b>5,960.8</b>	<b>3,990.7</b>	<b>24,511.4</b>
Finance receivables(2)	55,064.9	12,709.7	4,879.2	4,371.9	3,563.2	29,540.9
Operating lease rental income(3)	5,355.3	1,555.0	1,247.8	912.7	628.4	1,011.4
Finance receivables held for sale(4)	1,793.7	1,793.7				
Cash current balance	4,458.4	4,458.4				
Retained interest in securitizations and other investments	1,059.4	539.4	235.7	138.3	40.4	105.6
<b>Total projected cash collections</b>	<b>67,731.7</b>	<b>21,056.2</b>	<b>6,362.7</b>	<b>5,422.9</b>	<b>4,232.0</b>	<b>30,657.9</b>
<b>Net projected cash collections (payments)</b>	<b>\$ 6,647.2</b>	<b>\$ 4,462.5</b>	<b>\$(3,665.2)</b>	<b>\$ (537.9)</b>	<b>\$ 241.3</b>	<b>\$ 6,146.5</b>

- (1) Projected proceeds from the sale of operating lease equipment, interest revenue from finance receivables, debt interest expense and other items are excluded. Obligations relating to postretirement programs are also excluded.
- (2) Based upon carrying values, including unearned discount; amount could differ due to prepayments, extensions of credit, charge-offs and other factors.
- (3) Rental income balances include payments from lessees on sale-leaseback equipment. See CIT payment schedule below.
- (4) Based upon management's intent to sell rather than contractual maturities of underlying assets.

### Commitment Expiration by Year (dollars in millions)

	Total	2007	2008	2009	2010	2011+
Credit extensions	\$ 12,601.4	\$ 1,963.4	\$ 1,086.0	\$ 1,765.1	\$ 2,838.7	\$ 4,948.2
Aircraft purchases	5,799.0	1,263.0	1,453.0	805.0	1,028.0	1,250.0
Letters of credit	1,059.4	986.4	24.3		11.3	37.4
Sale-leaseback payments	1,740.8	117.8	116.4	116.9	119.8	1,269.9
Manufacturer purchase commitments	1,176.0	712.4	381.6	82.0		
Guarantees, acceptances and other recourse obligations	315.0	233.4	10.5	1.3		69.8
<b>Total contractual commitments</b>	<b>\$22,691.6</b>	<b>\$5,276.4</b>	<b>\$3,071.8</b>	<b>\$2,770.3</b>	<b>\$3,997.8</b>	<b>\$7,575.3</b>

See Item 8. Financial Statements and Supplementary Data, Note 16 Commitments and Contingencies for additional information regarding commitments.

**INTERNAL CONTROLS**

The Internal Controls Committee is responsible for monitoring and improving internal controls and overseeing the internal controls attestation mandated by Section 404 of the Sarbanes-Oxley Act of 2002 ( "SARBOX" ). The committee, which is chaired by the Controller, includes the Vice Chairman and Chief Financial Officer, the Director of Internal Audit and other senior executives in finance, legal, risk management and information technology.

**OFF-BALANCE SHEET ARRANGEMENTS****Securitization Program**

We fund asset originations on our balance sheet by accessing various sectors of the capital markets, including the term debt and commercial paper markets. In an effort to broaden funding sources and provide an additional source of liquidity, we use an array of securitization programs, including both asset-backed commercial paper and term structures, to access both the public and private asset-backed securitization markets. Current products in these programs include receivables and leases secured by equipment as well as consumer loans secured by residential real estate. The following table summarizes data relating to our securitization programs.

**Securitized Assets at or for the years ended December 31 (dollars in millions)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Securitized Assets:</b>			
Vendor Finance	\$4,057.8	\$3,921.6	\$4,165.5
Corporate Finance	1,568.7	2,525.3	2,915.5
Consumer and Small Business Lending	634.8	838.8	1,228.7
<b>Total securitized assets</b>	<b>\$6,261.3</b>	<b>\$7,285.7</b>	<b>\$8,309.7</b>
Securitized assets as a % of managed assets	8.4%	11.6%	15.5%
<b>Volume Securitized:</b>			
Vendor Finance	\$3,324.1	\$3,230.9	\$3,153.8
Corporate Finance	321.9	1,089.6	1,280.7
<b>Total volume securitized</b>	<b>\$3,646.0</b>	<b>\$4,320.5</b>	<b>\$4,434.5</b>

In a typical asset-backed securitization, we sell a pool of secured loans or leases to a special-purpose entity (SPE), typically a trust. SPEs are used to achieve true sale requirements for these transactions in accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. The SPE, in turn, issues certificates and/or notes that are collateralized by the pool and entitle the holders thereof to participate in certain pool cash flows.

Accordingly, CIT has no legal obligation to repay the securities in the event of a default by the SPE. CIT retains the servicing rights of the securitized contracts, for which we earn periodic or on going servicing fees. We also participate in certain residual cash flows (cash flows after payment of principal and interest to certificate and/or note holders, servicing fees and other credit-related disbursements). At the date of securitization, we estimate the residual cash flows to be received over the life of the securitization, record the present value of these cash flows as a retained interest in the securitization (retained interests can include bonds issued by the SPE, cash reserve accounts on deposit in the SPE or interest only receivables) and typically recognize a gain. Assets securitized are shown in our managed assets and our capitalization ratios on a managed basis.

