

CIT GROUP INC  
Form 10-K  
March 16, 2017  
Table of Contents

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, 2016

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

# 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.)

**11 West 42nd Street, New York, New York**

(Address of Registrant's principal executive offices)

**10036**

(Zip Code)

**(212) 461-5200**

Registrant's telephone number including area code:

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

**Title of each class**

Common Stock, par value \$0.01 per share

**Name of each exchange on which registered**

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

## Edgar Filing: CIT GROUP INC - Form 10-K

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. | |

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one)

Large accelerated filer  Accelerated filer | | Non-accelerated filer | | Smaller reporting company | |

At February 28, 2017, there were 202,603,394 shares of CIT's common stock, par value \$0.01 per share, outstanding.

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

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 (\$31.91 per share, 201,035,207 shares of common stock outstanding), which occurred on June 30, 2016, was \$6,415,033,452. 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.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 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 | |

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to the 2017 Annual Meeting of Stockholders are incorporated by reference into Part III hereof to the extent described herein.

---

### Table of Contents

CIT ANNUAL REPORT 2016 1

---

### CONTENTS

Part One		
Item 1.	Business Overview	2
	Where You Can Find More Information	18
Item 1A.	Risk Factors	23
Item 1B.	Unresolved Staff Comments	34
Item 2.	Properties	34
Item 3.	Legal Proceedings	34
Item 4.	Mine Safety Disclosures	34

Edgar Filing: CIT GROUP INC - Form 10-K

Part Two		
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities	35
Item 6.	Selected Financial Data	37
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	40
Item 7A.	Quantitative and Qualitative Disclosure about Market Risk	40
Item 8.	Financial Statements and Supplementary Data	103
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	221
Item 9A.	Controls and Procedures	221
Item 9B.	Other Information	223
Part Three		
Item 10.	Directors, Executive Officers and Corporate Governance	224
Item 11.	Executive Compensation	224
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	224
Item 13.	Certain Relationships and Related Transactions, and Director Independence	224
Item 14.	Principal Accountant Fees and Services	224
Part Four		
Item 15.	Exhibits and Financial Statement Schedules	225
Signatures		231

**Table of Contents****2 CIT ANNUAL REPORT 2016****PART ONE****Item 1: Business Overview****BUSINESS DESCRIPTION**

CIT Group Inc., together with its subsidiaries (collectively “we”, “our”, “CIT” or the “Company”), has provided financial solutions to its clients since its formation in 1908. We provide financing, leasing and advisory services principally to middle-market companies, including to the transportation industry, and equipment financing and leasing solutions to a wide variety of industries, primarily in North America. We had \$46.8 billion of earning assets from continuing operations at December 31, 2016. CIT is a bank holding company (“BHC”) and a financial holding company (“FHC”). CIT also provides a full range of banking and related services to commercial and individual customers through its banking subsidiary, CIT Bank, N.A. (“CIT Bank”), which includes 70 branches located in Southern California, and its online bank, *bankoncit.com*.

On October 6, 2016, we entered into a definitive agreement to sell our Commercial Air business, except for certain Commercial Air loans and investments in CIT Bank, and our investment in two aircraft leasing joint ventures. This business, along with our Business Air and Financial Freedom businesses are all reported as discontinued operations. All prior period balances have been conformed. See *Note 2 — Acquisition and Discontinued Operations* in *Item 8. Financial Statements and Supplementary Data*.

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”).

Each business has industry alignment and focuses on specific sectors, products and markets. Our principal product and service offerings include:

**Products and Services**

- |  |   |
|--|---|
| • Account receivables collection       | • Equipment leases                                  |
| • Acquisition and expansion financing  | • Factoring services                                |
| • Asset management and servicing       | • Financial risk management                         |
| • Asset-based loans                    | • Import and export financing                       |
| • Credit protection                    | • Insurance services                                |
| • Cash management and payment services | • Letters of credit / trade acceptances             |
| • Debt restructuring                   | • Merger and acquisition advisory services          |
| • Debt underwriting and syndication    | • Residential mortgage loans and mortgage servicing |
| • Deposits                             | • Secured lines of credit                           |
| • Enterprise value and cash flow loans | • Small Business Administration (“SBA”) loans       |

We source our commercial lending business primarily through direct marketing to borrowers, lessees, manufacturers, vendors and distributors, and through referral sources and other intermediaries. We source our consumer lending business through our online bank branch network. Periodically we buy participations in syndications of loans and lines of credit and purchase finance receivables and residential mortgage loans on a whole-loan basis.

We generate revenue by earning interest on loans and investments, collecting rents on equipment we lease, and earning commissions, fees and other income for services we provide. We syndicate and sell certain finance receivables and equipment to leverage our origination capabilities, reduce concentrations and manage our balance sheet.

## Edgar Filing: CIT GROUP INC - Form 10-K

We set underwriting standards for each division and employ portfolio risk management models to achieve desired portfolio demographics. Our collection and servicing operations are organized by business and geography in order to provide efficient client interfaces and uniform customer experiences.

Funding sources include deposits and borrowings, and our funding mix has continued to migrate towards a higher proportion of deposits.

### Table of Contents

CIT ANNUAL REPORT 2016 **3**

## BUSINESS SEGMENTS

Due to changes in our business, we realigned our segments in 2016, reflective of our internal reporting structure, management's review of the segment's performance and management's decision making. As of December 31, 2016, CIT manages its business and reports its financial results in three operating segments: Commercial Banking, Consumer Banking, and Non-Strategic Portfolios (NSP), and a non-operating segment, Corporate and Other.

The following table reflects our business as of December 31, 2016:

SEGMENT NAME	DIVISIONS	MARKETS AND SERVICES
<b>Commercial Banking</b>	Commercial Finance Rail Real Estate Finance Business Capital	<ul style="list-style-type: none"> <li>• Commercial Finance, Real Estate Finance, and Business Capital provide lending, leasing and other financial and advisory services, primarily to small and middle-market companies across select industries.</li> <li>• Business Capital also provides factoring, receivables management products and secured financing to the retail supply chain.</li> <li>• Rail provides equipment leasing and secured financing to the rail industry.</li> </ul>
<b>Consumer Banking</b>	Other Consumer Banking (collectively includes Retail Banking, SBA Lending and Consumer Lending) Legacy Consumer Mortgages ("LCM")	<ul style="list-style-type: none"> <li>• Other Consumer Banking includes a full suite of deposit products, single family residential ("SFR") loans offered through retail branches, and an online direct channel, and also provides SBA loans.</li> <li>• LCM consists of SFR loans acquired in the OneWest Transaction, which includes reverse mortgage loans, certain of which are covered by loss sharing agreements with the FDIC.</li> </ul>
<b>Non-Strategic Portfolios</b>		<ul style="list-style-type: none"> <li>• Consists of portfolios that we do not consider strategic equipment finance and secured</li> </ul>

## Edgar Filing: CIT GROUP INC - Form 10-K

SEGMENT NAME	DIVISIONS	MARKETS AND SERVICES
<b>Corporate and Other</b>		lending in select international geographies. <ul style="list-style-type: none"> <li>• Includes investments and other unallocated items, such as amortization of certain intangible assets.</li> </ul>

The following summarizes changes to our segment reporting from December 31, 2015. All prior period data presented in this Annual Report on Form 10-K were conformed to reflect the following changes.

- In the first quarter of 2016, following a previously announced reorganized management structure, CIT realigned its segments. The Commercial Banking segment (formerly North America Banking or “NAB”) was comprised of Commercial Finance, Real Estate Finance, and Business Capital, and no longer includes the Consumer Banking division, which was moved to the Consumer Banking segment. Also, Equipment Finance and Commercial Services, business units that were formerly discrete divisions in the 2015 filing, are now included in Business Capital. In the third quarter of 2016, the Canadian Equipment and Corporate Finance businesses that were within the Business Capital and Commercial Finance divisions, respectively, were transferred to NSP. In the fourth quarter of 2016 we further realigned our segments with Rail becoming a fourth division of Commercial Banking. Also as part of the fourth quarter realignment, Maritime Finance and the remaining commercial air loans not part of discontinued operations were transferred to Commercial Finances. Rail, Maritime Finance and commercial air loans and investments not part of discontinued operations were previously all part of the Transportation Finance segment.
- Transportation Finance (formerly Transportation & International Finance or “TIF”) no longer exists as a separate business segment. In our initial realignment in the first quarter of 2016, we transferred the international businesses in China and the U.K. to NSP, such that Transportation Finance was then comprised of three divisions, Aerospace (composed of Commercial Air and Business Air), Rail and Maritime Finance. Based on the definitive sale agreement with respect to Commercial Air that we executed on October 6, 2016, the activity of the Commercial Air business that is subject to the sale agreement, as well as activity associated with the Business Air assets are reported as discontinued operations as of December 31, 2016. As mentioned above, Rail, Maritime Finance and commercial air loans not part of discontinued operations were transferred to Commercial Banking.
- Consumer Banking includes Legacy Consumer Mortgages (the former LCM segment) and other banking divisions that were included in the former NAB segment (Retail Banking, Consumer Lending, and SBA Lending).
- NSP includes businesses that we no longer consider strategic and as of December 31, 2016, the remaining portfolio is primarily in China. Historic data also includes businesses and portfolios that have been sold, in countries such as Canada, the U.K., Mexico, and Brazil.

Financial information about our segments and our geographic areas of operation are described in *Item 7. Management’s Discussion and Analysis of Financial Condition and Results of*

**Item 1: Business Overview**

### **Table of Contents**

**4 CIT ANNUAL REPORT 2016**

*Operations and Item 8. Financial Statements and Supplementary Data (Note 25 — Business Segment Information).*

COMMERCIAL BANKING

## Edgar Filing: CIT GROUP INC - Form 10-K

Commercial Banking is comprised of four divisions, Commercial Finance, Real Estate Finance, Business Capital, and Rail.

Commercial Banking provides a range of lending, leasing and deposit products, as well as ancillary products and services, including factoring, cash management and advisory services, primarily to small and medium-sized companies, as well as to the rail industry. Revenue is generated from interest earned on loans, rents on equipment leased, fees and other revenue from lending and leasing activities, and banking services, along with capital markets transactions and commissions earned on factoring and related activities.

### *Description of Divisions*

*Commercial Finance* provides a range of commercial lending and deposit products, as well as ancillary services, including cash management and advisory services, primarily to small and middle market companies. Loans offered are primarily senior secured loans collateralized by accounts receivable, inventory, machinery and equipment, shipping vessels and/or intangibles that are often used for working capital, plant expansion, acquisitions or recapitalizations. These loans include revolving lines of credit and term loans and, depending on the nature and quality of the collateral, may be referred to as asset-based loans or cash flow loans. Loans are originated through relationships with private equity sponsors, or through direct relationships, led by individuals with significant experience in their respective industries. We provide financing, treasury management and capital markets products to customers in a wide range of industries, including aerospace & defense, communication, energy, entertainment, gaming, healthcare, industrials, information services & technology, maritime, restaurants, retail, and services.

*Rail* offers customized leasing and financing solutions and a highly efficient fleet of railcars and locomotives to railroads and shippers throughout North America and Europe. We serve over 650 customers, including all of the U.S. and Canadian Class I railroads (i.e., railroads with annual revenues of at least USD \$450 million), other railroads and non-rail companies, such as shippers and power and energy companies. Our operating lease fleet consists of approximately 131,000 railcars and approximately 400 locomotives. Railcar types include covered hopper cars used to ship grain and agricultural products, plastic pellets, sand, and cement; tank cars for energy products and chemicals; gondolas for coal, steel coil and mill service products; open hopper cars for coal and aggregates; boxcars for paper and auto parts, and centerbeams and flat cars for lumber. The rail portfolio is discussed further in the *Concentrations* section of *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*.

*Real Estate Finance* provides senior secured commercial real estate loans to developers and other commercial real estate professionals. We focus on properties with a stable cash flow and originate construction loans to highly experienced and well capitalized developers. In addition, the portfolio includes acquired multi-family commercial mortgage loans that are being run off.

*Business Capital* provides leasing and equipment financing to small businesses and middle market companies in a wide range of industries on both a private label and direct basis. We provide financing solutions for our borrowers and lessees, and assist manufacturers and distributors in growing sales, profitability and customer loyalty by providing customized, value-added finance solutions to their commercial clients. Our lending platform allows small businesses to access financing through a highly automated credit approval, documentation and funding process. We offer commercial loans and leases, including both capital and operating leases. In addition, this division provides factoring, receivable management products, and secured financing to businesses (our clients, which are generally manufacturers or importers of goods) that operate in several industries, including apparel, textile, furniture, home furnishings and consumer electronics. Factoring entails the assumption of credit risk with respect to trade accounts receivable arising from the sale of goods by our clients to their customers (generally retailers) that have been factored (i.e., sold or assigned to the factor). Although primarily U.S.-based, we also conduct business with clients and their customers internationally.

### *Key Risks*

Key risks faced by the divisions are credit, business and asset risk. Credit risks associated with secured financings relate to the ability of our borrower to repay our loan and the value of the collateral underlying the loan should our borrower default on its obligations.

