CIT GROUP INC
Form 10-Q
November 02, 2018
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

|X| Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No |_|

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes |X| No |_|

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of 'large accelerated filer,' 'accelerated filer', 'smaller reporting company' and 'emerging growth company' in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer |X| Accelerated filer |_| Non-accelerated filer |_| Smaller reporting company |_| Emerging growth company |_|

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. |_|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes |_| No |X|

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

As of October 31, 2018, there were 105,592,774 shares of the registrant's common stock outstanding.

Table of Contents

Table of Contents

CONTENTS

Table of Contents

Part One — Financial Information

Item 1. Financial Statements

CIT GROUP INC. AND SUBSIDIARIES

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

	September 30, 2018	December 31, 2017
Assets		
Cash and due from banks, including restricted balances of $22.8 at September 30, 2018 and $42.9 at December 31, 2017[1] (see Note 6 for amounts pledged)	$167.6	$278.6
Interest bearing deposits, including restricted balances of $79.1 at September 30, 2018 and $81.8 at December 31, 2017[1] (see Note 6 for amounts pledged)	1,199.9	1,440.1
Securities purchased under agreement to resell	200.0	150.0
Investment securities, including securities carried at fair value with changes recorded in net income of $44.0 at September 30, 2018 and $0.4 at December 31, 2017 (see Note 6 for amounts pledged)	6,339.5	6,469.9
Assets held for sale[1]	1,380.5	2,263.1
Loans (see Note 6 for amounts pledged)	30,495.8	29,113.9
Allowance for loan losses	(477.4)	(431.1)
Total loans, net of allowance for loan losses[1]	30,018.4	28,682.8
Operating lease equipment, net (see Note 6 for amounts pledged)[1]	6,888.7	6,738.9
Bank-owned life insurance	808.2	788.6
Goodwill	369.9	369.9
Other assets, including $129.3 at September 30, 2018 and $68.7 at December 31, 2017, at fair value	1,562.0	1,595.5
Assets of discontinued operations[1]	327.7	501.3
Total Assets	$49,262.4	$49,278.7

Liabilities		
Deposits	$30,825.0	$29,569.3
Credit balances of factoring clients	1,672.4	1,468.6
Other liabilities, including $195.5 at September 30, 2018 and $198.1 at December 31, 2017, at fair value	1,461.9	1,437.1
Borrowings, including $170.4 at September 30, 2018 and $1,626.3 at December 31, 2017 contractually due within twelve months	8,674.2	8,974.4
Liabilities of discontinued operations[1]	308.6	509.3
Total Liabilities	42,942.1	41,958.7
Stockholders' Equity		
Preferred Stock: $0.01 par value, 100,000,000 shares authorized, 325,000 shares issued and outstanding	325.0	325.0
Common Stock: $0.01 par value, 600,000,000 shares authorized		
Issued: 209,039,304 at September 30, 2018 and 207,628,491 at December 31, 2017	2.1	2.1
Outstanding: 110,565,933 at September 30, 2018 and 131,352,924 at December 31, 2017		
Paid-in capital	8,831.3	8,798.1
Retained earnings	2,182.3	1,906.5
Accumulated other comprehensive loss	(199.4)	(86.5)
Treasury stock: 98,473,371 shares at September 30, 2018 and 76,275,567 shares at December 31, 2017 at cost	(4,821.0)	(3,625.2)
Total Common Stockholders' Equity	5,995.3	6,995.0
Total Equity	6,320.3	7,320.0
Total Liabilities and Equity	$49,262.4	$49,278.7

[1] The following table presents information on assets and liabilities related to Variable Interest Entities ("VIEs") that are consolidated by the Company. The difference between VIE total assets and total liabilities represents the Company's interests in those entities, which were eliminated in consolidation. The assets of the consolidated VIEs will be used to settle the liabilities of those entities and, except for the Company's interest in the VIEs, are not available to the creditors of CIT or any affiliates of CIT.

Assets		
Cash and interest bearing deposits, restricted	$76.7	$80.4
Total loans, net of allowance for loan losses	3.0	119.1
Operating lease equipment, net	775.0	763.3
Total Assets	$854.7	$962.8
Liabilities		
Beneficial interests issued by consolidated VIEs (classified as long-term borrowings)	$462.7	$566.6
Total Liabilities	$462.7	$566.6

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

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited) (dollars in millions — except per share data)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income				
Interest and fees on loans	$417.4	$403.5	$1,233.8	$1,236.9
Other interest and dividends	56.2	50.5	164.6	151.0
Interest income	473.6	454.0	1,398.4	1,387.9
Interest expense				
Interest on borrowings	90.8	84.1	268.8	267.8
Interest on deposits	123.1	92.6	330.8	281.2
Interest expense	213.9	176.7	599.6	549.0
Net interest revenue	259.7	277.3	798.8	838.9
Provision for credit losses	38.1	30.1	139.8	84.2
Net interest revenue, after credit provision	221.6	247.2	659.0	754.7
Non-interest income				
Rental income on operating leases	264.3	252.3	779.2	754.8
Other non-interest income	86.2	63.3	326.3	227.0
Total non-interest income	350.5	315.6	1,105.5	981.8
Total revenue, net of interest expense and credit provision	572.1	562.8	1,764.5	1,736.5
Non-interest expenses				
Depreciation on operating lease equipment	78.0	71.1	231.6	222.0
Maintenance and other operating lease expenses	56.6	57.9	177.5	165.0
Operating expenses	263.3	277.3	812.1	884.5
Loss on debt extinguishment and deposit redemption	3.5	53.5	22.9	218.3
Total non-interest expenses	401.4	459.8	1,244.1	1,489.8
Income from continuing operations before (benefit) provision for income taxes	170.7	103.0	520.4	246.7
Provision (benefit) for income taxes	41.3	(119.8)	140.0	(95.5)
Income from continuing operations	129.4	222.8	380.4	342.2
Discontinued Operations				
Income (loss) from discontinued operations, net of taxes	2.1	(1.9)	(8.8)	95.4
Loss (gain) on sale of discontinued operations, net of taxes	—	(1.3)	(16.3)	118.6
Total income (loss) from discontinued operations, net of taxes	2.1	(3.2)	(25.1)	214.0
Net Income	$131.5	$219.6	$355.3	$556.2
Preferred dividends	—	—	9.4	—
Net income available to common shareholders	$131.5	$219.6	$345.9	$556.2
Income from continuing operations available to common shareholders	$129.4	$222.8	$371.0	$342.2
Basic income per common share				
Income from continuing operations	$1.15	$1.66	$3.04	$1.98