In estimating residual cash flows and the value of the retained interests, we make a variety of financial assumptions, including pool credit losses, prepayment speeds and discount rates. These assumptions are supported by both our historical experience and anticipated trends relative to the particular products securitized. Subsequent to recording the retained interests, we review them quarterly for impairment based on estimated fair value. These reviews are performed on a disaggregated basis. Fair values of retained interests are estimated utilizing current pool demographics, actual note/certificate outstandings, current and anticipated credit losses, prepayment speeds and discount rates.



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Our retained interests had a carrying value at December 31, 2006 of \$1,059.4 million. Retained interests are subject to credit and prepayment risk. As of December 31, 2006, approximately 50% of our outstanding securitization pool balances are in conduit structures. Securitized assets are subject to the same credit granting and monitoring processes which are described in the *Credit Risk Management* section. See Note 6 *Retained Interests in Securitizations and Other Investments* for detail on balance and key assumptions.

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The student lending business is largely funded with asset-backed securitization structures. As CIT retains certain call features with respect to these borrowings, the transactions do not meet the SFAS 140 requirements for sales treatment and are therefore recorded as secured borrowings and are reflected in the Consolidated Balance Sheet as student lending receivables pledged and non-recourse, secured borrowings. Certain cash balances, included in cash and cash equivalents, are restricted in conjunction with these borrowings.

### Joint Venture Activities

We utilize joint ventures organized through distinct legal entities to conduct financing activities with certain strategic vendor partners. Receivables are originated by the joint venture and purchased by CIT. The vendor partner and CIT jointly own these distinct legal entities, and there is no third-party debt involved. These arrangements are accounted for using the equity method, with profits and losses distributed according to the joint venture agreement. See disclosure in Note 19 *Certain Relationships and Related Transactions*.

### CAPITALIZATION

#### Capital Structure as of December 31 (dollars in millions)

	2006	2005	2004
Commercial paper, deposits, term debt and secured borrowings	\$ 60,454.5	\$ 47,612.5	\$ 37,471.0
Total common stockholders' equity	7,251.1	6,462.7	6,055.1
Preferred stock	500.0	500.0	
Total stockholders' equity	7,751.1	6,962.7	6,055.1
Preferred capital securities	250.3	252.0	253.8
Total stockholders' equity and preferred capital securities	8,001.4	7,214.7	6,308.9
Goodwill and other intangible assets	(1,008.4)	(1,011.5)	(596.5)
Other tangible equity adjustments <sup>(1)</sup>	(52.6)	(44.6)	18.6
Total tangible stockholders' capital	6,940.4	6,158.6	5,731.0
Total tangible debt and equity	\$ 67,394.9	\$ 53,771.1	\$ 43,202.0
Tangible capital to managed assets <sup>(1)</sup>	9.36%	9.80%	10.72%
Tangible book value per common share <sup>(2)</sup>	\$ 31.22	\$ 27.15	\$ 26.03

(1) *Tangible capital excludes the impact of the changes in fair values of derivatives qualifying as cash flow hedges and certain unrealized gains or losses on retained interests and investments, as these amounts are not necessarily indicative of amounts that will be realized. See Non-GAAP Financial Measurements.*

(2) *Tangible book value per common share outstanding is the sum of total common stockholders' equity less goodwill and other intangible assets divided by outstanding common stock.*

The student lending acquisition in Consumer and Small Business Lending, a factoring purchase in Trade Finance and a healthcare acquisition in Corporate Finance drove the increase in goodwill and acquired intangibles in 2005, while a European vendor finance acquisition increased goodwill and acquired intangibles during 2004. See Note 22 *Goodwill and Other Intangible Assets*.

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During 2005, CIT issued \$500 million aggregate amount of Series A and Series B preferred equity securities. Series A has a stated value of \$350 million, comprised of 14 million shares of 6.35% non-cumulative fixed rate preferred stock, with a liquidation value of \$25 per share. Series B has a stated value of \$150 million, comprised of 1.5 million shares of 5.189% non-cumulative adjustable rate preferred stock, with a liquidation value of \$100 per share. See Note 10 *Stockholders' Equity* for further detail on preferred stock.

The preferred capital securities are 7.70% Preferred Capital Securities issued in 1997 by CIT Capital Trust I, a wholly-owned subsidiary. CIT Capital Trust I invested the proceeds of that issue in Junior Subordinated Debentures of CIT having identical rates and payment dates. Consistent with rating agency measurements, preferred capital securities are included in tangible capital in our leverage ratios. See *Non-GAAP Financial Measurements* for additional information.

On January 24, 2007, the Company sold \$500 million in 60-year junior subordinated notes. The notes are callable, at par, beginning in January 2017. Although these securities will be classified as debt in our balance sheet, they will be included in tangible capitalization, similar to preferred capital securities in the table above.

On January 24, 2007, the Company agreed to purchase \$500 million of its common stock through an accelerated stock buyback program with BNP Paribas (BNP). Repurchased shares will be held in treasury.

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On January 2, 2007, the Company completed the acquisition of the UK and German vendor finance businesses from Barclays Bank PLC. The acquisition, which will add approximately \$2 billion in assets to Vendor Finance, was funded at December 31, 2006 through debt issuance, the proceeds of which are reflected in cash and cash equivalents.

See *Liquidity Risk Management* for discussion of risks impacting our liquidity and capitalization.

#### CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to use judgment in making estimates and assumptions that affect reported amounts of assets and liabilities, the reported amounts of income and expense during the reporting period and the disclosure of contingent assets and liabilities at the date of the financial statements. The following accounting estimates, which are based on relevant information available at the end of each period, include inherent risks and uncertainties related to judgments and assumptions made by management. We consider the following accounting estimates to be critical in applying our accounting policies due to the existence of uncertainty at the time the estimate is made, the likelihood of changes in estimates from period to period and the potential impact that these estimates can have on the financial statements.

**Charge-off of Finance Receivables** Finance receivables are reviewed periodically to determine the probability of loss. Charge-offs are taken after substantial collection efforts are conducted, considering such factors as the borrower's financial condition and the value of underlying collateral and guarantees (including recourse to dealers and manufacturers). Net charge-offs for the year ended December 31, 2006 were \$225.0 million.

**Impaired Loans** Loan impairment is measured as any shortfall between the estimated value and the recorded investment for those loans defined as impaired loans in the application of SFAS 114. The estimated value is determined using the fair value of the collateral or other cash flows, if the loan is collateral dependent, or the present value of expected future cash flows discounted at the loan's effective interest rate. The determination of impairment involves management's judgment and the use of market and third party estimates regarding collateral values. Valuations in the level of impaired loans and corresponding impairment as defined under SFAS 114 affect the level of the reserve for credit losses. At December 31, 2006, the reserve for credit losses includes a \$53.4 million impairment valuation component. A 10% fluctuation in this valuation equates to \$0.02 in diluted earnings per share.

**Reserve for Credit Losses** The reserve for credit losses is intended to provide for losses inherent in the portfolio, which requires the application of estimates and significant judgment as to the ultimate outcome of collection efforts and realization of collateral values, among other things. Therefore, changes in economic conditions or credit metrics, including past due and non-performing accounts, or other events affecting specific obligors or industries may necessitate additions or reductions to the reserve for credit losses.

The reserve for credit losses is reviewed for adequacy based on portfolio collateral values and credit quality indicators, including charge-off experience, levels of past due loans and non-performing assets, evaluation of portfolio diversification and concentration as well as economic

conditions. We review finance receivables periodically to determine the probability of loss, and record charge-offs after considering such factors as delinquencies, the financial condition of obligors, the value of underlying collateral, as well as third party credit enhancements such as guarantees and recourse from manufacturers. This information is reviewed formally on a quarterly basis with senior management, including the CEO, CFO, Chief Lending Officer and Controller, among others, in conjunction with setting the reserve for credit losses.

The reserve for credit losses is determined based on three key components: (1) specific reserves for collateral dependent loans which are impaired, based upon the value of underlying collateral or projected cash flows (2) reserves for estimated losses inherent in the portfolio based upon historical and projected credit trends and (3) reserves for estimated losses inherent in the portfolio based upon economic environment, estimation risk and other factors. Historical loss rates are based on one to three-year averages, which are consistent with our portfolio life and provide what we believe to be appropriate weighting to current loss rates. The process involves the use of estimates and a high degree of management judgment. As of December 31, 2006, the reserve for credit losses was \$659.3 million or 1.20% of finance receivables. A hypothetical 5% change to the expected loss rates utilized in our reserve determination at December 31, 2006 equates to the variance of \$25.6 million, or 5 basis points (0.05%) in the percentage of reserves to finance receivables, and \$0.08 in diluted earnings per share.

**Retained Interests in Securitizations** Significant financial assumptions, including loan pool credit losses, prepayment speeds and discount rates, are utilized to determine the fair values of retained interests, both at the date of the securitization and in the subsequent quarterly valuations of retained interests. These assumptions reflect both the historical experience and anticipated trends relative to the products securitized. Any resulting losses, representing the excess of carrying value over estimated fair value that are other than temporary, are recorded in current earnings. However, unrealized gains are reflected in stockholders' equity as part of other comprehensive income. See Note 6 *Retained Interests in Securitizations and Other Investments* for additional information regarding securitization retained interests and related sensitivity analysis.

**Lease Residual Values** Operating lease equipment is carried at cost less accumulated depreciation and is depreciated to estimated residual value using the straight-line method over the lease term or projected economic life of the asset. Direct

financing leases are recorded at the aggregated future minimum lease payments plus estimated residual values less unearned finance income. We generally bear greater risk in operating lease transactions (versus finance lease transactions) as the duration of an operating lease is shorter relative to the equipment useful life than a finance lease. Management performs periodic reviews of the estimated residual values, with non-temporary impairment recognized in the current period as an increase to depreciation expense for operating lease residual impairment, or as an adjustment to yield for residual value adjustments on finance leases. Data regarding equipment values, including appraisals, and our historical residual realization experience are among the factors considered in evaluating estimated residual values. As of December 31, 2006, our direct financing lease residual balance was \$1.9 billion and our total operating lease equipment balance, including estimated residual value at the end of the lease term, was \$11.0 billion. A hypothetical 10 basis points (0.1%) fluctuation in the total of these amounts equates to \$0.04 in diluted earnings per share.

**Goodwill and Intangible Assets** CIT adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, effective October 1, 2001. The Company determined at October 1, 2001 that there was no impact of adopting this new standard under the transition provisions of SFAS No. 142. Since adoption, goodwill is no longer amortized, but instead is assessed for impairment at least annually. During this assessment, management relies on a number of factors, including operating results, business plans, economic projections, anticipated future cash flows, and market place data. See Note 22 - *Goodwill and Intangible Assets* for additional information.