Business risks relate to the demand for services that is broadly affected by the overall level of economic growth and is more specifically affected by the overall level of economic activity in CIT's target industries. If demand for CIT's products and services declines, then overall new business volume will decline. Likewise, changes in supply and demand of CIT's products and services also affect the pricing CIT can command from the market. Additionally, new business volume in Commercial Banking is influenced by CIT's ability to maintain and develop relationships with its equity sponsors, clients, vendor partners, distributors and resellers. With regard to pricing, the divisions are subject to potential threats from competitor activity or disintermediation by vendor partners and other referral sources, which could negatively affect CIT's margins. Commercial Banking is also exposed to business risk related to its syndication activity. Under adverse market circumstances, CIT would be exposed to risk arising from the inability to sell loans to other lenders, resulting in lower fee income and higher than expected credit exposure to certain borrowers.

The products and services provided by Commercial Services (a unit of Business Capital that provides commercial factoring services) involve two types of credit risk: customer and client. A client is the counterparty to any factoring, financing, or receivables purchasing agreement that has been entered into with Commercial Services. A customer is the account debtor and obligor on trade accounts receivable that have been factored with and assigned to the factor.

The most prevalent risk in factoring transactions for Commercial Services is customer credit risk. Customer credit risk relates to the inability of a customer to pay undisputed trade accounts

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 5

receivable due to the factor. While less significant than customer credit exposure, there is also client credit risk in providing cash advances to factoring clients. Client credit risk relates to a decline in the creditworthiness of a borrowing client, their consequent inability to repay their loan and the possible insufficiency of the underlying collateral (including the aforementioned customer accounts receivable) to cover any loan repayment shortfall. At December 31, 2016, client credit risk accounted for less than 10% of total Commercial Services credit exposure while customer credit risk accounted for the remainder.

Commercial Services is also subject to a variety of business risks including operational, due to the high volume of transactions, as well as business risks related to competitive pressures from other banks, boutique factors, and credit insurers and seasonal risks due to retail trends. These pressures create risk of reduced pricing and factoring volume for CIT. In addition, client de-factoring can occur if retail credit conditions are benign for a long period and clients no longer require factoring services for credit protection.

The primary risks for Rail are asset risk (resulting from ownership of the railcars and related equipment on operating lease) and credit risk. Asset risk arises from fluctuations in supply and demand for the underlying rail equipment that is leased. Rail invests in long-lived equipment, railcars/locomotives, which have economic useful lives of approximately 40-50 years. This equipment is then leased to commercial end-users with lease terms of approximately three to five years. CIT is exposed to the risk that, at the end of the lease term, the value of the asset will be lower than expected, resulting in reduced future lease income over the remaining life of the asset or a lower sale value.

Asset risk is generally recognized through changes to lease income streams from fluctuations in lease rates and/or utilization. Changes to lease income occur when the existing lease contract expires, the asset comes off lease, and the business seeks to enter a new lease agreement. Asset risk may also change depreciation, resulting from changes in the residual value of the operating lease asset or through impairment of the asset carrying value, which can occur at any time during the life of the asset. Asset risk is primarily related to the Rail division, and to a lesser extent, Business Capital.

Credit risk in the leased equipment portfolio results from the potential default of lessees, possibly driven by obligor specific or industry-wide conditions, and is economically less significant than asset risk for Rail, because in the operating lease business there is no extension of credit to the obligor. Instead, the lessor deploys a portion of the useful life of the asset. Credit losses manifest through multiple parts of the income statement including loss of lease/rental income due to missed payments, time off lease, or lower rental payments than the existing contract due to either a restructuring with the existing obligor or re-leasing of the asset to another obligor, as well as higher expenses due to, for example, repossession costs to recover, refurbish, and re-lease assets.

See “Concentrations” section of *Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations* and *Note 21 — Commitments of Item 8. Financial Statements and Supplementary Data* for further discussion of our rail portfolio.

## **CONSUMER BANKING**

Consumer Banking includes Retail Banking, Mortgage Lending, and SBA Lending, which are grouped together for purposes of discussion as Other Consumer Banking, and Legacy Consumer Mortgages (“LCM”).



## Edgar Filing: CIT GROUP INC - Form 10-K

*Other Consumer Banking* offers residential mortgage lending and deposit products to its consumer customers. The division offers jumbo residential mortgage loans and conforming residential mortgage loans, primarily in Southern California. Mortgage loans are primarily originated through CIT Bank branch and retail referrals, employee referrals, internet leads and direct marketing. Additionally, loans are purchased through whole loan and portfolio acquisitions. Mortgage Lending includes product specialists, internal sales support and origination processing, structuring and closing. Retail banking is the primary deposit gathering business of CIT Bank and operates through a network of 70 retail branches in Southern California and an online direct channel. We offer a broad range of deposit and lending products along with payment solutions to meet the needs of our clients (both individuals and small businesses), including checking, savings, money market, certificates of deposit, and residential mortgage loans.

The Other Consumer Banking division also originates qualified SBA 504 loans and 7(a) loans. SBA 504 loans generally provide growing small businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. SBA 7(a) loans generally provide for purchase/refinance of owner occupied commercial real estate, working capital, acquisition of inventory, machinery, equipment, furniture, and fixtures, the refinance of outstanding debt subject to any program guidelines, and acquisition of businesses, including partnership buyouts.

*LCM* includes portfolios of single family residential mortgages, including reverse mortgages, certain of which are covered by loss sharing agreements with the FDIC that expire between March 2019 and February 2020. Certain Covered Loans in this segment were previously acquired by OneWest Bank, N.A. in connection with the FDIC-assisted transactions of IndyMac, FSB, First Federal and La Jolla transactions. The FDIC indemnified OneWest Bank, N.A. against certain future losses sustained on these loans. CIT may be reimbursed for certain losses under the terms of the loss sharing agreements with the FDIC. Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (*e.g.*, due to foreclosure, short-sale, charge-offs or a restructuring of a single family residential mortgage loan pursuant to an agreed upon loan modification framework). Reimbursements approved by the FDIC are usually received within 60 days of submission.

### *Key Risks*

Key risks faced are credit, collateral and geographic concentration risk. Similar to our commercial business, credit risks associated with secured consumer financings relate to the ability of the borrower to repay its loan and the value of the collateral underlying the loan should the borrower default on its obligations. Our consumer mortgage loans are typically collateralized by the underlying property, primarily single family homes. Therefore, collateral risk relates to the potential decline in value of the property securing the loan. Most of the loans are concentrated in Southern California. Therefore, the related geographic concentration risk relates to a potential downturn in the economic

## Item 1: Business Overview

---

### Table of Contents

## 6 CIT ANNUAL REPORT 2016

conditions or a potential natural disaster, such as earthquake or wildfire, in that region. As discussed in *Note 5 — Indemnification Assets of Item 8. Financial Statements and Supplementary Data*, certain indemnifications from the FDIC begin to expire in 2019.

### NON-STRATEGIC PORTFOLIOS

NSP includes businesses and portfolios that we no longer consider strategic, which historically included geographies such as in the US, Canada, Latin America, Europe and Asia. As of December 31, 2016, essentially all of the remaining portfolio was in China and was reported in assets held for sale, with minor wind-down activities in other legacy locations.

### CORPORATE AND OTHER

Certain items are not allocated to operating segments and are included in Corporate & Other. Some of the more significant items include interest income on investment securities, a portion of interest expense primarily related to corporate liquidity costs (Interest Expense), mark-to-market adjustments on non-qualifying derivatives (Other Income), restructuring charges for severance and

## Edgar Filing: CIT GROUP INC - Form 10-K

facilities exit activities as well as certain unallocated costs (Operating Expenses), certain intangible assets amortization expenses (Other Expenses) and loss on debt extinguishments and deposit redemption.

---

### CIT BANK, N.A.

CIT Bank is regulated by the OCC.

CIT Bank raises deposits through its 70 branch network in Southern California and from retail and institutional customers through commercial channels, as well as its online bank ([www.bankoncit.com](http://www.bankoncit.com)) and, to a lesser extent, through broker channels. CIT Bank's existing suite of deposit products includes checking and savings accounts, money market, individual retirement accounts and certificates of deposit.

CIT Bank provides lending, leasing and other financial and advisory services, primarily to small and middle-market companies across select industries through its Commercial Finance, Rail, Real Estate Finance, and Business Capital divisions. Rail provides equipment leasing and secured financing to the rail industry. The Bank also offers residential mortgage lending and deposits to its customers through its Other Consumer Banking division.

CIT Bank's financing and leasing assets are primarily commercial loans, consumer loans and operating lease equipment. Its commercial loans and operating lease equipment are reported in Commercial Banking, and consumer loans are in Consumer Banking. Consumer loans consist of SFR and reverse mortgage loans. CIT Bank's growing operating lease portfolio consists primarily of leased railcars and related equipment.

At year-end, CIT Bank remained well capitalized, maintaining capital ratios well above required levels.

Effective as of August 3, 2015, CIT acquired IMB HoldCo LLC ("IMB"), the parent company of OneWest Bank, National Association, a national banking association ("OneWest Bank"), and CIT Bank, then a Utah-state chartered bank and a wholly owned subsidiary of CIT, merged with and into OneWest Bank (the "OneWest Transaction"), with OneWest Bank surviving as a wholly owned subsidiary of CIT with the name CIT Bank, National Association. See OneWest Transaction in *Note 2 — Acquisition and Discontinued Operations in Item 8. Financial Statements and Supplementary Data* for additional information on the OneWest Transaction and certain acquired assets and liabilities.

---

### DISCONTINUED OPERATIONS

Discontinued operations is comprised of the Commercial Air business, which is subject to a definitive sale agreement, Business Air and our reverse mortgage servicing business. Discontinued operations are discussed, along with balance sheet and income statement items, in *Note 2 — Acquisition and Discontinued Operations in Item 8. Financial Statements and Supplementary Data*. See also *Note 22 — Contingencies* for discussion related to the servicing business.

#### *Key Risks*

Key risks faced by the discontinued operations are asset risk (Commercial Air) and credit risk (Business Air) and operational risk for the reverse mortgage business.

The primary risks for Commercial Air are asset risk (resulting from ownership of the equipment on operating lease) and utilization risk. Asset risk arises from fluctuations in supply and demand for the underlying equipment that is leased. Commercial Air invests in long-lived equipment; commercial aircraft have economic useful lives of approximately 20-25 years. This equipment is then leased to commercial end-users. CIT is exposed to the risk that, at the end of the lease term, the value of the asset will be lower than expected, resulting in reduced future lease income over the remaining life of the asset or a lower sale value.

Asset risk is generally recognized through changes to lease income streams from fluctuations in lease rates and/or utilization. Changes to lease income occur when the existing lease contract expires, the asset comes off lease, and the business seeks to enter a new lease agreement. Asset risk may also change depreciation, resulting from changes in the residual value of the operating lease asset or through impairment of the asset carrying value, which can occur at any time during the life of the asset.

Credit risk in the leased equipment portfolio results from the potential default of lessees, possibly driven by obligor specific or industry-wide conditions, and is economically less significant than asset risk for Commercial Air, because in the operating lease

## **Table of Contents**

CIT ANNUAL REPORT 2016 7

business, there is no extension of credit to the obligor. Instead, the lessor deploys a portion of the useful life of the asset. Credit losses manifest through multiple parts of the income statement including loss of lease/rental income due to missed payments, time off lease, or lower rental payments than the existing contract due to either a restructuring with the existing obligor or re-leasing of the asset to another obligor as well as higher expenses due to, for example, repossession costs to recover, refurbish, and re-lease assets.

Credit risk associated with Business Air loans relates to the ability of the borrower to repay its loan and the Company's ability to realize the value of the collateral underlying the loan should the borrower default on its obligations.

A decrease in the level of airline passenger traffic may adversely affect our aerospace business, the value of our aircraft and the ability of our lessees to make lease payments.

The mortgage servicing business operates in a highly regulated environment, and is thus subject to extensive regulation by federal, state and local governmental authorities, including the Consumer Financial Protection Bureau ("CFPB"), Department of Housing and Urban Development ("HUD"), and various state agencies that license, audit and conduct examinations of our mortgage servicing, and collection activities.

To the extent that we fail to comply with applicable laws, regulations or licensing requirements and taking into account the ongoing investigation noted above, there could be additional charges to the financial statements in future periods.

---

## **EMPLOYEES**

CIT employed approximately 4,410 people at December 31, 2016, which includes 330 employees in our discontinued operations. Based upon the location of the Company's legal entities, as of December 31, 2016, approximately 4,200 were employed in the U.S. entities and 210 in non-U.S. entities.

---

## **COMPETITION**

We operate in competitive markets, based on factors that vary by product, customer, and geographic region. Our competitors include global and domestic commercial banks, regional and community banks, captive finance companies, and leasing companies. In most of our business segments, we have a few large competitors that have significant market share and many smaller niche competitors.

Many of our competitors are large companies with substantial financial, technological, and marketing resources. Our customer value proposition is primarily based on financing terms, structuring solutions, and client service. From time to time, due to highly competitive markets, we may (i) lose market share if we are unwilling to match product structure, pricing, or terms of our competitors that do not meet our credit standards or return requirements or (ii) receive lower returns or incur higher credit losses if we match our competitors' product structure, pricing, or terms. While our funding structure puts us at a competitive disadvantage to other commercial banks due to our proportion of higher cost debt, that disadvantage has decreased in recent years due to our increased reliance on lower-cost funding sources, such as deposits.