Income (loss) from discontinued operations	0.02	(0.02)	(0.21)	1.24
Basic income per share	$1.17	$1.64	$2.83	$3.22
Diluted income per common share				
Income from continuing operations	$1.13	$1.64	$3.01	$1.96
Income (loss) from discontinued operations	0.02	(0.03)	(0.21)	1.23
Diluted income per share	$1.15	$1.61	$2.80	$3.19
Average number of common shares (thousands)				
Basic	112,842	133,916	122,185	172,682
Diluted	114,007	136,126	123,338	174,201
Dividends declared per common share	$0.25	$0.15	$0.57	$0.45

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

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES

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

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net Income	$131.5	$219.6	$355.3	$556.2
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	7.3	11.1	0.7	54.6
Net unrealized gains (losses) on available for sale securities	(30.6)	3.9	(116.9)	10.6
Changes in benefit plans net gain (loss) and prior service (cost)/credit	—	0.1	3.8	1.6
Other comprehensive income (loss), net of tax	(23.3)	15.1	(112.4)	66.8
Comprehensive income	$108.2	$234.7	$242.9	$623.0

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

CIT GROUP INC. AND SUBSIDIARIES

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

	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Minority Interests	Total Equity
December 31, 2017	$ 325.0	$ 2.1	$ 8,798.1	$ 1,906.5	$ (86.5)	$ (3,625.2)	$ —	$ 7,320.0
Adoption of Accounting Standard Updates 2016-01, 2016-16, and 2018-02	—	—	—	0.7	(0.5)	—	—	0.2
Net income	—	—	—	355.3	—	—	—	355.3
Other comprehensive loss, net of tax	—	—	—	—	(112.4)	—	—	(112.4)
Dividends paid	—	—	—	(80.2)	—	—	—	(80.2)
Share repurchases	—	—	—	—	—	(1,167.2)	—	(1,167.2)
Amortization of restricted stock, stock option and performance shares expenses	—	—	31.0	—	—	(28.6)	—	2.4
Employee stock purchase plan	—	—	2.2	—	—	—	—	2.2
September 30, 2018	$ 325.0	$ 2.1	$ 8,831.3	$ 2,182.3	$ (199.4)	$ (4,821.0)	$ —	$ 6,320.3
December 31, 2016	$ —	$ 2.1	$ 8,765.8	$ 1,553.0	$ (140.1)	$ (178.1)	$ 0.4	$ 10,003.1
Adoption of Accounting Standard Update 2016-09	—	—	1.0	(1.0)	—	—	—	—
Net income	—	—	—	556.2	—	—	—	556.2
Other comprehensive income, net of tax	—	—	—	—	66.8	—	—	66.8
Dividends paid	—	—	—	(82.4)	—	—	—	(82.4)
Issuance of preferred stock	325.0	—	(7.0)	—	—	—	—	318.0
Share repurchases	—	—	(9.6)	—	—	(3,416.5)	—	(3,426.1)

Amortization of restricted stock, stock option and performance shares expenses	—	—	34.8	—	—	(20.8)	—	14.0
Employee stock purchase plan	—	—	2.1	—	—	—	—	2.1
Other	—	—	—	—	—	—	(0.4)	(0.4)
September 30, 2017	$ 325.0	$ 2.1	$ 8,787.1	$ 2,025.8	$ (73.3)	$ (3,615.4)	$ —	$ 7,451.3

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

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES

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

	Nine Months Ended September 30,	
	2018	2017
Cash Flows From Operations		
Net income	$355.3	$556.2
Adjustments to reconcile net income to net cash flows from operations:		
Provision for credit losses	139.8	84.2
Depreciation on operating lease equipment	231.6	222.0
Amortization of stock compensation expenses	31.0	34.8
Net gain on asset sales and impairments on assets held for sale	(73.7)	(278.6)
Loss on debt extinguishment and other deposit redemption	22.9	256.6
Provision for deferred income taxes	79.9	0.6
(Increase) decrease in finance receivables held for sale	(97.4)	43.4
(Increase) decrease in other assets	(92.0)	147.8
Decrease in other liabilities	(81.8)	(721.0)
Other operating activities	176.3	60.2
Net cash flows provided by operations	691.9	406.2
Cash Flows From Investing Activities		
Changes in loans, net	(1,439.0)	602.3
Purchases of investment securities	(2,129.5)	(4,465.2)
Proceeds from sales and maturities of investment securities	2,087.3	3,189.8
Proceeds from asset and receivable sales	1,266.8	792.3
Proceeds from sale of commercial air	—	10,026.0
Purchases of assets to be leased and other equipment	(470.6)	(660.2)
Proceeds from sale of OREO, net of repurchases	52.9	82.7
Purchase of bank owned life insurance	—	(650.0)
Other investing activities	29.2	56.3
Net cash flows (used in) provided by investing activities	(602.9)	8,974.0
Cash Flows From Financing Activities		
Proceeds from the issuance of term debt and FHLB advances	4,061.4	1,668.1
Repayments of term debt, FHLB advances, and net settlements	(4,424.2)	(9,231.3)
Net increase (decrease) in deposits	1,257.2	(2,707.3)
Repurchase of common stock	(1,167.2)	(3,425.5)
Net proceeds from issuance of preferred stock	—	318.0