Intangible assets consist primarily of customer relationships acquired with acquisitions, with amortization lives up to 20 years, and computer software and related transaction processes, which are being amortized over a 5-year life. An evaluation of the remaining useful lives and the amortization methodology of the intangible assets is performed periodically to determine if any change is warranted. Goodwill and Intangible Assets was \$1,008.4 million at December 31, 2006. A hypothetical 1% fluctuation in the value equates to \$0.05 in diluted earnings per share.

**Income Tax Reserves and Deferred Income Taxes** We have open tax years in the U.S. and Canada and other jurisdictions that are currently under examination by the applicable taxing authorities, and certain later tax years that may in the future be subject to examination. We periodically evaluate the adequacy of our related tax reserves, taking into account our open tax return positions, tax assessments received, tax law changes and third party indemnifications. The process of evaluating tax reserves involves the use of estimates and a high degree of management judgment. The final determination of tax audits could affect our tax reserves.

Deferred tax assets and liabilities are recognized for the future tax consequences of transactions that have been reflected in the Consolidated Financial Statements. Our ability to realize deferred tax assets is dependent on prospectively generating taxable income by corresponding tax jurisdiction, and in some cases on the timing and amount of specific types of future transactions. Management's judgment regarding uncertainties

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and the use of estimates and projections is required in assessing our ability to realize net operating loss ( NOL s ) and other tax benefit carry-forwards, as these assets expire at various dates beginning in 2007, and they may be subject to annual use limitations under the Internal Revenue Code and other limitations under certain state laws. Management utilizes historical and projected data, budgets and business plans in making these estimates and assessments. Deferred tax assets relating to NOL s were \$137 million at December 31, 2006. A hypothetical 1% fluctuation in the value of deferred tax assets relating to NOL s equates to \$0.01 in diluted earnings per share.

**Fair value determination** Selected assets and liabilities, including derivatives, retained interests in securitizations and net employee benefit obligations, are measured at estimated fair value in our financial statements. The carrying value of certain other assets, such as financing and leasing assets held for sale, which are reflected in our financial statements at the lower of cost or fair value, are influenced by our determination of fair value.

We determine market value in the following order: (1) comparable market prices to the extent available; (2) internal valuation models that utilize market data (observable inputs) as input variables; and (3) internal valuation models that utilize management s assumptions about market participant assumptions (unobservable inputs) to the extent (1) and (2) are unavailable.

Derivative fair values are determined primarily via method (1). Financing and leasing assets held for sale fair values are determined largely via method (2), while the fair value of retained interests in securitizations and net employee benefit obligations are determined largely via method (3). See Notes 9, 6, and 15 for additional information regarding derivative financial instruments, retained interests in securitizations and employee benefit obligations. Financing and leasing assets held for sale totaled \$1,793.7 million at December 31, 2006. A hypothetical 1% fluctuation in value of financing and leasing assets held for sale equates to \$0.05 in diluted earnings per share.

### NON-GAAP FINANCIAL MEASUREMENTS

The SEC adopted regulations that apply to any public disclosure or release of material information that includes a non-GAAP financial measure. The accompanying Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosure about Market Risk contain certain non-GAAP financial measures. The SEC defines a non-GAAP financial measure as a numerical measure of a company s historical or future financial performance, financial position, or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most

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directly comparable measure calculated and presented in accordance with GAAP in the financial statements or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented.

Non-GAAP financial measures disclosed in this report are meant to provide additional information and insight regarding the historical operating results and financial position of the business and in certain cases to provide financial information that is presented to rating agencies and other users of financial information. These measures are not in accordance with, or a substitute for, GAAP and may be different from or inconsistent with non-GAAP financial measures used by other companies. See footnotes below the tables that follow for additional explanation of non-GAAP measurements.

### Non-GAAP Reconciliations as of December 31 (dollars in millions)

	2006	2005	2004
<b>Managed assets(1):</b>			
Finance receivables	\$ 55,064.9	\$ 44,294.5	\$ 35,048.2
Operating lease equipment, net	11,017.9	9,635.7	8,290.9
Financing and leasing assets held for sale	1,793.7	1,620.3	1,640.8
Equity and venture capital investments (included in other assets)	25.4	30.2	181.0
<b>Total financing and leasing portfolio assets</b>	<b>67,901.9</b>	<b>55,580.7</b>	<b>45,160.9</b>
Securitized assets	6,261.4	7,285.7	8,309.7

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	2006	2005	2004
Managed assets	\$ 74,163.3	\$ 62,866.4	\$ 53,470.6
<b>Earning assets(2):</b>			
Total financing and leasing portfolio assets	\$ 67,901.9	\$ 55,580.7	\$ 45,160.9
Credit balances of factoring clients	(4,131.3)	(4,187.8)	(3,847.3)
Earning assets	\$ 63,770.6	\$ 51,392.9	\$ 41,313.6
<b>Tangible capital(3):</b>			
Total equity	\$ 7,251.1	\$ 6,462.7	\$ 6,055.1
Other comprehensive income relating to derivative financial instruments	(34.2)	(27.6)	27.1
Unrealized gain on securitization investments	(18.4)	(17.0)	(8.5)
Goodwill and intangible assets	(1,008.4)	(1,011.5)	(596.5)
Tangible common equity	6,190.1	5,406.6	5,477.2
Preferred stock	500.0	500.0	
Preferred capital securities	250.3	252.0	253.8
Tangible capital	\$ 6,940.4	\$ 6,158.6	\$ 5,731.0

- (1) Managed assets are utilized in certain credit and expense ratios. Securitized assets are included in managed assets because CIT retains certain credit risk and the servicing related to assets that are funded through securitizations.
- (2) Earning assets are utilized in certain revenue and earnings ratios. Earning assets are net of credit balances of factoring clients. This net amount, which corresponds to amounts funded, is a basis for revenues earned.
- (3) Tangible capital is utilized in leverage ratios, and is consistent with certain rating agency measurements. Other comprehensive income and unrealized gains on securitization investments (both included in the separate component of equity) are excluded from the calculation, as these amounts are not necessarily indicative of amounts which will be realized.