To take advantage of opportunities, we must continue to compete successfully with commercial banks and financial institutions that are larger and have better access to low cost funding. As a result, we tend not to compete on price, but rather on industry experience, asset and equipment knowledge, and customer service. The regulatory environment in which we and/or our customers operate also affects our competitive position.

**Item 1: Business Overview**

**Table of Contents**

**8 CIT ANNUAL REPORT 2016**

---

**REGULATION**

We are regulated by U.S. federal and state banking laws, regulations and policies. Such laws and regulations are intended primarily for the protection of depositors, customers and the federal deposit insurance fund (“DIF”), as well as to minimize risk to the banking system as a whole, and not for the protection of our shareholders or non-depository creditors. Bank regulatory agencies have broad examination and enforcement power over bank holding companies (“BHCs”) and their subsidiaries, including the power to impose substantial fines, limit dividends and other capital distributions, restrict operations and acquisitions, and require divestitures. BHCs and banks, as well as subsidiaries of both, are prohibited by law from engaging in practices that the relevant regulatory authority deems unsafe or unsound. CIT is a BHC, and elected to become a financial holding company (“FHC”), subject to regulation and examination by the FRB and the FRBNY. As an FHC, CIT is subject to certain limitations on our activities, transactions with affiliates, and payment of dividends, and certain standards for capital and liquidity, safety and soundness, and incentive compensation, among other matters. Under the system of “functional regulation” established under the BHC Act, the FRB supervises CIT, including all of its non-bank subsidiaries, as an “umbrella regulator” of the consolidated organization. CIT Bank is chartered as a national bank by the OCC and is a member bank of the Federal Reserve System. CIT’s principal regulator is the FRB and CIT Bank’s principal regulator is the OCC. Both CIT and CIT Bank are subject to the jurisdiction of the CFPB.

Certain of our subsidiaries are subject to the jurisdiction of other domestic and foreign governmental agencies. In connection with the restructuring of our international platforms, we have surrendered all of our banking licenses outside of the United States.

CIT Capital Securities LLC, a Delaware limited liability company, is a broker-dealer licensed by the Financial Industry Regulatory Authority (“FINRA”), and is subject to the jurisdiction of FINRA and the SEC). CIT also holds a 13% interest in CIT Group Securities (Canada) Inc., a Canadian broker dealer, which is licensed and subject to the jurisdiction of the Ontario Securities Commission.

Our insurance operations are primarily conducted through The Equipment Insurance Company, a Vermont corporation, and CIT Insurance Agency, Inc., a Delaware corporation. Each company is licensed to enter into insurance contracts and is subject to regulation and examination by insurance regulators.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended (the “Dodd-Frank Act”), which was enacted in July 2010, made extensive changes to the regulatory structure and environment affecting banks, BHCs, non-bank financial companies, broker-dealers, and investment advisory and management firms. Although the Dodd-Frank Act has not significantly limited CIT from conducting the activities in which we were previously engaged, a number of regulations have affected and will continue to affect the conduct of our business, either directly through regulation of specific activities or indirectly through regulation of concentration risks, capital, or liquidity or through the imposition of additional compliance requirements.

Some of the provisions of the Dodd-Frank Act are subject to further rulemaking, guidance and interpretation by the applicable federal regulators. Accordingly, the full impact of the Dodd-Frank Act will not be known until the rules are implemented and market practices develop under the final regulations. Recent political developments, including the change in administration in the United States, have added additional uncertainty to the implementation, scope and timing of regulatory reforms, including those relating to the implementation of the Dodd-Frank Act.

In 2015, we exceeded the \$50 billion threshold that subjects BHCs to enhanced prudential supervision requirements under Sections 165 and 166 of the Dodd-Frank Act and regulations issued by the FRB thereunder. These additional requirements will be phased in over time, through March 2017. We expect to continue devoting significant additional resources in terms of both increased expenditures and management time in 2017 to implement each of these requirements and ongoing costs thereafter to continue to comply with these enhanced prudential supervision requirements. See “*Enhanced Prudential Standards for Large Bank Holding Companies*” below.

The OCC approval of the OneWest Transaction was subject to two conditions. First, the OCC required CIT Bank to submit a comprehensive business plan covering a period of at least three years, including a financial forecast, a capital plan that provides for

maintenance of CIT Bank's capital, a funding plan and a contingency funding plan, the intended types and volumes of lending activities, and an action plan to accomplish identified strategic goals and objectives. After each calendar quarter, the Bank must report and explain to the OCC any material variances. The Board must review the performance of CIT Bank under the business plan at least annually and CIT Bank must update the business plan annually.

Second, the OCC required CIT Bank to submit a revised Community Reinvestment Act of 1977 ("CRA") Plan after the merger. The revised CRA Plan described the actions it intends to take to help meet the credit needs in low and moderate income ("LMI") areas within its assessment areas, including annual goals for helping to meet the credit needs of LMI individuals and geographies within the assessment areas, the management structure responsible for implementing the CRA Plan, and the Board committee responsible for overseeing the Bank's performance under the CRA Plan. CIT Bank must informally seek input on its CRA Plan from members of the public in its assessment areas. In addition, CIT Bank must publish on its public website (i) a copy of its revised CRA Plan after it receives a written determination of non-objection from the OCC and (ii) a CRA Plan summary report that demonstrates the measurable results of the revised CRA Plan a month prior to the commencement of CIT Bank's performance evaluation.

The FRB Order approved the OneWest Transaction conditioned on CIT meeting certain conditions and on commitments made in connection with CIT's application. CIT committed to meeting certain levels of CRA-reportable lending and CRA Qualified Investments in its assessment areas over 4 years, making annual donations to qualified non-profit organizations that provide

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 **9**

services in its assessment areas, locating 15% of its branches and ATMs in LMI census tracts, and providing 2,100 hours of CRA volunteer service.

CIT Bank filed its CRA Plan with the OCC in December 2015 and its comprehensive business plan in March 2016. We filed an updated business plan with the OCC in December 2016. The CRA Plan and the comprehensive business plan was each subject to review and received a non-objection by the OCC.

## **Banking Supervision and Regulation**

### *Permissible Activities*

The BHC Act limits the business of BHCs that are not financial holding companies to banking, managing or controlling banks, performing servicing activities for subsidiaries, and engaging in activities that the FRB has determined, by order or regulation, are so closely related to banking as to be a proper incident thereto. An FHC, however, may engage in other activities, or acquire and retain the shares of a company engaged in activities that are financial in nature or incidental or complementary to activities that are financial in nature as long as the FHC continues to meet the eligibility requirements for FHCs. These requirements include that the FHC and each of its U.S. depository institution subsidiaries maintain their status as "well-capitalized" and "well-managed."

A depository institution subsidiary is considered to be "well-capitalized" if it satisfies the requirements for this status discussed below under "Prompt Corrective Action." A depository institution subsidiary is considered "well-managed" if it received a composite rating and management rating of at least "satisfactory" in its most recent examination. An FHC's status will also depend upon its maintaining its status as "well-capitalized" and "well-managed" under applicable FRB regulations. If an FHC ceases to meet these capital and management requirements, the FRB's regulations provide that the FHC must enter into a non-public confidential agreement with the FRB to comply with all applicable capital and management requirements. Until the FHC returns to compliance, the FRB may impose limitations or conditions on the conduct of its activities, and the company may not commence any new non-banking financial activities permissible for FHCs or acquire a company engaged in such financial activities without prior approval of the FRB. If the company does not return to compliance within 180 days (or such extended date as agreed to with the FRB), the FRB may require divestiture of the FHC's depository institutions. BHCs and banks must also be well-capitalized and well-managed in order to acquire banks located outside their home state. An FHC will also be limited in its ability to commence non-banking financial

## Edgar Filing: CIT GROUP INC - Form 10-K

activities or acquire a company engaged in such financial activities if any of its insured depository institution subsidiaries fails to maintain a “satisfactory” rating under the CRA, as described below under “Community Reinvestment Act.”

Activities that are “financial in nature” include securities underwriting, dealing and market making, advising mutual funds and investment companies, insurance underwriting and agency, merchant banking, and activities that the FRB, in consultation with the Secretary of the Treasury, determines to be financial in nature or incidental to such financial activity. “Complementary activities” are activities that the FRB determines upon application to be complementary to a financial activity and that do not pose a safety and soundness issue. CIT is primarily engaged in activities that are permissible for a BHC, rather than the expanded activities available to an FHC.

### *Volcker Rule*

The Dodd-Frank Act limits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (*e.g.*, hedge funds and private equity funds). This statutory provision is commonly called the “Volcker Rule”. In December 2013, the federal banking agencies, the SEC, and the Commodity Futures Trading Commission (“CFTC”) adopted final rules to implement the Volcker Rule, which became effective in July 2015. The final rules are highly complex and require an extensive compliance program, including an enhanced compliance program applicable to banking entities with more than \$50 billion in total consolidated assets. In July 2016, the FRB, by order, extended the conformance period through July 2017 for investments in and relationships with so-called legacy covered funds. In December 2016, the FRB issued guidance regarding the extended conformance period for certain legacy covered funds and the process for banking entities to request an extension of the conformance period for those funds of up to an additional five years beyond the expiration of the general conformance period in July 2017. CIT does not currently anticipate that the Volcker Rule will have a material effect on its business and activities, as we have a limited amount of trading activities and fund investments. CIT has sold most of its private equity fund investments, but may incur additional costs to dispose of its remaining fund investments, which have a remaining book value of approximately \$58 million. In addition, CIT will incur additional costs to revise its policies and procedures and review its operating and monitoring systems to ensure compliance with the Volcker Rule. We cannot yet determine the precise financial impact of the rule on CIT.

### *Capital Requirements*

As a BHC, CIT is subject to consolidated regulatory capital requirements administered by the FRB. CIT Bank is subject to similar capital requirements administered by the OCC. In July 2013, the FRB, OCC, and FDIC issued a final rule (the “Basel III Final Rule”) establishing risk-based capital guidelines that are based upon the final framework for strengthening capital and liquidity regulation of the Basel Committee on Banking Supervision (the “Basel Committee”), which was released in December 2010, and revised in June 2011 (“Basel III”). The Company, as well as the Bank, became subject to the Basel III Final Rule, applying the Standardized Approach, effective January 1, 2015. Prior to January 1, 2015, the risk-based capital guidelines applicable to CIT were based upon the 1988 Capital Accord (“Basel I”) of the Basel Committee.

Although the Basel III Final Rule retained the capital components of Tier 1 capital, Tier 2 capital, and Total capital (the sum of Tier 1 and Tier 2 capital) and their related regulatory capital ratios, it implemented numerous changes in the composition of Tier 1 and Tier 2 capital and the related capital adequacy guidelines. Among other matters, the Basel III Final Rule: (i) introduces a new capital measure called “Common Equity Tier 1” (“CET1”) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specifies that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain revised requirements; (iii) mandates that most deductions/adjustments to regulatory

**Item 1: Business Overview**

---

### **Table of Contents**

## 10 CIT ANNUAL REPORT 2016

capital measures be made to CET1 and not to the other components of capital; and (iv) expands the scope of the deductions from and adjustments to capital as compared to previous regulations. For most banking organizations, the most common form of Additional Tier 1 capital instruments is non-cumulative perpetual preferred stock and the most common form of Tier 2 capital instruments is subordinated notes, which are subject to the Basel III Final Rule specific requirements. The Company does not

## Edgar Filing: CIT GROUP INC - Form 10-K

currently have either of these forms of capital outstanding.

The Basel III Final Rule provides for a number of deductions from and adjustments to CET1. These include, for example, goodwill, other intangible assets, and deferred tax assets (“DTAs”) that arise from net operating loss and tax credit carry-forwards net of any related valuation allowance. Also, mortgage servicing rights, DTAs arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial institutions must be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. The non-DTA related deductions (goodwill, intangibles, etc.) may be reduced by netting with any associated deferred tax liabilities (“DTLs”). As for the DTA deductions, the netting of any remaining DTL must be allocated in proportion to the DTAs arising from net operating losses and tax credit carry-forward and those arising from temporary differences.

Implementation of some of these deductions to CET1 began on January 1, 2015, and will be phased-in over a 4-year period (40% effective January 1, 2015, and adding 20% per year thereafter until January 1, 2018).

In addition, under the Basel I general risk-based capital rules, the effects of certain components of accumulated other comprehensive income (“AOCI”) included in shareholders’ equity (for example, mark-to-market of securities held in the available-for-sale (“AFS”) portfolio) under U.S. GAAP are reversed for the purpose of determining regulatory capital ratios. Pursuant to the Basel III Final Rule, the effects of these AOCI items are not excluded; however, non-advanced approaches banking organizations, including the Company and CIT Bank, may make a one-time permanent election to continue to exclude the AOCI items excluded under Basel I. Both the Company and CIT Bank have elected to exclude AOCI items from regulatory capital ratios. The Basel III Final Rule also precludes certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies’ Tier 1 capital. The Company did not have any hybrid securities outstanding at December 31, 2016.