Dividends paid	(80.2)	(82.4)
Other financing activities	(86.3)	(11.6)
Net cash flows used in financing activities	(439.3)	(13,472.0)
Effect of exchange rate changes on cash and cash equivalents	(8.6)	15.2
Decrease in cash, cash equivalents and restricted cash	(358.9)	(4,076.6)
Cash, cash equivalents, and restricted cash beginning of period	1,726.4	7,195.4
Cash, cash equivalents, and restricted cash end of period	$1,367.5	$3,118.8
Supplementary Cash Flow Disclosures		
Interest paid	$(626.4)	$(776.1)
Federal, foreign, state and local income taxes (paid) refunded, net	$(20.8)	$(38.0)
Supplementary Non Cash Flow Disclosure		
Transfer of assets from held for investment to held for sale	$280.0	$2,074.6
Transfer of assets from held for sale to held for investment	$50.1	$122.6
Deposits on flight equipment purchases applied to acquisition of flight equipment purchases, and origination of finance leases, capitalized interest, and buyer furnished equipment	$—	$91.2
Transfers of assets to OREO	$30.8	$85.3
Capital lease unexercised bargain purchase options	$—	$17.5
Commitments extended during the period on affordable housing investment credits	$64.1	$60.1

The following tables shows a reconciliation of cash, cash equivalents and restricted cash on the Balance Sheet to that presented in the above Statements of Cash Flow.

	As of September 30,	
	2018	2017
Cash and due from banks, including restricted balances of $22.8 and $60.8 at September 30, 2018 and September 30, 2017, respectively	$167.6	$453.4
Interest bearing deposits, including restricted balances of $79.1 and $90.1 at September 30, 2018 and September 30, 2017, respectively	1,199.9	2,658.9
Cash included in assets of discontinued operations	—	6.5
Total cash, cash equivalents, and restricted cash shown in the Statements of Cash Flows	$1,367.5	$3,118.8

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

CIT Group Inc. and Subsidiaries – Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1 — BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CIT Group Inc., together with its subsidiaries (collectively "we", "our", "CIT" or the "Company"), is a bank holding company ("BHC") and a financial holding company ("FHC"). CIT was formed in 1908 and provides financing, leasing and advisory services principally to middle-market companies in a wide variety of industries, primarily in North America. CIT also provides banking and related services to commercial and individual customers through its banking subsidiary, CIT Bank, N.A. ("CIT Bank" or the "Bank"), which includes 69 branches located in Southern California and its online bank, bankoncit.com.

CIT is regulated by the Board of Governors of the Federal Reserve System ("FRB") and the Federal Reserve Bank of New York ("FRBNY") under the U.S. Bank Holding Company Act of 1956, as amended. CIT Bank is regulated by the Office of the Comptroller of the Currency of the U.S. Department of the Treasury ("OCC").

BASIS OF PRESENTATION

Basis of Financial Information

These consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial information and accordingly do not include all information and note disclosures required by generally accepted accounting principles in the United States of America (“GAAP”) for complete financial statements. The financial statements in this Form 10-Q, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of CIT’s financial position, results of operations and cash flows in accordance with GAAP. These consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K").

The accounting and financial reporting policies of CIT conform to GAAP and the preparation of the consolidated financial statements requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates and assumptions. Some of the more significant estimates include: allowance for loan losses, loan impairment, fair value determination, lease residual values, liabilities for uncertain tax positions, realizability of deferred tax assets, purchase accounting adjustments, indemnification assets, goodwill, intangible assets, and contingent liabilities, including amounts associated with discontinued operations. Additionally where applicable, the policies conform to accounting and reporting guidelines prescribed by bank regulatory authorities.

Principles of Consolidation

The accompanying consolidated financial statements include financial information related to CIT and its majority-owned subsidiaries and those VIEs where the Company is the primary beneficiary.

In preparing the consolidated financial statements, all significant intercompany accounts and transactions have been eliminated. Assets held in an agency or fiduciary capacity are not included in the consolidated financial statements.

The current period’s results of operations do not necessarily indicate the results that may be expected for any other interim period or for the full year as a whole.

Discontinued Operations

Discontinued Operations as of September 30, 2018 and December 31, 2017 included assets and liabilities of (i) the Business Air business and (ii) the Financial Freedom business. Income from discontinued operations reflects the activities of the Business Air and Financial Freedom businesses for the quarter and nine months ended September 30, 2018 and 2017, and Commercial Air (a component of Aerospace) for the nine months ended September 30, 2017. We completed the sale of our Commercial Air business on April 4, 2017.

The Financial Freedom business, a former division of CIT Bank that serviced reverse mortgage loans, was acquired in conjunction with the OneWest Transaction in 2015 and was sold on May 31, 2018. The sale included all the operations, mortgage servicing rights and related servicing assets and liabilities, although certain assets and liabilities of the Financial Freedom business were still held by CIT Bank at September 30, 2018 and will continue to be held until the required investor consent is received to qualify for sale treatment. See further discussion in Note 2 — Discontinued Operations. In conjunction with the sale of the Financial Freedom business, the Company also sold its reverse mortgage portfolio, comprised of loans and related other real estate owned (“OREO”) assets previously reported in continuing operations, and which was serviced by the Financial Freedom business. (Collectively, the sale of the Financial Freedom business and the reverse mortgage portfolio is referred to as the “Financial Freedom Transaction”). See further discussion in Note 3 — Loans.

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are included in the Company's 2017 Form 10-K. Effective January 1, 2018, CIT changed its accounting policy for revenue recognition resulting from the adoption of Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers and subsequent related Accounting Standards Updates ("ASUs"). There were no other material changes to policies during the nine months ended September 30, 2018. Refer to Other Newly Adopted Accounting Standards for other ASUs adopted in 2018.

Table of Contents

Revenue Recognition

On January 1, 2018, CIT adopted ASU 2014-09, Revenue Recognition - Revenue from Contracts with Customers (ASC 606) and subsequent related ASUs. ASU 2014-09 establishes the principles to apply in determining the amount and timing of revenue recognition. The core principle is that a company will recognize revenue when it transfers control of goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The guidance introduces a five-step, principle-based model, requiring more judgment than under previous GAAP to determine when and how revenue is recognized. The standard defers to existing guidance where revenue recognition models are already in place.