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Years ended December 31 (dollars in millions)

	2006	2005	2004
<b>Revenue, excluding certain noteworthy items(1):</b>			
Total net revenues (the combination of net finance revenue after depreciation on operating leases and other revenue)	\$ 3,036.4	\$ 2,772.6	\$ 2,422.4
Charges related to transportation assets transferred to held for sale	15.0	86.6	
Debt termination charge	5.8		
Gain on sale of real estate investment		(115.0)	
Hurricane-related impairment charge		6.8	
Gain on sale of business aircraft portfolio		(22.0)	
Gain on sale of micro-ticket leasing business		(44.3)	
Charge related to manufactured housing assets held for sale		20.0	15.7
Losses on venture capital investments			14.0
Gains related to certain derivative contracts		(43.1)	
Total net revenues adjusted	\$ 3,057.2	\$ 2,661.6	\$ 2,452.1
<b>Net income, excluding certain noteworthy items(1):</b>			
Net income available to common shareholders	\$ 1,015.8	\$ 936.4	\$ 753.6

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	2006	2005	2004
<b>Revenue-related items</b>			
Charges related to transportation assets transferred to held for sale	9.2	52.4	
Debt termination charge	3.6		
Gain on sale of real estate investment		(69.7)	
Hurricane-related securitization impairment charge		4.4	
Gain on sale of business aircraft portfolio		(14.4)	
Gain on sale of micro-ticket leasing business		(26.8)	
Charge related to manufactured housing assets held for sale		12.4	9.3
Losses on venture capital investments			8.7
Gains related to certain derivative contracts		(24.4)	
<b>Non revenue-related items</b>			
Income tax liability reversals	(69.7)	(34.6)	
Gain on debt redemption			(25.9)
Specific telecommunications reserve release			(26.8)
Hurricane-related provision for credit losses		23.3	
Provisions for restructuring, early termination on NYC lease / legal settlement	15.7	23.2	
Net income adjusted	\$ 974.6	\$ 882.2	\$ 718.9

(1) *In addition to the results of operations presented in accordance with accounting principles generally accepted in the U.S., our management uses certain non-GAAP financial measures to: evaluate and present CIT and segment results on a comparable basis; to determine amounts awarded under certain compensation programs; and to enable analysis of past performance.*

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS

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**FORWARD-LOOKING STATEMENTS**

Certain statements contained in this document are forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. All statements contained herein that are not clearly historical in nature are forward-looking and the words anticipate, believe, expect, estimate, plan, target and similar expressions are generally intended to identify forward-looking statements. Any forward-looking statements contained herein, in press releases, written statements or other documents filed with the Securities and Exchange Commission or in communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls and conference calls, concerning our operations, economic performance and financial condition are subject to known and unknown risks, uncertainties and contingencies. Forward-looking statements are included, for example, in the discussions about:

- our liquidity risk management,
- our credit risk management,
- our asset/liability risk management,
- our funding, borrowing costs and net finance revenue,
- our capital, leverage and credit ratings,
- our operational risks, including success of build-out initiatives and acquisitions,
- legal risks,
- our growth rates,
- our commitments to extend credit or purchase equipment, and

how we may be affected by legal proceedings.

All forward-looking statements involve risks and uncertainties, many of which are beyond our control, which may cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. Also, forward-looking statements are based upon management's estimates of fair values and of future costs, using currently available information. Therefore, actual results may differ materially from those expressed or implied in those statements. Factors, in addition to those disclosed in **Risk Factors**, that could cause such differences include, but are not limited to:

risks of economic slowdown, downturn or recession,

industry cycles and trends,

demographic trends,

risks inherent in changes in market interest rates and quality spreads,

funding opportunities and borrowing costs,

changes in funding markets, including commercial paper, term debt and the asset-backed securitization markets,

uncertainties associated with risk management, including credit, prepayment, asset/liability, interest rate and currency risks,

adequacy of reserves for credit losses,

risks associated with the value and recoverability of leased equipment and lease residual values,

changes in laws or regulations governing our business and operations,

changes in competitive factors, and

future acquisitions and dispositions of businesses or asset portfolios.

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## ITEM 8. Financial Statements and Supplementary Data

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of CIT Group Inc.:

We have completed integrated audits of CIT Group Inc.'s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

#### **CONSOLIDATED FINANCIAL STATEMENTS**

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of CIT Group Inc. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on

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these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that CIT Group Inc. maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
New York, New York  
February 28, 2007

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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### CIT GROUP INC. AND SUBSIDIARIES

#### CONSOLIDATED BALANCE SHEETS Assets December 31 (dollars in millions except share data)

	2006	2005
Financing and leasing assets:		
Finance receivables, including student lending receivables pledged of \$4,031.1 and \$3,963.8	\$ 55,064.9	\$ 44,294.5
Reserve for credit losses	(659.3)	(621.7)