Under the Basel III Final Rule, and previously under Basel I capital guidelines, assets and certain off-balance sheet commitments and obligations are converted into risk-weighted assets against which regulatory capital is measured. The Basel III Final Rule prescribed a new approach for risk weightings for BHCs and banks that follow the Standardized approach, which applies to CIT. This approach expands the risk-weighting categories from the previous four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the exposure, ranging from 0% for U.S. government, to as high as 1,250% for such exposures as credit-enhancing interest-only strips or unsettled security/commodity transactions.

Per the Basel III Final Rule, the minimum capital ratios for CET1, Tier 1 capital, and Total capital are 4.5%, 6.0% and 8.0%. The Basel III Final Rule introduces a new “capital conservation buffer”, composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. This buffer was implemented beginning January 1, 2016, at the 0.625% level, and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019. Under the previous Basel I capital guidelines, the Company and CIT Bank were required to maintain Tier 1 and Total capital equal to at least 4.0% and 8.0%, respectively, of total risk-weighted assets to be considered “adequately capitalized”, or 6.0% and 10.0%, respectively, to be considered “well capitalized.”

CIT will be required to maintain risk-based capital ratios at January 1, 2019 as follows:

<b>Minimum Capital Requirements — January 1, 2019</b>			
	<b>CET 1</b>	<b>Tier 1 Capital</b>	<b>Total Capital</b>
Stated minimum ratios	4.5%	6.0%	8.0%
Capital conservation buffer (fully phased-in)	2.5%	2.5%	2.5%
Effective minimum ratios (fully phased-in)	7.0%	8.5%	10.5%
Effective minimum ratios (as of December 31, 2016)	5.125%	6.625%	8.625%

With respect to CIT Bank, the Basel III Final Rule revises the “prompt corrective action” (“PCA”) regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the previous 6%); and (iii) eliminating the prior provision that a bank with a composite supervisory rating of 1 may have a 3%

## Edgar Filing: CIT GROUP INC - Form 10-K

leverage ratio and requiring a minimum Tier 1 leverage ratio of 5.0%. The Basel III Final Rule does not change the total risk-based capital requirement for any PCA category. See “*Prompt Corrective Action*” below.

As non-advanced approaches banking organizations, the Company and CIT Bank will not be subject to the Basel III Final Rule’s countercyclical buffer or the supplementary leverage ratio.

### Table of Contents

CIT ANNUAL REPORT 2016 11

The Company and CIT Bank meet all capital requirements under the Basel III Final Rule, including the capital conservation buffer, on a fully phased in basis as if such requirements were currently effective. The following table presents CIT’s and CIT Bank’s capital ratios as of December 31, 2016, calculated under the fully phased-in Basel III Final Rule — Standardized approach.

#### **Basel III Capital Ratios — Fully Phased-in Standardized Approach As of December 31, 2016** (dollars in millions)

	CIT		CIT Bank	
	Actuals	Requirement	Actuals	Requirement
Capital				
CET1	\$ 9,003.7		\$ 4,566.6	
Tier 1	9,003.7		4,566.6	
Total	9,480.0		4,996.9	
Risk-weighted assets	65,068.2		34,696.4	
Adjusted quarterly average assets	64,902.5		42,250.7	
Capital ratios				
CET1	13.8 %	7.0 % <sup>(2)</sup>	13.2 %	7.0 % <sup>(2)</sup>
Tier 1	13.8 %	8.5 % <sup>(2)</sup>	13.2 %	8.5 % <sup>(2)</sup>
Total	14.6 %	10.5 % <sup>(2)</sup>	14.4 %	10.5 % <sup>(2)</sup>
Leverage	13.9 %	4.0 %	10.8 %	4.0 %

<sup>(1)</sup> *Basel III Final Rule calculated under the Standardized Approach on a fully phased-in basis that will be required effective January 1, 2019.*

<sup>(2)</sup> *Required ratios under the Basel III Final Rule include the post-transition minimum capital conservation buffer effective January 1, 2019.*

#### *Enhanced Prudential Standards for Large Bank Holding Companies*

Under Sections 165 and 166 of the Dodd-Frank Act, the FRB has promulgated regulations imposing enhanced prudential supervision requirements on BHCs with total consolidated assets of \$50 billion or more. CIT exceeded the \$50 billion threshold as of September 30, 2015, and therefore is subject to certain of these requirements, including (i) capital planning and company-run and supervisory stress testing requirements, under the FRB’s Comprehensive Capital Analysis and Review (“CCAR”) process, (ii) enhanced risk management and risk committee requirements, (iii) company-run liquidity stress testing and the requirement to hold a buffer of highly liquid assets based on projected funding needs for various time horizons, including 30, 60, and 90 days, (iv) the modified liquidity coverage ratio, which requires that we hold a sufficient level of high quality liquid assets to meet our projected net cash outflows over a 30 day stress horizon, (v) recovery and resolution planning (also referred to as the “Living Will”), and (vi) enhanced reporting requirements. These additional requirements will be phased in over time, through March 2017. We incurred



## Edgar Filing: CIT GROUP INC - Form 10-K

additional costs in 2016 and expect to incur further costs in 2017 to implement these requirements, and ongoing costs thereafter to continue to comply with these enhanced prudential supervision requirements.

### *Stress Test and Capital Plan Requirements*

As a BHC with greater than \$50 billion of total consolidated assets, CIT is subject to enhanced prudential regulation under the Dodd-Frank Act. Among other requirements, CIT is subject to capital planning and stress testing requirements under the FRB's CCAR process, which requires BHCs with greater than \$50 billion of total consolidated assets to submit an annual capital plan and demonstrate that they can meet required capital levels over a nine quarter planning horizon, after taking into account the impact of stresses based on both supervisory and company-specific scenarios. The FRB also evaluates capital plans submitted by certain BHCs based on qualitative criteria, such as unresolved supervisory issues or concerns with the assumptions, analysis, and methodologies of the capital plan. However, as the result of a final rule adopted by the FRB in January 2017, beginning with the 2017 CCAR cycle, the FRB will no longer evaluate capital plans submitted by BHCs that have total consolidated assets of at least \$50 billion but less than \$250 billion and nonbank assets of less than \$75 billion (referred to as "large and noncomplex firms"), such as CIT, based on qualitative criteria and the FRB may no longer object to capital plans submitted by large and noncomplex firms on the basis of qualitative criteria. Each of the BHCs participating in the CCAR process is also required to collect and report certain related data to the FRB on a quarterly basis to allow the FRB to monitor progress against the approved capital plans.

In the third quarter of 2017, the FRB will assess the strength of each large and noncomplex firm's capital planning processes through a narrow and more targeted horizontal review of specific areas of capital planning, referred to as the Horizontal Capital Review. This Horizontal Capital Review is meant to replace the CCAR qualitative assessment for large and noncomplex firms and will be conducted as part of the normal supervisory process, with any supervisory findings or concerns addressed through supervisory communications.

In addition to other limitations, our ability to make any capital distribution (including dividends and share repurchases) is contingent upon the FRB's non-objection of our capital plan. Should the FRB object to a capital plan, a BHC may not make any capital distributions other than those capital distributions which the FRB has indicated its non-objection in writing. The CCAR process will be fully implemented for CIT beginning with the 2017 CCAR cycle. Upon full implementation of the CCAR process in 2017, the results of our CCAR review will be made public.

Beginning in 2017, the enhanced prudential standards under the Dodd-Frank Act also require CIT and CIT Bank to conduct company-run stress tests ("DFAST") to assess the impact of stress scenarios

### **Item 1: Business Overview**

---

### **Table of Contents**

#### **12 CIT ANNUAL REPORT 2016**

(including supervisor-provided baseline, adverse, and severely adverse scenarios and, for CIT, one company-defined baseline scenario and at least one company-defined stress scenario) on their consolidated earnings, losses, and capital over a nine-quarter planning horizon, taking into account their current condition, risks, exposures, strategies, and activities. While CIT Bank is only required to conduct an annual stress test, CIT must conduct both an annual and a mid-cycle stress test. Both CIT and CIT Bank must submit their annual DFAST results to their respective regulators by July 31, 2017, with public disclosure of summary stress test results between October 15 and October 31, 2017.

### *Liquidity Requirements*

Historically, regulation and monitoring of bank and BHC liquidity has been addressed as a supervisory matter, without required formulaic measures.

The Basel III final framework requires banks and BHCs to measure their liquidity against specific liquidity tests. One test, referred to as the liquidity coverage ratio ("LCR"), is designed to ensure that the banking entity maintains an adequate level of unencumbered

## Edgar Filing: CIT GROUP INC - Form 10-K

high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon under an acute liquidity stress scenario, with a phased implementation process starting January 1, 2015, and complete implementation by January 1, 2019. The other, referred to as the net stable funding ratio ("NSFR"), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. The NSFR is expected to be implemented as a minimum standard by January 1, 2018.

On September 3, 2014, the banking regulators adopted a joint final rule implementing a comprehensive version of the LCR to large and internationally active U.S. banking organizations, which include banks with total consolidated assets of \$250 billion or more or total consolidated on-balance sheet foreign exposure of \$10 billion or more, or any depository institution with total consolidated assets of \$10 billion or more that is a consolidated subsidiary of either of the foregoing. These institutions are required to hold minimum amounts of high-quality, liquid assets, such as central bank reserves and government and corporate debt that can be converted easily and quickly into cash. Each institution is required to hold high quality, liquid assets in an amount equal to or greater than its projected net cash outflows minus its projected cash inflows capped at 75% of projected cash outflows for a 30-day stress period. The firms must calculate their LCR each business day.

The final rule applies a modified version of the LCR requirements to bank holding companies such as CIT with total consolidated assets of greater than \$50 billion but less than \$250 billion. The modified version of the LCR requirement only requires the LCR calculation to be performed on the last business day of each month and sets the denominator (that is, the calculation of net cash outflows) for the modified version at 70% of the denominator as calculated under the most comprehensive version of the rule applicable to larger institutions. As of January 1, 2017, the final rule has been fully phased in and CIT's LCR was above the minimum requirement as of that date. In December 2016, the FRB issued a final rule that requires BHCs, such as CIT, to disclose publicly, on a quarterly basis, quantitative and qualitative information about certain components of its LCR, beginning on October 1, 2018 for BHCs subject to the modified version of the LCR requirement such as CIT.

In May 2016, the U.S. bank regulatory agencies issued a proposed rule that would implement the NSFR test called for by the Basel III final framework for large U.S. banking organizations. Under the proposed rule, which would take effect on January 1, 2018, CIT would be subject to a modified NSFR standard which would require it to maintain a NSFR of 0.7 on an ongoing basis, calculated by dividing its available stable funding ("ASF") by its required stable funding ("RSF"). Under the proposed rule, a banking organization's ASF would be calculated by applying standard weightings to its equity and liabilities based on their expected stability over a one-year period and its RSF would be calculated by applying specified standardized weightings to its assets, derivative exposures and commitments based on their liquidity characteristics over the same one-year period. We currently expect that the proposed rule will not have a material impact on our liquidity needs.

In addition to the LCR and NSFR, the final rules issued by the FRB setting forth enhanced prudential supervision requirements under Sections 165 and 166 of the Dodd-Frank Act also require BHCs with total consolidated assets of greater than \$50 billion but less than \$250 billion, like CIT, to conduct company-run liquidity stress testing, hold a buffer of highly liquid assets based on projected stressed funding needs for various time horizons and comply with enhanced reporting requirements (such as collateral and intraday liquidity monitoring). These additional requirements will be fully phased in for CIT by the end of March 2017.

### *Resolution Planning*

As required by the Dodd-Frank Act, the FRB and FDIC have jointly issued a final rule that requires certain organizations, including BHCs with consolidated assets of \$50 billion or more, to report periodically to regulators a resolution plan for their rapid and orderly resolution in the event of material financial distress or failure. Such a resolution plan must, among other things, ensure that its depository institution subsidiaries are adequately protected from risks arising from its other subsidiaries. The final rule sets specific standards for the resolution plans, including requiring a detailed resolution strategy, a description of the range of specific actions the company proposes to take in resolution, and an analysis of the company's organizational structure, material entities, interconnections and interdependencies, and management information systems, among other elements.

### *Orderly Liquidation Authority*

The Dodd-Frank Act created the Orderly Liquidation Authority ("OLA"), a resolution regime for systemically important non-bank financial companies, including BHCs and their non-bank affiliates, under which the FDIC may be appointed receiver to liquidate such a company upon a determination by the Secretary of the U.S. Department of the Treasury (Treasury), after consultation with the President, with support by a supermajority recommendation from the FRB and, depending on the type of entity, the approval of the director of the Federal Insurance Office, a supermajority vote of the SEC, or a supermajority vote of the FDIC, that the company is in danger of default, that such default presents a systemic risk to U.S. financial stability, and that the company should

**Table of Contents**

be subject to the OLA process. This resolution authority is similar to the FDIC resolution model for depository institutions, with certain modifications to reflect differences between depository institutions and non-bank financial companies and to reduce disparities between the treatment of creditors' claims under the U.S. Bankruptcy Code and in an orderly liquidation authority proceeding compared to those that would exist under the resolution model for insured depository institutions.