"Interest Income" and "Rental Income on Operating Leases", CIT's two largest revenue items, are out of scope of the new guidance, as are many other revenues relating to other financial assets and liabilities, including loans, leases, securities, and derivatives. As a result, the implementation of the new guidance was limited to certain revenue streams within Non-Interest Income, including some immaterial bank related fees and gains or losses related to the sale and disposition of leased equipment and OREO, which is accounted for under ASC 610-20, Gains and Losses From the Derecognition of Nonfinancial Assets, and requires the Company to apply certain recognition and measurement principles of ASC 606.

CIT evaluated its in-scope revenue streams under the five-step model and concluded that ASU 2014-09 did not materially impact the current practice of revenue recognition as ASC 606 is consistent with the current accounting policy being applied by the Company for these revenues. Therefore, no change in the timing or amount of income recognized was identified. CIT also determined that costs incurred to obtain or fulfill contracts and financing components relating to in-scope revenue streams were immaterial to the Company.

Non-interest revenue, including amounts related to the sale and disposition of leased equipment and OREO, is recognized at an amount reflecting the consideration received, or expected to be received, when control of goods or services is transferred, which generally occurs when services are provided or control of leased equipment or OREO is liquidated.

ASU 2014-09 was adopted using the modified retrospective transition method. CIT elected to apply this guidance only to contracts that were not completed at the date of the initial application. The adoption did not have a significant impact on CIT’s financial statements or disclosures. No adjustment to the opening balance of retained earnings was necessary.

Interest income on held for investment ("HFI") loans is recognized using the effective interest method or on a basis approximating a level rate of return over the life of the asset. Interest income includes components of accretion of the fair value discount on loans and lease receivables recorded in connection with Purchase Accounting Adjustments (“PAA”), which are accreted using the effective interest method as a yield adjustment over the remaining contractual term of the loan and recorded in interest income. If the loan is subsequently classified as assets held for sale ("AHFS"), accretion (amortization) of the discount (premium) will cease.

Rental revenue on operating leases is recognized on a straight line basis over the lease term and is included in Non-interest Income. Intangible assets related to acquisitions completed by the Company and Fresh Start Accounting (“FSA”) adjustments that were applied as of December 31, 2009 (the Convenience Date), were recorded to adjust the carrying value of above or below market operating lease contracts to their fair value. The FSA adjustments (net) are amortized into rental income on a straight line basis over the remaining term of the respective lease.

The recognition of interest income (including accretion) on commercial loans (exclusive of small ticket commercial loans) is suspended and an account is placed on non-accrual status when, in the opinion of management, full collection of all principal and interest due is doubtful. All future interest accruals, as well as amortization of deferred fees, costs, purchase premiums or discounts are suspended. To the extent the estimated cash flows, including 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 interest income. 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. Loans that are on cash basis nonaccrual do not accrue interest income; however, payments designated by the borrower as interest payments may be recorded as interest income. To qualify for this treatment, the remaining recorded investment in the loan must be deemed fully collectable.

The recognition of interest income (including accretion) on consumer mortgages and small ticket commercial loans and lease receivables 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. Accounts, including accounts that have been modified, are returned to accrual status when, in the opinion of management, collection of remaining principal and interest is reasonably assured, and there is a sustained period of repayment performance for a minimum of six months.

The recognition of interest income on reverse mortgages is suspended upon the latter of the foreclosure sale date or date on which marketable title has been acquired (i.e., property becomes OREO).

The Company periodically modifies the terms of a loan in response to borrowers’ financial difficulties. These modifications may include interest rate changes, principal forgiveness or payment deferments. Loans that are modified, where a concession has been made to the borrower, are accounted for as Troubled Debt Restructurings (“TDRs”). TDRs are generally placed on nonaccrual upon their restructuring and remain on non-accrual until, in the opinion of management, collection of remaining principal and interest is reasonably assured, and upon collection of six consecutive scheduled payments.

Purchased credit impaired ("PCI") loans in pools that the Company may modify as TDRs are not within the scope of the accounting guidance for TDRs.

Table of Contents

CIT Group Inc. and Subsidiaries – Notes to Condensed Consolidated Financial Statements (Unaudited)

Other Newly Adopted Accounting Standards

The following pronouncements were issued by the Financial Accounting Standards Board ("FASB") and adopted by CIT as of January 1, 2018. Refer to Note 1 - Business and Summary of Significant Accounting Policies on Form 10-Q for the quarter ended March 31, 2018 for a detailed description of these pronouncements:

- ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.
- ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10).
- ASU 2016-16, Income Taxes (Topic 740): Intra - Entity Transfers of Assets Other Than Inventory.
- ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.
- ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash.
- ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business.
- ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.
- ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting.
- ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.

The following pronouncements were issued by FASB and adopted by CIT as of July 1, 2018.

Intangibles – Goodwill and Other – Internal-Use Software

ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new guidance provides that costs incurred during the application development stage of implementation would generally be capitalized, whereas costs incurred during the preliminary project and post implementation stages would generally be expensed as incurred.

CIT early adopted ASU 2018-15 as of July 1, 2018 by applying the guidance prospectively to all implementation costs incurred after the date of adoption. Capitalized implementation costs and amortization expense related to the development of internal financial planning and workflow tools are reflected in "Other assets" and "Operating expenses" within the Company's Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Income, respectively. The adoption did not have a material impact on CIT's consolidated financial statements and disclosures.

Fair Value Measurement

ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, amends ASC 820 to add, remove, and modify fair value measurement disclosure requirements. Entities are permitted to early adopt any removed or modified disclosure requirements and delay adoption of the added disclosure requirements until the standard effective date of January 1, 2020.

CIT early adopted the removed and modified disclosure requirements in ASU 2018-13 as of July 1, 2018. The amendment on changes to the narrative description of measurement uncertainty was applied prospectively for the most recent period presented. All other amendments were applied retrospectively to all periods presented. The adoption of this standard did not have a material impact on CIT’s disclosures as disclosure enhancements are more qualitative in nature.