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	<u>2006</u>	<u>2005</u>
Net finance receivables	54,405.6	43,672.8
Operating lease equipment, net	11,017.9	9,635.7
Financing and leasing assets held for sale	1,793.7	1,620.3
Cash and cash equivalents, including \$179.0 and \$311.1 restricted	4,458.4	3,658.6
Retained interest in securitizations and other investments	1,059.4	1,152.7
Goodwill and intangible assets, net	1,008.4	1,011.5
Other assets	3,324.5	2,635.0
<b>Total Assets</b>	<b>\$ 77,067.9</b>	<b>\$ 63,386.6</b>

**CONSOLIDATED BALANCE SHEETS**    **Liabilities and Stockholders**    **Equity**

<b>Debt:</b>		
Commercial paper	\$ 5,365.0	\$ 5,225.0
Deposits	2,399.6	261.9
Non-recourse, secured borrowings	4,398.5	4,048.8
Variable-rate senior unsecured notes	19,184.3	15,485.1
Fixed-rate senior unsecured notes	29,107.1	22,591.7
Preferred capital securities	250.3	252.0
<b>Total debt</b>	<b>60,704.8</b>	<b>47,864.5</b>
Credit balances of factoring clients	4,131.3	4,187.8
Accrued liabilities and payables	4,440.8	4,321.8
<b>Total Liabilities</b>	<b>69,276.9</b>	<b>56,374.1</b>
Commitments and Contingencies (Note 16)		
Minority interest	39.9	49.8
<b>Stockholders' Equity:</b>		
Preferred stock: \$0.01 par value, 100,000,000 authorized, Issued and outstanding:		
Series A 14,000,000 with a liquidation preference of \$25 per share	350.0	350.0
Series B 1,500,000 with a liquidation preference of \$100 per share	150.0	150.0
Common stock: \$0.01 par value, 600,000,000 authorized, Issued: 213,555,940 and 212,315,498		
Outstanding: 198,295,376 and 199,110,141	2.1	2.1
Paid-in capital, net of deferred compensation of \$68.7 and \$49.5	10,678.9	10,632.9
Accumulated deficit	(2,838.9)	(3,691.4)
Accumulated other comprehensive income	129.6	115.2
Less: treasury stock, 15,260,564 and 13,205,357 shares, at cost	(720.6)	(596.1)
<b>Total Common Stockholders' Equity</b>	<b>7,251.1</b>	<b>6,462.7</b>
<b>Total Stockholders' Equity</b>	<b>7,751.1</b>	<b>6,962.7</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 77,067.9</b>	<b>\$ 63,386.6</b>

## CIT GROUP INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME**

Years Ended December 31, (dollars in millions except per share data)

	2006	2005	2004
<b>Finance revenue</b>	<b>\$ 5,693.9</b>	<b>\$ 4,515.2</b>	<b>\$ 3,760.8</b>
Interest expense	2,867.8	1,912.0	1,260.1
Depreciation on operating lease equipment	1,023.5	968.0	965.4
Net finance revenue	1,802.6	1,635.2	1,535.3
Provision for credit losses	222.2	217.0	214.2
Net finance revenue, after credit provision	1,580.4	1,418.2	1,321.1
Other revenue	1,233.8	1,137.4	887.1
<b>Total net revenue, after credit provision</b>	<b>2,814.2</b>	<b>2,555.6</b>	<b>2,208.2</b>
Salaries and general operating expenses	1,382.6	1,113.8	1,012.1
Provision for restructuring	19.6	25.2	
Gain on redemption of debt			41.8
Income before provision for income taxes	1,412.0	1,416.6	1,237.9
Provision for income taxes	(364.4)	(464.2)	(483.2)
Minority interest, after tax	(1.6)	(3.3)	(1.1)
Net income before preferred stock dividends	1,046.0	949.1	753.6
Preferred stock dividends	(30.2)	(12.7)	
<b>Net income available to common stockholders</b>	<b>\$ 1,015.8</b>	<b>\$ 936.4</b>	<b>\$ 753.6</b>
<b>Per common share data</b>			
Basic earnings per share	\$ 5.11	\$ 4.54	\$ 3.57
Diluted earnings per share	\$ 5.00	\$ 4.44	\$ 3.50
Number of shares basic (thousands)	198,912	206,059	211,017
Number of shares diluted (thousands)	203,111	210,734	215,054
Dividends per common share	\$ 0.80	\$ 0.61	\$ 0.52

## ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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## CIT GROUP INC. AND SUBSIDIARIES

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

	Preferred Stock	Common Stock	Paid-in Capital	Accumulated (Deficit) / Earnings	Accumulated Other Comprehensive Income / (Loss)	Treasury Stock	Total Stockholders Equity
<b>December 31, 2003</b>	<b>\$</b>	<b>\$2.1</b>	<b>\$10,677.0</b>	<b>\$(5,141.8)</b>	<b>\$(141.6)</b>	<b>\$ (1.5)</b>	<b>\$ 5,394.2</b>
Net income before preferred stock dividends				753.6			753.6
Foreign currency translation adjustments					68.6		68.6