An Orderly Liquidation Fund will fund OLA liquidation proceedings through borrowings from the Treasury and risk-based assessments made, first, on entities that received more in the resolution than they would have received in liquidation to the extent of such excess, and second, if necessary, on BHCs with total consolidated assets of \$50 billion or more, any non-bank financial company supervised by the FRB, and certain other financial companies with total consolidated assets of \$50 billion or more. If an orderly liquidation is triggered, CIT could face assessments for the Orderly Liquidation Fund. We do not yet have an indication of the level of such assessments. Furthermore, were CIT to become subject to the OLA, the regime may also require changes to CIT's structure, organization and funding pursuant to the guidelines described above.

*Prompt Corrective Action*

The Federal Deposit Insurance Corporation Improvement Act of 1991, as amended (the "FDICIA"), among other things, establishes five capital categories for FDIC-insured banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The following table sets forth the required capital ratios to be deemed "well capitalized" or "adequately capitalized" under regulations in effect at December 31, 2016.

	<b>Prompt Corrective Action Ratios — December 31, 2016</b>	
	<b>Well Capitalized<sup>(1)</sup></b>	<b>Adequately Capitalized</b>
CET 1	6.5%	4.5%
Tier 1 Capital	8.0%	6.0%
Total Capital	10.0%	8.0%
Tier 1 Leverage <sup>(2)</sup>	5.0%	4.0%

<sup>(1)</sup> A "well capitalized" institution also must not be subject to any written agreement, order or directive to meet and maintain a specific capital level for any capital measure.

<sup>(2)</sup> As a standardized approach banking organization, CIT Bank is not subject to the 3% supplemental leverage ratio requirement, which becomes effective January 1, 2018.

CIT Bank's capital ratios were all in excess of minimum guidelines for well capitalized at December 31, 2016. Neither CIT nor CIT Bank is subject to any order or written agreement regarding any capital requirements.

FDICIA requires the applicable federal regulatory authorities to implement systems for "prompt corrective action" for insured depository institutions that do not meet minimum requirements. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions as the capital category of an institution declines. Undercapitalized, significantly undercapitalized and critically undercapitalized depository institutions are required to submit a capital restoration plan to their primary federal regulator. Although prompt corrective action regulations apply only to depository institutions and not to BHCs, the holding company must guarantee any such capital restoration plan in certain circumstances. The liability of the parent holding

## Edgar Filing: CIT GROUP INC - Form 10-K

company under any such guarantee is limited to the lesser of five percent of the bank's assets at the time it became "undercapitalized" or the amount needed to comply. The parent holding company might also be liable for civil money damages for failure to fulfill that guarantee. In the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent's general unsecured creditors.

Regulators take into consideration both risk-based capital ratios and other factors that can affect a bank's financial condition, including (a) concentrations of credit risk, (b) interest rate risk, and (c) risks from non-traditional activities, along with an institution's ability to manage those risks, when determining capital adequacy. This evaluation is made during the institution's safety and soundness examination. An institution may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters.

### *Acquisitions*

Federal and state laws impose notice and approval requirements for mergers and acquisitions involving depository institutions or BHCs. The BHC Act requires the prior approval of the FRB for (1) the acquisition by a BHC of direct or indirect ownership or control of more than 5% of any class of voting shares of a bank, savings association, or BHC, (2) the acquisition of all or substantially all of the assets of any bank or savings association by any subsidiary of a BHC other than a bank, or (3) the merger or consolidation of any BHC with another BHC. Prior regulatory approval is also generally required for mergers, acquisitions and consolidations involving other insured depository institutions. In reviewing acquisition and merger applications, the bank regulatory authorities will consider, among other things, the competitive effect of the transaction, financial and managerial issues, including the capital position of the combined organization, convenience and needs factors, including the applicant's CRA record, the effectiveness of the subject organizations in combating money laundering activities, and the transaction's effect on the stability of the U.S. banking or financial system. In addition, an FHC must obtain prior approval of the FRB before acquiring certain non-bank financial companies with assets exceeding \$10 billion.

### *Dividends*

CIT Group Inc. is a legal entity separate and distinct from CIT Bank and CIT's other subsidiaries. CIT provides a significant amount of funding to its subsidiaries, which is generally recorded as intercompany loans or equity investments. Most of CIT's cash inflow is comprised of interest on intercompany loans to its subsidiaries and dividends from its subsidiaries.

The ability of CIT to pay dividends on common stock may be affected by, among other things, various capital requirements, particularly the capital and non-capital standards established for depository institutions under FDICIA, which may limit the ability of CIT Bank to pay dividends to CIT. The right of CIT, its

**Item 1: Business Overview**

---

### **Table of Contents**

14 CIT ANNUAL REPORT 2016

stockholders, and its creditors to participate in any distribution of the assets or earnings of its subsidiaries is further subject to prior claims of creditors of CIT Bank and CIT's other subsidiaries.

OCC regulations impose limitations on the payment of dividends by CIT Bank. These regulations limit dividends if the total amount of all dividends (common and preferred) declared in any current year, including the proposed dividend, exceeds the total net income for the current year to date plus any retained net income for the prior two years, less the sum of any transfers required by the OCC and any transfers required to fund the retirement of any preferred stock. If the dividend in either of the prior two years exceeded that year's net income, the excess shall not reduce the net income for the three year period described above, provided the amount of excess dividends for either of the prior two years can be offset by retained net income in the current year minus three years or the current year minus four years.

## Edgar Filing: CIT GROUP INC - Form 10-K

It is the policy of the FRB that a BHC generally pay dividends on common stock out of net income available to common shareholders over the past year, only if the prospective rate of earnings retention appears consistent with capital needs, asset quality, and overall financial condition, and only if the BHC is not in danger of failing to meet its minimum regulatory capital adequacy ratios. In the current financial and economic environment, the FRB indicated that BHCs should not maintain high dividend pay-out ratios unless both asset quality and capital are very strong. A BHC should not maintain a dividend level that places undue pressure on the capital of bank subsidiaries, or that may undermine the BHC's ability to serve as a source of strength to its subsidiary bank.

We anticipate that our capital ratios reflected in the stress test calculations required of us and the capital plan that we prepare as described under "*Stress Test and Capital Requirements*", above, will be an important factor considered by the FRB in evaluating whether our proposed return of capital may be an unsafe or unsound practice. Since our total consolidated assets exceeded an average of \$50 billion for the prior four consecutive quarters, we are limited to paying dividends and repurchasing stock only in accordance with our capital plan annually submitted to the FRB under the capital plan rule.

### *Source of Strength Doctrine and Support for Subsidiary Banks*

FRB policy and federal statute require BHCs such as CIT to serve as a source of strength and to commit capital and other financial resources to subsidiary banks. This support may be required at times when CIT may not be able to provide such support without adversely affecting its ability to meet other obligations. If CIT is unable to provide such support, the FRB could instead require the divestiture of CIT Bank and impose operating restrictions pending the divestiture. Any capital loans by a BHC to any of its subsidiary banks are subordinate in right of payment to depositors and to certain other indebtedness of the subsidiary bank. If a BHC commits to a federal bank regulator that it will maintain the capital of its bank subsidiary, whether in response to the FRB's invoking its source of strength authority or in response to other regulatory measures, that commitment will be assumed by the bankruptcy trustee and the bank will be entitled to priority payment in respect of that commitment.

### *Enforcement Powers of Federal Banking Agencies*

The FRB and other U.S. banking agencies have broad enforcement powers with respect to an insured depository institution and its holding company, including the power to (i) impose cease and desist orders, substantial fines and other civil penalties, (ii) terminate deposit insurance, and (iii) appoint a conservator or receiver. Failure to comply with applicable laws or regulations could subject CIT or CIT Bank, as well as their officers and directors, to administrative sanctions and potentially substantial civil and criminal penalties.

### *FDIC Deposit Insurance*

Deposits of CIT Bank are insured by the FDIC Deposit Insurance Fund ("DIF") up to \$250,000 for each depositor. The DIF is funded by fees assessed on insured depository institutions, including CIT Bank.

For larger institutions such as CIT Bank, the FDIC uses a two scorecard system, one scorecard for most large institutions that had more than \$10 billion in assets, such as CIT Bank, and another scorecard for "highly complex" institutions that have had over \$50 billion in assets and are directly or indirectly controlled by a U.S. parent with over \$500 billion in assets. Each scorecard has a performance score and a loss-severity score that is combined to produce a total score, which is translated into an initial assessment rate. In calculating these scores, the FDIC utilizes a bank's capital level and CAMELS ratings (a composite regulatory rating based on Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk) and certain financial measures designed to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score, up or down based upon significant risk factors that are not adequately captured in the scorecard. The total score translates to an initial base assessment rate on a non-linear, sharply increasing scale. As of July 1, 2016, for large institutions, such as CIT Bank, the initial base assessment rate ranges from three to thirty basis points (0.03% – 0.30%) on an annualized basis. After the effect of potential base rate adjustments, the total base assessment rate could range from one and a half to forty basis points (0.015% – 0.40%) on an annualized basis.

In March 2016, the FDIC adopted a final rule increasing the reserve ratio for the DIF to 1.35% of total insured deposits. The rule imposes a surcharge on the quarterly assessments of insured depository institutions with total consolidated assets of \$10 billion or more, such as CIT Bank, beginning the third quarter of 2016 and continuing through the earlier of the quarter that the reserve ratio first reaches or exceeds 1.35% and December 31, 2018. The FDIC will, at least semi-annually, update its income and loss projections for the DIF and, if necessary, propose rules to further increase assessment rates. Also, an institution must pay an additional premium (the depository institution debt adjustment) equal to fifty basis points (0.50%) on every dollar above 3% of an institution's Tier 1 capital of long-term, unsecured debt held that was issued by another insured depository institution (excluding debt guaranteed under the Temporary Liquidity Guarantee Program). For the year ended December 31, 2016, CIT Bank's FDIC deposit insurance assessment, including risk-based premium assessments, totaled \$78 million.

---

**Table of Contents**

CIT ANNUAL REPORT 2016 15

Under the Federal Deposit Insurance Act ("FDIA"), the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

*Transactions with Affiliates*

Transactions between CIT Bank and its subsidiaries, and CIT and its other subsidiaries and affiliates, are regulated pursuant to Sections 23A and 23B of the Federal Reserve Act. These regulations limit the types and amounts of transactions (including loans due and credit extensions from CIT Bank or its subsidiaries to CIT and its other subsidiaries and affiliates) as well as restrict certain other transactions (such as the purchase of existing loans or other assets by CIT Bank or its subsidiaries from CIT and its other subsidiaries and affiliates) that may otherwise take place and generally require those transactions to be on an arms-length basis and, in the case of extensions of credit, be secured by specified amounts and types of collateral. These regulations generally do not apply to transactions between CIT Bank and its subsidiaries.

During 2016, CIT Bank purchased approximately \$445 million of Rail operating lease equipment from CIT and sold Commercial Air loans and leases totaling approximately \$600 million to CIT in anticipation of the pending sale of Commercial Air. CIT Bank maintains sufficient collateral in the form of cash deposits and pledged loans to cover any extensions of credit to its affiliates.

The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization and changes the procedure for seeking exemptions from these restrictions. For example, the Dodd-Frank Act expanded the definition of a "covered transaction" to include derivatives transactions and securities lending transactions with a non-bank affiliate under which a bank (or its subsidiary) has credit exposure. Collateral requirements will apply to such transactions as well as to certain repurchase and reverse repurchase agreements.

*Safety and Soundness Standards*

FDICIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation, compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the "prompt corrective action" provisions of the FDIA. See "*Prompt Corrective Action*" above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil monetary penalties.

*Insolvency of an Insured Depository Institution*

If the FDIC is appointed the conservator or receiver of an insured depository institution, upon its insolvency or in certain other events, the FDIC has the power:

## Edgar Filing: CIT GROUP INC - Form 10-K

- to transfer any of the depository institution's assets and liabilities to a new obligor without the approval of the depository institution's creditors;
- to enforce the terms of the depository institution's contracts pursuant to their terms; or
- to repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmance or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution.

In addition, under federal law, the claims of holders of deposit liabilities, including the claims of the FDIC as the guarantor of insured depositors, and certain claims for administrative expenses against an insured depository institution would be afforded priority over other general unsecured claims against such an institution, including claims of debt holders of the institution, in the liquidation or other resolution of such an institution by any receiver. As a result, whether or not the FDIC ever seeks to repudiate any debt obligations of CIT Bank, the debt holders would be treated differently from, and could receive, if anything, substantially less than CIT Bank's depositors.