Recent Accounting Pronouncements

The following accounting pronouncements were issued by the FASB but are not yet effective for CIT.

Standard	Summary of Guidance	Effect on CIT's Financial Statements
ASU 2017-08, Receivables -Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities Issued March 2017	•ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. •The new guidance applies to all entities that hold investments in callable debt securities for which the amortized cost basis exceeds the amount repayable by the issuer at the earliest call date (i.e., at a premium). •This guidance must be adopted on a modified retrospective basis through a cumulative-effect adjustment to retained earnings.	•Effective for CIT as of January 1, 2019. •Based on CIT’s evaluation, the adoption of this standard is not expected to have a material impact on CIT’s consolidated financial statements as unamortized premiums on debt securities are immaterial. However, CIT will continue to assess new securities purchased in 2018. •CIT does not intend to early adopt this standard.

Table of Contents

CIT Group Inc. and Subsidiaries – Notes to Condensed Consolidated Financial Statements (Unaudited)

ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting Issued June 2018	•ASU 2018-07 supersedes ASC 505-50, Equity—Equity-Based Payments to Non-Employees and expands the scope of ASC 718 to include all share-based payment arrangements related to the acquisition of goods and services from both nonemployees and employees. As a result, most of the guidance in ASC 718 associated with employee share-based payments, including most of its requirements related to classification and measurement, applies to nonemployee share-based payment arrangement. •An entity should use a modified retrospective transition approach, with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year, for all (1) liability-classified nonemployee awards that have not been settled as of the adoption date and (2) equity-classified nonemployee awards for which a measurement date has not been established.	•Effective for CIT as of January 1, 2019. •CIT is currently evaluating the impact of this ASU; however, CIT does not expect this standard to have a material impact on its consolidated financial statements and disclosures as current accounting for nonemployee share-based payment is consistent with the requirements for employee share-based awards. •CIT does not intend to early adopt this standard.
ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans- General (Subtopic 715-20: Disclosure Framework -Changes to the Disclosure Requirements for Defined Benefit Plans Issued August 2018	•ASU 2018-14 adds, removes, and clarifies disclosure requirements related to defined benefit pension and postretirement plans. •ASU 2018-14 should be applied on a retrospective basis to all periods presented.	•Effective for CIT as of January 1, 2021. However, early adoption is permitted. •The adoption of this standard is not expected to have a material impact on CIT’s disclosures as disclosure enhancements are more qualitative in nature.

Table of Contents

CIT Group Inc. and Subsidiaries – Notes to Condensed Consolidated Financial Statements (Unaudited)

ASU 2016-02, Leases (Topic 842), and subsequent related ASUs Issued February 2016	•The new leasing standard modifies the accounting, presentation, and disclosures for both lessors and lessees. •Lessees will need to recognize all leases longer than twelve months on the consolidated balance sheets as lease liabilities with corresponding right-of-use ("ROU") assets. The FASB retained a dual model, requiring leases to be classified as either operating or finance leases. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit thresholds. •Lessor accounting remains similar to the current model, but updated to align with certain changes to the lessee model (e.g., certain definitions, such as initial direct costs, have been updated) and the new revenue recognition standard. The lessor model retains the approach for operating and capital/finance leases. •The new standard requires lessors to separate lease components from non-lease components that transfer a good or service to the customer. The lease component will be accounted for using an approach that is substantially equivalent to existing guidance. The non-lease component will be accounted for by lessors in accordance with the revenue recognition guidance or other applicable accounting	•Effective for CIT as of January 1, 2019. CIT expects to use the effective date of January 1, 2019 as the date of initial application. Consequently, disclosures required under the new standard will commence as of January 1, 2019. CIT does not anticipate any significant cumulative-effect adjustment to retained earnings as of January 1, 2019 as a result of adopting the new standard. •CIT is continuing to evaluate the impact where it is both a lessee and a lessor: oLessee Accounting: CIT expects to recognize a lease liability, with a corresponding ROU asset, based on the present value of unpaid lease payments for existing operating leases longer than twelve months as of the date of adoption. The ROU asset will be adjusted per Topic 842 transition guidance for existing balances of accrued and prepaid rent, unamortized lease incentives provided by lessors, and restructuring reserve. As a result, upon adoption CIT expects to recognize a ROU asset and a corresponding lease liability in the approximate range of $220 million to $275 million in its consolidated balance sheets. oLessor accounting: CIT expects to elect the "package of practical expedients", which permits the Company not to reassess its prior conclusions regarding lease identification, lease classification and initial direct costs. CIT does not expect the new rules to have a significant impact on classification of leases as finance or operating. Most of CIT's finance leases will be classified as sales-type leases under ASC 842. No gain or loss would typically be recognized at lease commencement for new equipment as there will be no difference between equipment fair value and carrying amount. CIT expects to apply the operating lease practical expedient to its Rail portfolio leases and not separate non-lease components of railcar maintenance services from lease components. CIT is analyzing the impact of changes to the definition of 'initial direct costs' under the new guidance. Due to the narrower definition of initial direct costs, CIT expects to recognize increased upfront expenses partially offset over time by higher yield over the lease term.

guidance.

•The new standard also provides lessors with an operating lease practical expedient, by class of underlying asset, not to separate non-lease components from the associated lease component if both of the following are met: (i) the timing and pattern of transfer of the nonlease components and associated lease component are the same and (ii) the lease component, if accounted for separately, would be classified as an operating lease.

•The new standard has a narrower definition of initial direct costs, and certain incremental costs previously eligible for capitalization will be expensed as incurred.

•A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose its date of initial application as either: (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted.