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	Preferred Stock	Common Stock	Paid-in Capital	Accumulated (Deficit) / Earnings	Accumulated Other Comprehensive Income / (Loss)	Treasury Stock	Total Stockholders Equity
Change in fair values of derivatives qualifying as cash flow hedges					14.2		14.2
Unrealized gain on equity and securitization investments, net					2.3		2.3
Minimum pension liability adjustment					(1.9)		(1.9)
<b>Total comprehensive income</b>							<b>836.8</b>
Cash dividends common				(110.9)			(110.9)
Restricted stock expense			23.5				23.5
Treasury stock purchased, at cost						(174.8)	(174.8)
Exercise of stock option awards, including tax benefits			(25.6)			111.6	86.0
Employee stock purchase plan participation			(0.6)			0.9	0.3
<b>December 31, 2004</b>	<b>2.1</b>	<b>10,674.3</b>	<b>(4,499.1)</b>	<b>(58.4)</b>	<b>(63.8)</b>	<b>6,055.1</b>	
Net income before preferred stock dividends				949.1			949.1
Foreign currency translation adjustments					110.7		110.7
Change in fair values of derivatives qualifying as cash flow hedges					54.7		54.7
Unrealized gain on equity and securitization investments, net					8.7		8.7
Minimum pension liability adjustment					(0.5)		(0.5)
<b>Total comprehensive income</b>							<b>1,122.7</b>
Issuance of Series A and B preferred stock	500.0		(10.1)				489.9
Stock repurchase agreement			(8.5)			(491.5)	(500.0)
Cash dividends common				(128.7)			(128.7)
Cash dividends preferred				(12.7)			(12.7)
Restricted stock expense			43.3				43.3
Treasury stock purchased, at cost						(276.3)	(276.3)
Exercise of stock option awards, including tax benefits			(65.5)			231.1	165.6
Employee stock purchase plan participation			(0.6)			4.4	3.8
<b>December 31, 2005</b>	<b>\$500.0</b>	<b>\$2.1</b>	<b>\$10,632.9</b>	<b>\$(3,691.4)</b>	<b>\$115.2</b>	<b>\$(596.1)</b>	<b>\$ 6,962.7</b>

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CIT GROUP INC 2006

CIT GROUP INC. AND SUBSIDIARIES

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

	Preferred Stock	Common Stock	Paid-in Capital	Accumulated (Deficit) / Earnings	Accumulated Other Comprehensive Income / (Loss)	Treasury Stock	Total Stockholders Equity
<b>December 31, 2005</b>	<b>\$500.0</b>	<b>\$2.1</b>	<b>\$10,632.9</b>	<b>\$(3,691.4)</b>	<b>\$115.2</b>	<b>\$(596.1)</b>	<b>\$6,962.7</b>
Net income before preferred stock dividends				1,046.0			1,046.0
Foreign currency translation adjustments					58.7		58.7

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	Preferred Stock	Common Stock	Paid-in Capital	Accumulated (Deficit) / Earnings	Accumulated Other Comprehensive Income / (Loss)	Treasury Stock	Total Stockholders Equity
Change in fair values of derivatives qualifying as cash flow hedges					6.6		6.6
Unrealized gain on equity and securitization investments, net					1.1		1.1
Minimum pension liability adjustment					0.7		0.7
<b>Total comprehensive income</b>							<b>1,113.1</b>
Adjustment to initially apply FASB Statement No. 158, net of tax					(52.7)		(52.7)
Cash dividends common				(163.3)			(163.3)
Cash dividends preferred				(30.2)			(30.2)
Restricted stock expense			44.1				44.1
Stock option expense			30.8				30.8
Treasury stock purchased, at cost						(315.2)	(315.2)
Exercise of stock option awards, including tax benefits			(28.9)			186.7	157.8
Employee stock purchase plan participation						4.0	4.0
<b>December 31, 2006</b>	<b>\$500.0</b>	<b>\$2.1</b>	<b>\$10,678.9</b>	<b>\$(2,838.9)</b>	<b>\$129.6</b>	<b>\$(720.6)</b>	<b>\$7,751.1</b>

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 (dollars in millions)

	2006	2005	2004
<b>Cash Flows From Operations</b>			
Net income before preferred stock dividends	\$ 1,046.0	\$ 949.1	\$ 753.6
Adjustments to reconcile net income to net cash flows from operations:			
Depreciation, amortization and accretion	1,066.4	922.0	886.0
Provision for credit losses	222.2	217.0	214.2
Share-based compensation amortization	74.9	43.3	23.5
Provision for deferred federal income taxes	155.1	295.7	321.0
Gains on equipment, receivable and investment sales	(381.5)	(242.4)	(208.8)
Gain on debt redemption			(41.8)
(Increase) decrease in finance receivables held for sale	(102.8)	199.3	(394.5)
(Increase) decrease in other assets	(496.2)	339.0	(282.2)
(Decrease) increase in accrued liabilities and payables	(167.0)	246.3	370.2
<b>Net cash flows provided by operations</b>	<b>1,417.1</b>	<b>2,969.3</b>	<b>1,641.2</b>
<b>Cash Flows From Investing Activities</b>			
Finance receivables extended and purchased	(77,165.5)	(64,436.5)	(60,242.0)