### *Consumer Protection Regulation*

Retail banking activities are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by national banks are subject to federal laws concerning interest rates. Loan operations are also subject to numerous laws applicable to credit transactions, such as:

- the federal Truth-In-Lending Act and Regulation Z, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act and Regulation C, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

### Item 1: Business Overview

---

### **Table of Contents**

#### 16 CIT ANNUAL REPORT 2016

- the Equal Credit Opportunity Act and Regulation B, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the Fair Credit Reporting Act and Regulation V, governing the use and provision of information to consumer reporting agencies;
- the Fair Debt Collections Practices Act, governing the manner in which consumer debts may be collected by debt collectors;
- the Servicemembers Civil Relief Act, applying to all debts incurred prior to commencement of active military service (including credit card and other open-end debt) and limiting the amount of interest, including service and renewal charges and any other fees or charges (other than bona fide insurance) that is related to the obligation or liability, as well as affording other protections, including with respect to foreclosures; and
- the guidance of the various federal agencies charged with the responsibility of implementing such laws; and

## Edgar Filing: CIT GROUP INC - Form 10-K

- the Real Estate Settlement Procedures Act and Regulation X, requiring disclosures regarding the nature and costs of the real estate settlement process and governing transfers of servicing, escrow accounts, force-placed insurance, and general servicing policies.

Deposit operations also are subject to consumer protection laws and regulation, such as:

- the Truth in Savings Act and Regulation DD, which require disclosure of deposit terms to consumers;
- Regulation CC, which relates to the availability of deposit funds to consumers;
- the Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- the Electronic Funds Transfer Act and Regulation E, which governs electronic deposits to and withdrawals from deposit accounts and customer' rights and liabilities arising from the use of automated teller machines and other electronic banking services, including remittance transfers.

CIT and CIT Bank are also subject to certain other non-preempted state laws and regulations designed to protect consumers. Additionally, CIT Bank is subject to a variety of regulatory and contractual obligations imposed by credit owners, insurers and guarantors of the mortgages we originate and service. This includes, but is not limited to, Fannie Mae, Freddie Mac, Ginnie Mae, the Federal Housing Finance Agency ("FHFA"), and the Federal Housing Administration ("FHA"). We are also subject to the requirements of the Home Affordable Modification Program ("HAMP"), Home Affordable Refinance Program ("HARP") and other government programs in which we participate.

### *Consumer Financial Protection Bureau Supervision ("CFPB")*

The CFPB is authorized to interpret and administer, and to issue orders or guidelines pursuant to, any federal consumer financial laws, as well as to directly examine and enforce compliance with those laws by depository institutions with assets of \$10 billion or more, such as CIT Bank. The CFPB has jurisdiction over CIT, CIT Bank, and other subsidiaries with respect to matters that relate to these laws and consumer financial services and products and periodically conducts examinations. The CFPB undertook numerous rulemaking and other initiatives in 2016. The CFPB's rulemaking, examination and enforcement authority has and will continue to significantly affect financial institutions involved in the provision of consumer financial products and services, including CIT, CIT Bank and CIT's other subsidiaries. These activities may limit the types of financial services and products CIT may offer, which in turn may reduce CIT's revenues.

As a result of various requirements of the Dodd-Frank Act, CFPB has adopted a number of significant rules that implement amendments to the Equal Credit Opportunity Act, the Truth in Lending Act and the Real Estate Settlement Procedures Act. The final rules require banks to, among other things: (a) develop and implement procedures to ensure compliance with a new "ability to repay" requirement and identify whether a loan meets a new definition for a "qualified mortgage"; (b) implement new or revised disclosures, policies and procedures for servicing mortgages including, but not limited to, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower's principal residence; and (c) comply with additional rules and restrictions regarding mortgage loan originator compensation and the qualification and registration or licensing of loan originators.

The CFPB and other federal agencies have also jointly finalized rules imposing credit risk retention requirements on lenders originating certain mortgage loans, which require sponsors of a securitization to retain at least 5 percent of the credit risk of assets collateralizing asset-backed securities. Residential mortgage-backed securities qualifying as "qualified residential mortgages" will be exempt from the risk retention requirements. The final rule maintains revisions to the proposed rules that cover degrees of flexibility for meeting risk retention requirements and the relationship between "qualified mortgages" and "qualified residential mortgages." These rules and any other new regulatory requirements promulgated by the CFPB could require changes to the Company's mortgage origination and servicing businesses, result in increased compliance costs and affect the streams of revenue of such businesses.

Over the last few years, the reverse mortgage business has been subject to substantial amendments to federal laws, regulations and administrative guidance. The U.S. Department of Housing and Urban Development ("HUD"), through the FHA, amended or clarified both origination and servicing requirements related to Home Equity Conversion Mortgages ("HECMs") through a series of issuances during 2015 and 2014. These program changes related to advertising, restrictions on loan provisions, limitations on



payment methods, new underwriting requirements, revised principal limits, revised financial assessment and property charge requirements, and the treatment of non-borrowing spouses.

#### *Community Reinvestment Act*

The CRA requires depository institutions like CIT Bank to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice by, among other things, providing credit to low-and moderate-income individuals and communities. The CRA does not establish specific lending

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 17

requirements or programs for depository institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings, which are made available to the public. In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire any company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least "satisfactory" in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering approval of applications to acquire, merge, or consolidate with another banking institution or its holding company, to establish a new branch office that will accept deposits or to relocate an office, and such record may be the basis for denying the application. CIT Bank received a rating of "Satisfactory" on its most recent CRA examination by the OCC.

#### *Incentive Compensation*

In June 2010, the federal banking agencies issued comprehensive final guidance intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act discussed below.

During the second quarter of 2016, as required by the Dodd-Frank Act, the federal banking agencies and the SEC proposed revised rules on incentive-based payment arrangements at specified regulated entities having at least \$1 billion in total assets (including CIT and CIT Bank). The proposed revised rules would establish general qualitative requirements applicable to all covered entities, additional specific requirements for entities with total consolidated assets of at least \$50 billion, such as CIT, and further, more stringent requirements for those with total consolidated assets of at least \$250 billion. The general qualitative requirements include (i) prohibiting incentive arrangements that encourage inappropriate risks by providing excessive compensation; (ii) prohibiting incentive arrangements that encourage inappropriate risks that could lead to a material financial loss; (iii) establishing requirements for performance measures to appropriately balance risk and reward; (iv) requiring board of director oversight of incentive arrangements; and (v) mandating appropriate record-keeping. For larger financial institutions, including CIT, the proposed revised rules would also introduce additional requirements applicable only to "senior executive officers" and "significant risk-takers" (as defined in the proposed rules), including (i) limits on performance measures and leverage relating to performance targets; (ii) minimum deferral periods; and (iii) subjecting incentive compensation to possible downward adjustment, forfeiture and clawback. If the rules are adopted in the form proposed, they may restrict CIT's flexibility with respect to the manner in which it structures compensation for its executives.

#### *Anti-Money Laundering ("AML") and Economic Sanctions*

## Edgar Filing: CIT GROUP INC - Form 10-K

In the U.S., the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001, as amended, imposes significant obligations on financial institutions, including banks, to detect and deter money laundering and terrorist financing, including requirements to implement AML programs, verify the identity of customers that maintain accounts, file currency transaction reports, and monitor and report suspicious activity to appropriate law enforcement or regulatory authorities. Anti-money laundering laws outside the U.S. contain similar requirements to implement AML programs. The Company has implemented policies, procedures, and internal controls that are designed to comply with all applicable AML laws and regulations. The Company has also implemented policies, procedures, and internal controls that are designed to comply with the regulations and economic sanctions programs administered by the U.S. Treasury's Office of Foreign Assets Control ("OFAC"), which administers and enforces economic and trade sanctions against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy, or economy of the U.S., as well as sanctions based on United Nations and other international mandates.

### Anti-corruption

The Company is subject to the Foreign Corrupt Practices Act ("FCPA"), which prohibits offering, promising, giving, or authorizing others to give anything of value, either directly or indirectly, to a non-U.S. government official in order to influence official action or otherwise gain an unfair business advantage, such as to obtain or retain business. The Company is also subject to applicable anti-corruption laws in the jurisdictions in which it operates, such as the U.K. Bribery Act, which generally prohibits commercial bribery, the receipt of a bribe, and the failure to prevent bribery by an associated person, in addition to prohibiting improper payments to foreign government officials. The Company has implemented policies, procedures, and internal controls that are designed to comply with such laws, rules, and regulations.

### Privacy Provisions and Customer and Client Information

Certain aspects of the Company's business are subject to legal requirements concerning the use and protection of customer information, including those adopted pursuant to Gramm-Leach-Bliley Act ("GLBA") and the Fair and Accurate Credit Transactions Act of 2003 in the U.S., the E.U. Data Protection Directive, and various laws in Asia and Latin America. Federal banking regulators, as required under the GLBA, have adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties. The

## Item 1: Business Overview

---

### Table of Contents

## 18 CIT ANNUAL REPORT 2016

privacy provisions of the GLBA affect how consumer information is transmitted through diversified financial services companies and conveyed to outside vendors. Federal financial regulators have issued regulations under the Fair and Accurate Credit Transactions Act that have the effect of increasing the length of the waiting period, after privacy disclosures are provided to new customers, before information can be shared among different affiliated companies for the purpose of cross-selling products and services between those affiliated companies. In many foreign jurisdictions, the Company is also restricted from sharing customer or client information with third party non-affiliates.

### Other Regulations

In addition to U.S. banking regulation, our operations are subject to supervision and regulation by other federal, state, and various foreign governmental authorities. Additionally, our operations may be subject to various laws and judicial and administrative decisions. 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;

## Edgar Filing: CIT GROUP INC - Form 10-K

- 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.

Our Aerospace, Rail, Maritime, and other equipment financing operations are subject to various laws, rules, and regulations administered by authorities in jurisdictions where we do business. In the U.S., our equipment leasing operations, including for aircraft, railcars, ships, and other equipment, are subject to rules and regulations relating to safety, operations, maintenance, and mechanical standards promulgated by various federal and state agencies and industry organizations, including the U.S. Department of Transportation, the Federal Aviation Administration, the Federal Railroad Administration, the Association of American Railroads, the Maritime Administration, the U.S. Coast Guard, and the U.S. Environmental Protection Agency. In addition, state agencies regulate some aspects of rail and maritime operations with respect to health and safety matters not otherwise preempted by federal law.

Each of CIT's insurance subsidiaries is licensed and regulated in the states in which it conducts insurance business. The extent of such regulation varies, but most jurisdictions have laws and regulations governing the financial aspects and business conduct of insurers. State laws in the U.S. grant insurance regulatory authorities broad administrative powers with respect to, among other things: licensing companies and agents to transact business; establishing statutory capital and reserve requirements and the solvency standards that must be met and maintained; regulating certain premium rates; reviewing and approving policy forms; regulating unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements; approving changes in control of insurance companies; restricting the payment of dividends and other transactions between affiliates; and regulating the types, amounts and valuation of investments. Each insurance subsidiary is required to file reports, generally including detailed annual financial statements, with insurance regulatory authorities in each of the jurisdictions in which it does business, and its operations and accounts are subject to periodic examination by such authorities.

Changes to laws of states and countries in which we do business could affect the operating environment in substantial and unpredictable ways. We cannot accurately predict whether such changes will occur or, if they occur, the ultimate effect they would have upon our financial condition or results of operations.

---

## WHERE YOU CAN FIND MORE INFORMATION

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as our annual Proxy Statements, may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549. Information on the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at [www.sec.gov](http://www.sec.gov), on which interested parties can electronically access the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as our Proxy Statements.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as our annual Proxy Statements, are available free of charge on the Company's Internet site at [www.cit.com](http://www.cit.com) as soon as reasonably practicable after such materials are electronically filed or furnished with the SEC. Copies of our Corporate Governance Guidelines, the Charters of the Audit Committee, the Compensation Committee, the Nominating and Governance Committee, the Regulatory Compliance Committee, and the Risk Management Committee, and our Code of Business Conduct are available, free of charge, on our internet site at [www.cit.com/investor](http://www.cit.com/investor), and printed copies are available by contacting Investor Relations, 1 CIT Drive, Livingston, NJ 07039 or by telephone at (973) 740-5000. Information contained on our website or that can be accessed through our website is not incorporated by reference into this Form 10-K, unless we have specifically incorporated it by reference.

---

**Table of Contents**CIT ANNUAL REPORT 2016 19

---

**GLOSSARY OF TERMS**

*Accretable Yield* reflects the excess of cash flows expected to be collected (estimated fair value at acquisition date) over the recorded investment of purchase credit impaired ("PCI") loans and investments (defined below) and is recognized in interest income using an effective yield method over the expected remaining life. The accretable yield is affected by changes in interest rate indices for variable rate PCI loans, changes in prepayment assumptions and changes in expected principal and interest payments and collateral values.

*Assets Held for Sale* ("AHFS") include loans and operating lease equipment that we no longer have the intent or ability to hold until maturity. AHFS could also include a component of goodwill associated with portfolios or businesses held for sale.

*Available-for-sale* ("AFS") is a classification that pertains to debt and equity securities. We classify these securities as AFS when they are not considered trading securities, securities carried at fair value, or held-to-maturity securities. AFS securities are included in investment securities in the balance sheet.

*Average Earning Assets* ("AEA") is computed using month end balances and is the average of earning assets (defined below). We use this average for certain key profitability ratios, including return on AEA, Net Finance Revenue as a percentage of AEA and operating expenses as a percentage of AEA for the respective period.

*Average Finance Receivables* ("AFR") is computed using month end balances and is the average of finance receivables (defined below), which does not include amounts held for sale. We use this average to measure the rate of net charge-offs for the respective period.