Table of Contents

CIT Group Inc. and Subsidiaries – Notes to Condensed Consolidated Financial Statements (Unaudited)

ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments Issued June 2016	•Introduces a forward-looking “expected loss” model (the “Current Expected Credit Losses” (“CECL”) model) to estimate credit losses to cover the full remaining expected life of the portfolio upon adoption, rather than the incurred loss model under current U.S. GAAP, on certain types of financial instruments. •It eliminates existing guidance for PCI loans, and requires recognition of an allowance for expected credit losses on financial assets purchased with more than insignificant credit deterioration since origination (PCD loans). •Loans previously classified as PCI will be considered PCD at adoption, with credit related discount reflected in ALLL and loan balance. •It amends existing impairment guidance for AFS securities to incorporate an allowance, which will allow for reversals of impairment losses in the event that the credit of an issuer improves. •In addition, it expands the disclosure requirements regarding an entity’s assumptions, models, and methods for estimating the ALLL. •Entities will apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted (modified-retrospective approach).	•Effective for CIT as of January 1, 2020. Early adoption is permitted; however, CIT does not intend to early adopt the guidance. •CIT management has established a project team and an oversight committee to assess the impact of this guidance and implement this standard. The Company has completed the vendor selection process to provide the platform for CECL aggregation, analytics, and reporting. •While CIT is currently in the process of evaluating the impact of the amended guidance on its Condensed Consolidated Financial Statements, it currently expects the ALLL to increase upon adoption given that the allowance will be required to cover the full remaining expected life of the portfolio upon adoption, rather than the incurred loss model under current U.S. GAAP. The extent of this increase is still being evaluated and will depend on economic conditions and the composition of CIT’s loan and lease portfolios at adoption date.

NOTE 2 — DISCONTINUED OPERATIONS

Aerospace

As discussed in Note 2 — Discontinued Operations in our Annual Report on Form 10-K for the year ended December 31, 2017, the activity for 2017 in the following tables included Commercial Air, which was sold on April 4, 2017. The following condensed financial information also reflects the Business Air business for the quarter and nine months ended September 30, 2018 and as of September 30, 2018 and December 31, 2017.The balances for the nine months ended September 30, 2017 included both Business Air and Commercial Air.

Condensed Balance Sheet — Aerospace (dollars in millions)

	September 30, 2018	December 31, 2017
Net Loans	$ 110.6	$ 165.8
Operating lease equipment, net	-	18.4
Other assets	0.9	-
Assets of discontinued operation	$ 111.5	$ 184.2
Other liabilities	$ 1.4	$ 8.8
Liabilities of discontinued operation	$ 1.4	$ 8.8

Condensed Statement of Income — Aerospace (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income	$1.9	$3.0	$6.1	$26.8
Interest expense	0.7	1.2	2.6	98.5
Rental income on operating leases	—	2.0	0.5	310.7
Other income	1.7	—	0.9	13.4
Maintenance and other operating lease expenses	—	—	—	4.2
Operating expenses	0.5	1.0	1.3	39.6
Loss on debt extinguishment[1]	—	—	—	39.0
Income from discontinued operation before provision for income taxes	2.4	2.8	3.6	169.6
Provision for income taxes	0.7	0.3	1.0	71.0
(Loss) gain on sale of discontinued operation, net of taxes	—	(1.3)	—	118.6
Income from discontinued operation, net of taxes	$1.7	$1.2	$2.6	$217.2

[1] The Company repaid approximately $1 billion of secured borrowings in the first quarter of 2017 within discontinued operations and recorded a loss of $39 million in relation to the extinguishment of those borrowings.

Table of Contents

CIT Group Inc. and Subsidiaries – Notes to Condensed Consolidated Financial Statements (Unaudited)

Condensed Statement of Cash Flows — Aerospace (dollars in millions)

	Nine Months Ended September 30,	
	2018	2017
Net cash flows (used in) provided by operations	$(4.2)	$32.7
Net cash flows provided by investing activities	75.7	10,247.7

Reverse Mortgage Servicing

The Financial Freedom business, a former division of CIT Bank that serviced reverse mortgage loans, was acquired in conjunction with the OneWest Transaction in 2015 and was sold on May 31, 2018. As part of the Financial Freedom Transaction, the sale of the Financial Freedom business included all the operations, mortgage servicing rights and related servicing assets and liabilities. During the second quarter of 2018, CIT recognized a net pre-tax loss on disposal of the Financial Freedom business of $22 million in discontinued operations primarily related to reserves and transaction costs. CIT has agreed to indemnify the purchaser for potential loan defects and servicing deficiencies related to the transferred servicing rights, both of which are capped and subject to time limitations. See Note 1 – Business and Summary of Significant Accounting Policies for a description of the Financial Freedom Transaction.

At September 30, 2018, certain assets and liabilities of the Financial Freedom business were still held by CIT Bank after the sale, and will continue to be held until the required investor consent is received to qualify for sale treatment, although the economic benefit and risk of the business has been transferred to the buyer. At September 30, 2018, assets of discontinued operations primarily included Home Equity Conversion Mortgage ("HECM") loans. Liabilities included reverse mortgage servicing liabilities, secured borrowings and contingent liabilities.

As a mortgage servicer of residential reverse mortgage loans prior to the sale of Financial Freedom, the Company was exposed to contingent liabilities for breaches of servicer obligations as set forth in industry regulations established by the Department of Housing and Urban Development (“HUD”) and the Federal Housing Administration (“FHA”) and in servicing agreements with the applicable counterparties, such as third party investors. Under these agreements, the servicer may be liable for failure to perform its servicing obligations, which could include fees imposed for failure to comply with foreclosure timeframe requirements established by servicing guides and agreements to which CIT was a party as the servicer of the loans. The Company had established reserves for contingent servicing-related liabilities for CIT’s servicer obligation that shall remain in discontinued operations until the contingency is resolved. Separately, the Company had recognized an indemnification receivable from the FDIC of $29 million as of December 31, 2017 for covered servicing-related obligations related to reverse mortgage loans pursuant to the loss share agreement between CIT Bank and the FDIC related to the acquisition by OneWest Bank from the FDIC of certain assets of IndyMac Federal Bank FSB (“IndyMac”) (the “IndyMac Transaction”). During 2018, the indemnification receivable was reduced to zero as the contingent obligation for FDIC covered loans was no longer deemed probable pursuant to ASC 450 and related ASC 805. See the Company's Report on Form 10-K for the year ended December 31, 2017, Note 5 - Indemnification Assets, for further information.