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	2006	2005	2004
Principal collections of finance receivables and investments	62,781.0	54,708.7	49,007.5
Proceeds from asset and receivable sales	6,819.9	6,351.9	8,526.6
Purchases of assets to be leased and other equipment	(2,860.2)	(2,428.2)	(1,546.2)
Acquisitions, net of cash acquired	(836.9)	(548.9)	(726.8)
Goodwill and intangibles assets acquired	(17.8)	(436.5)	(122.1)
Net (increase) decrease in short-term factoring receivables	(233.9)	96.5	48.3
<b>Net cash flows (used for) investing activities</b>	<b>(11,513.4)</b>	<b>(6,693.0)</b>	<b>(5,054.7)</b>
<b>Cash Flows From Financing Activities</b>			
Proceeds from the issuance of unsecured notes, deposits and non-recourse borrowings	22,042.4	13,869.3	13,005.6
Repayments of unsecured notes, deposits and non-recourse borrowings	(9,450.0)	(9,133.8)	(8,824.1)
Net increase in commercial paper	140.0	1,014.1	37.0
Treasury stock repurchases	(315.2)	(820.2)	(174.8)
Treasury stock issuances	190.7	235.5	112.5
Net repayments of non-recourse leveraged lease debt	(1,451.1)	(630.0)	(367.2)
Cash dividends paid	(193.5)	(141.4)	(110.9)
Excess tax benefit related to share-based compensation	31.6		
Issuance of preferred stock		489.9	
Other	33.3	(22.4)	(28.1)
<b>Net cash flows provided by financing activities</b>	<b>11,028.2</b>	<b>4,861.0</b>	<b>3,650.0</b>
<b>Net increase in cash and cash equivalents</b>	<b>931.9</b>	<b>1,137.3</b>	<b>236.5</b>
Unrestricted cash and cash equivalents, beginning of period	3,347.5	2,210.2	1,973.7
<b>Unrestricted cash and cash equivalents, end of period</b>	<b>\$ 4,279.4</b>	<b>\$ 3,347.5</b>	<b>\$ 2,210.2</b>
<b>Supplementary Cash Flow Disclosure</b>			
Interest paid	\$ 2,404.9	\$ 1,651.5	\$ 1,241.5
Federal, foreign, state and local income taxes paid, net	\$ 159.1	\$ 115.6	\$ 115.0

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

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

#### Basis of Presentation

The Consolidated Financial Statements include the results of CIT and its subsidiaries and have been prepared in U.S. dollars in accordance with accounting principles generally accepted in the United States. Inter-company transactions have been eliminated.

Commencing in the second quarter of 2006, the Company included the extension, purchase, principal collection and sales cash flows related to student loans in Finance receivables extended and purchased, Principal collections of finance receivables and investments and Proceeds from asset and receivable sales in Cash Flows From Investing Activities. The presentation of the corresponding 2005 amount, Net loans extended pledged in conjunction with secured borrowings, which was previously presented in Cash Flows From Financing Activities (\$1.7 billion), has

been conformed to the 2006 presentation.

Certain prior period amounts have been reclassified to conform to the current presentation, including prior periods segment data.

In accordance with the provisions of FASB Interpretation No. 46R ( FIN 46 ), Consolidation of Variable Interest Entities, CIT consolidates variable interest entities for which management has concluded that CIT is the primary beneficiary. Entities that do not meet the definition of a variable interest entity are subject to the provisions of Accounting Research Bulletin No. 51 ( ARB 51 ), Consolidated Financial Statements and are consolidated when management has determined that the Company has the controlling financial interest. Entities which do not meet the consolidation criteria in either FIN 46 or ARB 51 but which are significantly influenced by the Company, generally those entities that are twenty to fifty percent owned by CIT, are included in other assets at cost for securities not readily marketable and presented at the corresponding share of equity plus loans and advances. Investments in entities which the Company does not have significant influence over are included in other assets at cost, less declines in value that are other than temporary. In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities , qualifying special purpose entities utilized in securitizations are not consolidated.

### **Financing and Leasing Assets**

CIT provides funding through a variety of financing arrangements, including term loans, lease financing and operating leases. The amounts outstanding on loans, direct financing and leveraged leases are referred to as finance receivables and, when combined with finance receivables held for sale, net book value of operating lease equipment, and certain investments, represent financing and leasing assets.

At the time of designation for sale, securitization or syndication by management, assets are classified as finance receivables held for sale. These assets are carried at lower of cost or fair value.

### **Revenue Recognition**

Finance revenue includes interest on loans, the accretion of income on direct financing leases and leveraged leases, and rents on operating leases. Related origination and other nonrefundable fees and direct origination costs are deferred and amortized as an adjustment of finance revenue over the contractual life of the transactions. Revenue on finance receivables other than leveraged leases is recognized on an accrual basis commencing in the month of origination. Leveraged lease revenue is recognized on a basis calculated to achieve a constant after-tax rate of return for periods in which CIT has a positive investment in the transaction, net of related deferred tax liabilities. Rental revenue on operating leases is recognized on a straight line basis over the lease term.

The recognition of revenue on commercial finance receivables is generally suspended and an account is placed on non-accrual status when payment of principal or interest is contractually delinquent for 90 days or more, or earlier when, in the opinion of management, full collection of all principal and interest due is doubtful. To the extent the estimated fair value of collateral does not satisfy both the principal and accrued interest outstanding, accrued but uncollected interest at the date an account is placed on non-accrual status is reversed and charged against revenue. Subsequent interest received is applied to the outstanding principal balance until such time as the account is collected, charged-off or returned to accrual status. The accrual of finance revenue on consumer loans is suspended, and all previously accrued but uncollected revenue is reversed, when payment of principal and/or interest is contractually delinquent for 90 days or more.

Other revenue includes the following: (1) factoring commissions, (2) commitment, facility, letters of credit, advisory and syndication fees, (3) servicing fees, including servicing of securitized loans, (4) gains and losses from sales of leasing equipment and sales and syndications of finance receivables, (5) gains from and fees related to securitizations including accretion related to retained interests (net of impairment), (6) equity in earnings of joint ventures and unconsolidated