*Average Operating Leases* ("AOL") is computed using month end balances and is the average of operating lease equipment, which does not include amounts held for sale. We use this average to measure the rate of return on our operating lease portfolio for the respective period.

*Covered Loans* are loans that CIT may be reimbursed for a portion of future losses under the terms of loss sharing agreements (defined below) with the FDIC. See Indemnification Assets.

*Delinquent Loan* categorization occurs when payment is not received when contractually due. Delinquent loan trends are used as a gauge of potential portfolio degradation or improvement.

*Derivative Contract* is a contract whose value is derived from a specified asset or an index, such as an interest rate or a foreign currency exchange rate. As the value of that asset or index changes, so does the value of the derivative contract. We use derivatives to manage interest rate, foreign currency or credit risks. The derivative contracts we use may include interest-rate swaps, interest rate caps, cross-currency swaps, foreign exchange forward contracts, and credit default swaps.

*Earning Assets* is the sum of finance receivables (defined below), operating lease equipment, net, financing and leasing assets held for sale, interest-bearing cash, investment securities and securities purchased under agreements to resell less the credit balances of factoring clients as of a specific date.

*Economic Value of Equity* ("EVE") measures the net impact of hypothetical changes on the value of equity by assessing the economic value of assets, liabilities and derivatives.

*FICO Score* is a credit bureau-based industry standard score developed by the Fair Isaac Corporation (currently named FICO) that predicts the likelihood of borrower default. We use FICO scores in underwriting and assessing risk in our consumer lending

portfolio.

*Finance Receivables* include loans, capital lease receivables, factoring receivables and rent receivable on operating lease equipment, and does not include amounts contained within AHFS. In certain instances, we use the term “Loans” synonymously, as presented on the balance sheet.

*Financing and Leasing Assets* (“FLA”) include finance receivables, operating lease equipment, net, and AHFS, all measured as of a specific date.

*Gross Yield* is calculated as finance revenue divided by AEA and derives the revenue yield generated over the respective period.

*Indemnification Assets* relate to asset purchases completed by OneWest Bank, in which the FDIC indemnified OneWest Bank prior to its acquisition by CIT against certain future losses in accordance with the Loss Sharing Agreements, as defined below. The indemnification assets were acquired by CIT in connection with the OneWest Transaction.

*Interest income* includes interest earned on finance receivables, cash balances, debt investments and dividends on investments.

*Lease — capital* is an agreement in which the party who owns the property (lessor), which is CIT as part of our finance business, permits another party (lessee), which is our customer, to use the property with substantially all of the economic benefits and risks of asset ownership passed to the lessee.

*Lease — operating* is a lease in which CIT retains ownership of the asset (operating lease equipment, net), collects rental payments, recognizes depreciation on the asset, and retains the risks of ownership, including obsolescence.

*Loan-to-Value Ratio* (“LTV”) is a calculation of a loan’s collateral coverage that is used in underwriting and assessing risk in our lending portfolio. LTV at any point in time is the result of the total loan obligations secured by collateral divided by the fair value of the collateral.

*Loss Sharing Agreements* are agreements in which the FDIC indemnified OneWest Bank against certain future losses. See Indemnification Assets defined above. The loss sharing agreements generally require CIT to obtain FDIC approval prior to transferring or selling loans and related indemnification assets. Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., charge-off of loan balance or liquidation of collateral). Reimbursements approved by the FDIC usually are received within 60 days of submission. Receivables related to these indemnification assets are referred to as Covered Loans.

**Item 1: Business Overview**

---

## **Table of Contents**

**20** CIT ANNUAL REPORT 2016

*Lower of Cost or Fair Value* relates to the carrying value of an asset. The cost refers to the current book balance of certain assets, such as held for sale assets, and if that balance is higher than the fair value, an impairment charge is reflected in the current period statement of income.

*Measurement Period* is the period of time that an acquirer has to adjust provisional amounts assigned to acquired assets or liabilities. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure various items in a business combination.

*Net Efficiency Ratio* is a non-GAAP measure that measures the level of operating expenses to our revenue generation over a period of time. It is calculated by dividing operating expenses, excluding intangible assets amortization, goodwill impairment, and restructuring charges, by Total Net Revenue (defined below). This calculation may not be similar to other financial institutions’ ratio due to the inclusion of operating lease revenue and associated expenses, and the exclusion of the noted items.

## Edgar Filing: CIT GROUP INC - Form 10-K

*Net Finance Revenue* (“NFR”) is a non-GAAP measurement defined as Net Interest Revenue (defined below) plus net operating lease revenue (rental income on operating leases less depreciation on operating lease equipment and maintenance and other operating lease expenses). When divided by AEA, the product is defined as Net Finance Margin (“NFM”). These are key measures used by management in the evaluation of the financial performance of our business. While other financial institutions may use net interest margin (“NIM”), defined as interest income less interest expense, we discuss NFR, which includes net operating lease revenue, due to the significant revenue impact of operating lease equipment and the fact that a portion of interest expense reflects the funding of operating lease equipment.

*Net Interest Income Sensitivity* (“NII Sensitivity”) measures the net impact of hypothetical changes in interest rates on forecasted net interest revenue and rental income from specific items, assuming a static balance sheet over a twelve-month period.

*Net Interest Revenue* reflects interest and fees on finance receivables, interest on interest-bearing cash, and interest/dividends on investments less interest expense on deposits and borrowings.

*Net Operating Loss Carryforward / Carryback* (“NOL”) is a tax concept, whereby tax losses in one year can be used to offset taxable income in other years. For example, a U.S. Federal NOL can first be carried-back and applied against taxable income recorded in the two preceding years with any remaining amount being carried-forward for the next twenty years to offset future taxable income. The rules pertaining to the number of years allowed for the carryback or carryforward of an NOL varies by jurisdiction.

*New business volume* represents the initial cash outlay related to new loan or lease equipment transactions entered into during the period. The amount includes CIT’s portion of a syndicated transaction, whether it acts as the agent or a participant, and in certain instances, it includes asset purchases from third parties.

*Non-accrual Loans* include finance receivables greater than or equal to \$500,000 that are individually evaluated and determined to be impaired, as well as finance receivables less than \$500,000 that are delinquent (generally for 90 days or more), unless it is both well secured and in the process of collection. Non-accrual loans also include finance receivables with revenue recognition on a cash basis because of deterioration in the financial position of the borrower.

*Non-performing Assets* include non-accrual loans (described above) combined with OREO and repossessed assets.

*Other Income* includes (1) factoring commissions, (2) gains and losses on sales of leasing equipment (3) fee revenues, including fees on lines of credit, letters of credit, capital market related fees, agent and advisory fees and servicing fees (4) gains and losses on loan and portfolio sales, (5) gains and losses on sales of investment securities, (6) gains and losses on sales of OREO, (7) net gains and losses on derivatives and foreign currency exchange, (8) impairment on assets held for sale, and (9) other revenues. Service charges (fee income) on deposit accounts primarily represent monthly fees based on minimum balances or transaction-based fees. Loan servicing revenue includes fees collected for the servicing of loans not owned by the Company. Other income combined with rental income on operating leases is defined as Non-interest income. Non-interest income is recognized in accordance with relevant authoritative pronouncements.

*Other Real Estate Owned* (“OREO”) is a term applied to real estate property owned by a financial institution. OREO are considered non-performing assets.

*Purchase Accounting Adjustments* (“PAA”) reflect accretable and non-accretable components of the fair value adjustments to acquired assets and liabilities assumed in a business combination. Accretable adjustments reflect the accretion or amortization of the discounts and premiums and flow through the related line items on the income statement (interest income, interest expense, non-interest income and other expenses) over the weighted average life for pool level and contractual for loan level of the assets or liabilities. The accretable adjustments are recognized using an applicable methodology, such as the effective interest method, and the retrospective method specific to reverse mortgages. These primarily relate to interest adjustments on loans and leases, as well as deposits and borrowings. The PAA for the intangible assets is amortized over the respective life of the underlying intangible asset and recorded in Operating expenses. Non-accretable adjustments, for instance credit related write-downs on loans, become adjustments to the basis of the asset and flow back through the statement of income only upon the occurrence of certain events, such as, but not limited to repayment or sale.

*Purchase Credit Impaired* (“PCI”) Loans and *PCI Investments* are loans and investments that at the time of an acquisition are considered impaired under ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality). These are determined to be impaired as there was evidence of credit deterioration since origination of the loan and investment and for which it was probable that all contractually due amounts (principal and interest) would not be collected.

*Regulatory Credit Classifications* used by CIT are as follows:

- *Pass* — These assets do not meet the criteria for classification in one of the other categories;

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 21

- *Special Mention* — These assets exhibit potential weaknesses that deserve management's close attention and if left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects;
- *Substandard* — These assets are inadequately protected by the current sound worth and paying capacity of the borrower, and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected;
- *Doubtful* — These assets have weaknesses that make collection in full unlikely on the basis of current facts, conditions, and values and
- *Loss* — These assets are considered uncollectible and of little or no value and are generally charged off.

Classified assets are rated as substandard, doubtful or loss and range from: (1) assets that exhibit a well-defined weakness and are inadequately protected by the current sound worth and paying capacity of the borrower, and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected to (2) assets with weaknesses that make collection in full unlikely on the basis of current facts, conditions, and values. Assets in this classification can be accruing or on non-accrual depending on the evaluation of these factors. Classified loans plus special mention loans are considered criticized loans.

*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 estimated useful life.

*Risk Weighted Assets* ("RWA") is the denominator to which Total Capital and Tier 1 Capital is compared to derive the respective risk based regulatory ratios. RWA is comprised of both on-balance sheet assets and certain off-balance sheet items (for example loan commitments, purchase commitments or derivative contracts). RWA items are adjusted by certain risk-weightings as defined by the regulators, which are based upon, among other things, the relative credit risk of the counterparty.

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

*Tangible Book Value* ("TBV") excludes goodwill and intangible assets from total stockholders' equity. We use TBV in measuring tangible book value per share as of a specific date.

*Common Tier 1 Capital, Tier 1 Capital and Total Capital* are regulatory capital as defined in the capital adequacy guidelines issued by the Federal Reserve. Common Tier 1 Capital is total stockholders' equity reduced by goodwill and intangible assets and adjusted by elements of other comprehensive income and other items. Tier 1 Capital is Common Tier 1 Capital plus other additional Tier 1 Capital instruments included, among other things, non-cumulative preferred stock. Total Capital consists of Common Tier 1, additional Tier 1 and, among other things, mandatory convertible debt, limited amounts of subordinated debt, other qualifying term debt, and allowance for loan losses up to 1.25% of risk weighted assets.

*Total Net Revenue* is a non-GAAP measurement and is the combination of NFR and other income.

## Edgar Filing: CIT GROUP INC - Form 10-K

*Total Return Swap* (“TRS”) is a swap where one party agrees to pay the other the “total return” of a defined underlying asset (e.g., a loan), usually in return for receiving a stream of LIBOR-based cash flows. The total returns of the asset, including interest and any default shortfall, are passed through to the counterparty. The counterparty is therefore assuming the risks and rewards of the underlying asset.

*Troubled Debt Restructuring* (“TDR”) occurs when a lender, for economic or legal reasons, grants a concession to the borrower related to the borrower’s financial difficulties that it would not otherwise consider.

*Variable Interest Entity* (“VIE”) is a corporation, partnership, limited liability company, or any other legal structure used to conduct activities or hold assets. These entities: lack sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support from other parties; have equity owners who either do not have voting rights or lack the ability to make significant decisions affecting the entity’s operations; and/or have equity owners that do not have an obligation to absorb the entity’s losses or the right to receive the entity’s returns.

*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 interest income over the life of the lending transaction.