Condensed Balance Sheet — Financial Freedom (dollars in millions)

	September 30, 2018	December 31, 2017
Cash and interest bearing deposits, restricted	$ -	$ 7.7
Net loans[1]	212.1	272.8
Other assets	4.1	36.6
Assets of discontinued operation	$ 216.2	$ 317.1
Secured borrowings[1]	$ 213.2	$ 268.2
Other liabilities[2]	94.0	232.3
Liabilities of discontinued operation	$ 307.2	$ 500.5

(1) Net loans primarily include $198.7 million and $267.2 million of securitized balances at September 30, 2018 and December 31, 2017, respectively. Secured borrowings primarily relate to those receivables.

(2) Other liabilities primarily include contingent liabilities and reverse mortgage servicing liabilities.

Table of Contents

CIT Group Inc. and Subsidiaries – Notes to Condensed Consolidated Financial Statements (Unaudited)

Condensed Statement of Income — Financial Freedom (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income[1]	$1.7	$2.5	$5.8	$8.0
Interest expense[1]	1.7	2.3	5.8	7.2
Other income (loss)[2]	2.8	5.7	13.8	(29.8)
Operating expenses (benefits)[3]	2.4	13.1	29.4	(23.8)
Income (loss) from discontinued operation before benefit for income taxes	0.4	(7.2)	(15.6)	(5.2)
Benefit for income taxes[4]	—	(2.8)	(4.2)	(2.0)
Loss on sale of discontinued operation, net of taxes	—	—	(16.3)	—
Income (loss) from discontinued operation, net of taxes	$0.4	$(4.4)	$(27.7)	$(3.2)

(1) Includes amortization for the premium associated with the HECM loans and related secured borrowings.

(2) For the nine months ended September 30, 2017, other income included an impairment charge of approximately $50 million on the mortgage servicing liability.

(3) Operating expense is comprised of salaries and benefits, professional and legal services, and other expenses such as data processing, premises and equipment, and miscellaneous charges. For the nine months ended September 30, 2017, operating expenses included a net release of the curtailment reserve of $111 million, partially offset by an increase of $40 million in other servicing-related reserves.

(4) For the quarters ended September 30, 2018 and 2017, the Company's tax rate for discontinued operation was insignificant due to the limited activity post-sale and 39%, respectively. For the nine months ended September 30, 2018 and 2017, the Company's tax rate for discontinued operation was 27% and 38%, respectively.

Condensed Statement of Cash Flows — Financial Freedom (dollars in millions)

	Nine Months Ended September 30,	
	2018	2017
Net cash flows provided by (used in) operation	$15.2	$(26.5)
Net cash flows provided by investing activities	9.1	84.9

Combined Results for Discontinued Operations

The following tables reflect the combined results of the discontinued operations. Details of the balances are discussed in prior tables.

Condensed Combined Balance Sheet (dollars in millions)

	September 30, 2018	December 31, 2017
Total cash and deposits	$ —	$ 7.7
Net Loans	322.7	438.6
Operating lease equipment, net	—	18.4
Other assets	5.0	36.6
Assets of discontinued operations	$ 327.7	$ 501.3
Secured borrowings	$ 213.2	$ 268.2
Other liabilities	95.4	241.1
Liabilities of discontinued operations	$ 308.6	$ 509.3

Condensed Combined Statement of Income (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income	$3.6	$5.5	$11.9	$34.8
Interest expense	2.4	3.5	8.4	105.7
Rental income on operating leases	—	2.0	0.5	310.7
Other income (losses)	4.5	5.7	14.7	(16.4)
Maintenance and other operating lease expenses	—	—	—	4.2
Operating expenses	2.9	14.1	30.7	15.8
Loss on debt extinguishment	—	—	—	39.0
Income (loss) from discontinued operations before benefit (provision) for income taxes	2.8	(4.4)	(12.0)	164.4
(Benefit) provision for income taxes	0.7	(2.5)	(3.2)	69.0
(Loss) gain on sale of discontinued operations, net of taxes	—	(1.3)	(16.3)	118.6
Income (loss) from discontinued operations, net of taxes	$2.1	$(3.2)	$(25.1)	$214.0

Condensed Combined Statement of Cash Flows (dollars in millions)

	Nine Months Ended September 30,	
	2018	2017
Net cash flows provided by operations	$11.0	$6.2
Net cash flows provided by investing activities	84.8	10,332.6

Table of Contents

CIT Group Inc. and Subsidiaries – Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 3 — LOANS

Loans, excluding those reflected as discontinued operations, consist of the following:

Loans by Product (dollars in millions)

	September 30, 2018	December 31, 2017
Commercial loans	$22,082.7	$20,892.1
Direct financing leases and leveraged leases	2,496.8	2,685.8
Total commercial	24,579.5	23,577.9
Consumer loans	5,916.3	5,536.0
Total loans	30,495.8	29,113.9
Loans held for sale[1]	204.1	1,095.7
Loans and held for sale loans[1]	$30,699.9	$30,209.6

[1] Since the Company manages the credit risk and collections of loans held for sale consistently with its loans held for investment, the aggregate amount is presented in this table.

As part of the Financial Freedom Transaction, on May 31, 2018, CIT sold its reverse mortgage portfolio comprised of loans and related OREO assets of $884 million and recognized a net pre-tax gain on the sale of $27 million in other non-interest income. The loans were included in loans held for sale in the above table at December 31, 2017. See Note 1 – Business and Summary of Significant Accounting Policies for a description of the Financial Freedom Transaction.

The following table presents loans, excluding loans held for sale, by segment, based on obligor location:

Loans (dollars in millions)

	September 30, 2018			December 31, 2017		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Commercial Banking	$22,518.2	$1,577.5	$24,095.7	$21,368.7	$1,790.6	$23,159.3
Consumer Banking[1]	6,400.1	—	6,400.1	5,954.6	—	5,954.6
Total	$28,918.3	$1,577.5	$30,495.8	$27,323.3	$1,790.6	$29,113.9

[1]

The Consumer Banking segment includes certain commercial loans, primarily consisting of a portfolio of Small Business Administration ("SBA") loans. These loans are excluded from the Consumer loan balances and included in the Commercial loan balances in the tables throughout this note.

The following table presents selected components of the net investment in loans:

Components of Net Investment in Loans (dollars in millions)

	September 30, 2018	December 31, 2017
Unearned income	$ (749.3)	$ (727.8)
Unamortized premiums	18.3	3.7
Accretable yield on PCI loans	(944.9)	(1,063.7)
Net unamortized deferred costs[1]	79.8	68.7

[1] Balance relates to the Commercial Banking segment.

Certain of the following tables present credit-related information at the “class” level. A class is generally a disaggregation of a portfolio segment. In determining the classes, CIT considered the loan characteristics and methods it applies in monitoring and assessing credit risk and performance.

Credit Quality Information

The following table summarizes commercial loans by the risk ratings that bank regulatory agencies utilize to classify credit exposure and which are consistent with indicators the Company monitors. The consumer loan risk profiles are different from commercial loans, and use loan-to-value (“LTV”) ratios in rating the credit quality, and therefore are presented separately below.

Table of Contents

CIT Group Inc. and Subsidiaries – Notes to Condensed Consolidated Financial Statements (Unaudited)

Commercial Loans Including Held for Sale Loans — Risk Rating by Class / Segment (dollars in millions)

Grade:	Pass	Special Mention	Classified- accruing	Classified- non-accrual	PCI Loans	Total
September 30, 2018						
Commercial Banking						
Commercial Finance	$8,299.0	$653.5	$ 1,054.4	$ 229.3	$ 5.9	$10,242.1
Real Estate Finance	4,994.4	247.5	267.2	2.3	36.2	5,547.6
Business Capital	7,529.1	456.1	310.3	43.1	—	8,338.6
Rail	125.5	0.8	1.2	—	—	127.5
Total Commercial Banking	20,948.0	1,357.9	1,633.1	274.7	42.1	24,255.8
Consumer Banking						
Other Consumer Banking(1)	419.8	15.7	45.2	1.0	2.1	483.8
Total Consumer Banking	419.8	15.7	45.2	1.0	2.1	483.8
Non- Strategic Portfolios	17.5	3.1	3.2	8.3	—	32.1
Total	$21,385.3	$1,376.7	$ 1,681.5	$ 284.0	$ 44.2	$24,771.7
December 31, 2017						
Commercial Banking						
Commercial Finance	$8,284.1	$640.9	$ 981.9	$ 134.8	$ 10.6	$10,052.3
Real Estate Finance	5,228.1	139.9	174.3	2.8	45.1	5,590.2
Business Capital	7,028.6	269.2	228.8	53.2	—	7,579.8
Rail	100.6	2.0	1.2	—	—	103.8
Total Commercial Banking	20,641.4	1,052.0	1,386.2	190.8	55.7	23,326.1
Consumer Banking						
Other Consumer Banking(1)	378.5	5.9	31.9	—	2.2	418.5
Total Consumer Banking	378.5	5.9	31.9	—	2.2	418.5
Non- Strategic Portfolios	35.7	7.6	10.2	9.8	—	63.3
Total	$21,055.6	$1,065.5	$ 1,428.3	$ 200.6	$ 57.9	$23,807.9

(1) Other Consumer Banking loans primarily consisted of SBA loans.

The following table provides a summary of the consumer portfolio credit quality. The amounts represent the carrying value, which differ from unpaid principal balances, and include the premiums or discounts and the accretable yield and non-accretable difference for PCI loans recorded in purchase accounting. Included in the consumer single-family residential (“SFR”) loans are “covered loans” for which the Company can be reimbursed for a substantial portion of future losses under the terms of the loss sharing agreement with the FDIC related to IndyMac, which expires in March 2019. Covered loans are limited to the Legacy Consumer Mortgage ("LCM") division. Due to continued improvement of the covered loan performance, significantly shorter remaining life of the indemnification asset in comparison to the weighted average life of the related covered loans, and significant decline in loss share claims filed with the FDIC in the last six months, CIT performed a collectability assessment of the probable losses to be reimbursed by the FDIC for the remaining indemnification period. Separate from the higher negative yield to amortize the reductions in expected indemnification asset cash flows due to an increase in expected cash flows on the covered loans from improved credit performance, CIT recorded an impairment of $21.2 million, in other non-interest income, to reduce the carrying value of the indemnification asset (included in other assets) to $27.2 million in the quarter ended September 30, 2018, for the amounts deemed uncollectable within the remaining indemnification period based on CIT's loan level review of the covered loans. Indemnification assets are discussed further in our 2017 Form 10-K, Note 5 — Indemnification Assets.

Included in the consumer loan balances as of September 30, 2018 and December 31, 2017, were loans with terms that permitted negative amortization with an unpaid principal balance of $413 million and $484 million, respectively.

Table of Contents

CIT Group Inc. and Subsidiaries – Notes to Condensed Consolidated Financial Statements (Unaudited)

The table below summarizes the consumer loan LTV distribution and the covered loan held for investment balances as of September 30, 2018 and December 31, 2017 for SFR mortgage loans.

Consumer Loan LTV Distribution (dollars in millions)

	Single Family Residential				Total
	Covered Loans		Non-covered Loans		Consumer
LTV Range	Non-PCI	PCI	Non-PCI	PCI	Loans
September 30, 2018					
Greater than 125%	$1.4	$113.8	$4.9	$ -	$ 120.1
101% – 125%	4.8	194.8	4.7	—	204.3
80% – 100%	33.9	470.0	181.9	—	685.8
Less than 80%	1,128.1	936.1	2,841.3	—	4,905.5
Not Applicable[1]	—	—	0.6	—	0.6
Total	$1,168.2	$1,714.7	$3,033.4	$ —	