### Item 1: Business Overview

## Table of Contents

### 22 CIT ANNUAL REPORT 2016

#### Acronyms

The following is a list of acronyms we use throughout this document:

<b>Acronym</b>	<b>Definition</b>	<b>Acronym</b>	<b>Definition</b>
AEA	Average Earnings Assets	HELOC	Home Equity Lines of Credit
AFR	Average Finance Receivables	HFI	Held for Investment
AFS	Available for Sale	HTM	Held to Maturity
AHFS	Assets Held for Sale	HUD	U.S. Department of Housing and Urban Development
ALLL	Allowance for Loan and Lease Losses	IT	Information Technology
ALM	Asset and Liability Management	LCM	Legacy Consumer Mortgages
AOCI	Accumulated Other Comprehensive Income	LCR	Liquidity Coverage Ratio
AOL	Average Operating Leases	LGD	Loss Given Default
ARM	Adjustable Rate Mortgage	LIHTC	Low Income Housing Tax Credit
ASC	Accounting Standards Codification	LOCOM	Lower of the Cost or Market Value
ASU	Accounting Standards Update	LTV	Loan-to-Value
AVA	Actuarial Valuation Allowance	MBS	Mortgage-Backed Securities
BHC	Bank Holding Company	MSR	Mortgage Servicing Rights
BPS	Basis point(s); 1bp=0.01%	NFM	Net Finance Margin
CCAR	Comprehensive Capital Analysis and Review	NFR	Net Finance Revenue
CDI	Core Deposit Intangibles	NII	Net Interest Income Sensitivity
CET 1	Common Equity Tier 1	Sensitivity	
CRA	Community Reinvestment Act	NIM	Net Interest Margin
CTA	Currency Translation Adjustment	NOLs	Net Operating Loss Carry-Forwards
		NSP	Non-Strategic Portfolios



Acronym	Definition	Acronym	Definition
DCF	Discounted Cash Flows	OCC	Office of the Comptroller of the Currency
DPA	Deferred Purchase Agreement	OCI	Other Comprehensive Income
DTAs	Deferred Tax Assets	OREO	Other Real Estate Owned
DTLs	Deferred Tax Liabilities	OTTI	Other than Temporary Impairment
ECAP	Enterprise Stress Testing and Economic Capital	PAA	Purchase Accounting Adjustments
EMC	Executive Management Committee	PB	Primary Beneficiary
EPS	Earnings Per Share	PCI	Purchased Credit-Impaired Loans/Securities
ERM	Enterprise Risk Management	PD	Probability of Obligor Default
EVE	Economic Value of Equity	ROA	Return on Average Earning Assets
FDIC	Federal Deposit Insurance Corporation	ROTCE	Return on Tangible Common Stockholders' Equity
FHA	Federal Housing Administration	SBA	Small Business Administration
FHC	Financial Holding Company	SEC	Securities and Exchange Commission
FHLB	Federal Home Loan Bank	SFR	Single Family Residential
FICO	Fair, Isaac Corporation	SGA	Selling, General and Administration Expenses
FLA	Financing and Leasing Assets	SIFI	Systemically Important Financial Institution
FNMA	Federal National Mortgage Association	SOP	Statement of Position
FRB	Board of Governors of the Federal Reserve System	TBV	Tangible Book Value
FRBNY	Federal Reserve Bank of New York	TCE	Tangible Common Stockholders' Equity
FV	Fair Value	TDR	Troubled Debt Restructuring
GAAP	Accounting Principles Generally Accepted in the U.S.	TRS	Total Return Swaps
GSEs	Government-Sponsored Enterprises	UPB	Unpaid Principal Balance
HECM	Home Equity Conversion Mortgage	VIE	Variable Interest Entity

## Table of Contents

CIT ANNUAL REPORT 2016 23

## Item 1A. Risk Factors

*The operation of our business, and the economic and regulatory climate in the U.S. and other regions of the world involve various elements of risk and uncertainty. You should carefully consider the risks and uncertainties described below before making a decision whether to invest in the Company. This is a discussion of the risks that we believe are material to our business and does not include all risks, material or immaterial, that may possibly affect our business. Any of the following risks, and additional risks that are presently unknown to us or that we currently deem immaterial, could have a material adverse effect on our business, financial condition, and results of operations.*

### **Strategic Risks**

***If the assumptions and analyses underlying our strategy and business plan, including with respect to market conditions, capital and liquidity, business strategy, and operations are incorrect, we may be unsuccessful in executing our strategy and business plan.***

A number of strategic issues affect our business, including how we allocate our capital and liquidity, our business strategy, our funding models, and the quality and efficiency of operations. We developed our strategy and business plan based upon certain assumptions, analyses, and financial forecasts, including with respect to our capital levels, funding model, credit ratings, revenue growth, earnings, interest margins, expense levels, cash flow, credit losses, liquidity and financing sources, lines of business and geographic scope, acquisitions and divestitures, equipment residual values, capital expenditures, retention of key employees, and the overall strength and stability of general economic conditions. Financial forecasts are inherently subject to many uncertainties and are necessarily speculative, and it is likely that one or more of the assumptions and estimates that are the basis of these financial forecasts will not be accurate. Accordingly, our actual financial condition and results of operations may differ materially from what we have forecast and we may not be able to reach our goals and targets. If we are unable to implement our strategic initiatives effectively, we may need to refine, supplement, or modify our business plan and strategy in significant ways. If we are unable to fully implement our business plan and strategy, it may have a material adverse effect on our business, results of operations and financial condition.

***We may not be able to achieve the expected benefits from acquiring a business or assets or from disposing of a business or assets, which may have an adverse effect on our business or results of operations.***

As part of our strategy and business plan, we may consider engaging in business or asset acquisitions or sales to manage our business, the products and services we offer, and our asset levels, credit exposures, or liquidity position. There are a number of risks inherent in acquisition and sale transactions, including the risk that we fail to identify or acquire key businesses or assets, that we fail to complete a pending transaction, that we fail to sell a business or assets that are considered non-strategic or high risk, that we overpay for an acquisition or receive inadequate consideration for a disposition, or that we fail to properly integrate an acquired company or to realize the anticipated benefits from the transaction. We acquired IMB HoldCo LLC and its subsidiary, OneWest Bank N.A., in 2015 and two businesses, Nacco SAS and Capital Direct Group, in 2014. We sold our equipment financing portfolio in the U.K. in January 2016; our equipment financing and corporate finance portfolios in Canada in October 2016; our equipment financing portfolios in Mexico and Brazil in 2015; and our student lending portfolio, small business lending portfolio, and various equipment financing portfolios in Europe, Asia, and Latin America in 2014. We have agreed to sell our Commercial Air business to Avolon Holdings Limited, an international commercial aircraft leasing company, and we have transferred our financings in Business Air and China into assets held for sale.

In engaging in business acquisitions, CIT may decide to pay a premium over book and market values to complete the transaction, which may result in some dilution of our tangible book value and net income per common share. If CIT uses substantial cash or other liquid assets or incurs substantial debt to acquire a business or assets, we could become more susceptible to economic downturns and competitive pressures. CIT used a combination of cash (\$1.9 billion) and common stock (30.9 million shares valued at \$1.5 billion) to complete the OneWest Transaction. Integrating the operations of an acquired entity can be difficult. Prior to completing the OneWest Transaction, CIT and OneWest Bank had different policies, procedures, and processes, including accounting, credit and other risk and reporting policies, and utilized different systems, which are requiring significant time, cost, and effort to integrate. As a result, CIT may not be able to fully achieve its strategic objectives and planned operating efficiencies in an acquisition. CIT may also be exposed to other risks inherent in an acquisition, including the risk of unknown or contingent liabilities, changes in our credit, liquidity, interest rate or other risk profiles, potential asset quality issues, potential disruption of our existing business and diversion of management's time and attention, possible loss of key employees or customers of the acquired business, and the risk that certain items were not accounted for properly by the seller in accordance with financial accounting and reporting standards. If we fail to realize the expected revenue increases, cost savings, increases in geographic or product scope, and/or other projected benefits from an acquisition, or if we are unable to adequately integrate the acquired business, or experience unexpected costs, changes in our risk profile, or disruption to our business, it could have a material adverse effect on our business, financial condition, and results of operations.

CIT must receive regulatory approval before it can acquire a bank or BHC or for any acquisition in which the assets acquired exceeds \$10 billion. Similarly, when CIT is disposing of a business or assets, the purchaser may require regulatory and shareholder approval, including that of foreign regulators and shareholders, before it completes the transaction. We cannot be certain when or if, or on what terms and conditions, any required regulatory or shareholder approval may be granted. We may be required to sell assets or business units as a condition to receiving regulatory approval for an acquisition. If CIT fails to close a pending transaction for any reason, including failure to obtain either regulatory approvals or shareholder approval, CIT may be exposed to potential disruption of our business, diversion of management's time and attention, risk from a failure to

diversify our business and products, risk that we may not be able to return capital to shareholders as planned, and increased expenses without a commensurate increase in revenues.

As a result of economic cycles, general market conditions, and other factors, the value of certain asset classes may fluctuate and decline below their historic cost. If CIT is holding such businesses or asset classes, we may not recover our carrying value if we sell such businesses or assets or we may end up with a higher risk exposure to specific customers, industries, asset classes, or geographic regions than we have targeted. In addition, potential purchasers may be unwilling to pay an amount equal to the face value of a loan or lease if the purchaser is concerned about the quality of our credit underwriting. Potential purchasers may also be unwilling to pay adequate consideration for a business or assets depending on the nature of any financial, legal, or tax structures of the business, the regulatory or geographic exposure of the business, the projected growth rate of the business, or the size or nature of its outstanding commitments. These transactions, if completed, may reduce the size of our business and we may not be able to replace the lending and leasing activity associated with these businesses. As a result, future disposition of assets could have a material adverse effect on our business, financial condition and results of operations.

***We may incur losses on loans, securities and other acquired assets of OneWest Bank that are materially greater than reflected in our fair value adjustments.***

We accounted for the OneWest Transaction under the purchase method of accounting, recording the acquired assets and liabilities of OneWest Bank at fair value. All purchased credit impaired loans acquired in the OneWest Transaction were recorded at fair value based on the present value of their expected cash flows. We estimated cash flows using internal credit, interest rate and prepayment risk models using assumptions about matters that are inherently uncertain. We may not realize the estimated cash flows or fair value of these loans. In addition, although the difference between the pre-acquisition carrying value of the credit-impaired loans and their expected cash flows — the “non-accretable difference” — is available to absorb future charge-offs, we may be required to increase our allowance for credit losses and related provision expense because of subsequent additional deterioration in these loans.

***Competition from both traditional competitors and new market entrants may adversely affect our market share, profitability, and returns.***

Our markets are highly competitive and are characterized by competitive factors that vary based upon product and geographic region. We have a wide variety of competitors that include captive and independent finance companies, commercial banks and thrift institutions, industrial banks, community banks, Internet banks, leasing companies, hedge funds, insurance companies, mortgage companies, manufacturers and vendors. Some of our non-bank competitors are not subject to the same extensive regulation we are and, therefore, may have greater flexibility in competing for business. In particular, the activity and prominence of so-called marketplace lenders and other technological financial service companies have grown significantly over recent years and is expected to continue growing.

We compete on the basis of pricing (including the interest rates charged on loans or paid on deposits and the pricing for equipment leases), product terms and structure, the range of products and services offered, and the quality of customer service (including convenience and responsiveness to customer needs and concerns). The ability to access and use technology in the delivery of products and services to our customers is an increasingly important competitive factor in the financial services industry, and it is a critically important component to customer satisfaction.

If we are unable to address the competitive pressures that we face, we could lose market share, which could result in reduced net finance revenue and profitability and lower returns. On the other hand, if we meet those competitive pressures, it is possible that we could incur significant additional expense, experience lower returns due to compressed net finance revenue, and/or incur increased losses due to less rigorous risk standards.

#### ***Capital and Liquidity Risks***

***If we fail to maintain sufficient capital or adequate liquidity to meet regulatory capital guidelines, there could be a material adverse effect on our business, results of operations, and financial condition.***

New and evolving capital and liquidity standards will have a significant effect on banks and BHCs. The Basel III Final Rule issued by the federal banking agencies requires BHCs and insured depository institutions to maintain more and higher quality capital than in the past. In addition, the federal banking agencies created a standardized minimum liquidity requirement for large and internationally active banking organizations, referred to as the “liquidity coverage ratio”, or “LCR”, which sets a minimum level of unencumbered high-quality liquid assets over a 30-day period. On June 1, 2016, the U.S. bank regulatory agencies issued a notice of proposed rulemaking to implement the net stable funding ratio, or “NSFR”, called for by the Basel III Final Framework, which promotes more medium and long-term funding over a one-year time horizon. If we incur future losses that reduce our capital levels, we may fail to maintain our regulatory capital or our liquidity above regulatory minimums and at economically satisfactory levels or to meet the required liquidity ratios. The enhanced prudential supervision requirements imposed on large BHCs pursuant to the Dodd-Frank Act also require a buffer of highly liquid assets based on projected stressed funding needs. The new capital standards could require CIT to maintain more and higher quality capital than previously expected and could limit our business activities (including lending) and our ability to expand organically or through acquisitions, to diversify our capital structure, or to pay dividends or otherwise return capital to shareholders. The new liquidity standards could also require CIT to hold higher levels of short-term investments, thereby reducing our ability to invest in longer-term or less liquid assets. If we fail to maintain the appropriate capital levels or adequate liquidity, we could become subject to a variety of formal or informal enforcement actions, which may include restrictions on our business activities, including limiting lending and leasing activities, limiting the expansion of our business, either organically or through acquisitions, requiring the raising of additional capital, which may be dilutive to shareholders, or requiring prior regulatory approval before taking certain actions,

---

## Table of Contents

CIT ANNUAL REPORT 2016 25

such as payment of dividends or otherwise returning capital to shareholders. If we are unable to meet any of these capital or liquidity standards, it may have a material adverse effect on our business, results of operations and financial condition.

Our Revolving Credit Facility also includes terms that require us to comply with regulatory capital requirements and, following the consummation of the sale of our Commercial Air business, maintain a Tier 1 regulatory capital ratio of at least 9.0%. If we are unable to satisfy these or any of the other relevant terms of the Revolving Credit Facility, the lenders could elect to terminate the Revolving Credit Facility and require us to repay outstanding borrowings. In such event, unless we are able to refinance the indebtedness coming due and replace the Revolving Credit Facility, we would likely not have sufficient liquidity for our business needs, which may have a material adverse effect on our business, results of operations and financial condition.

***If we fail to maintain adequate liquidity or to generate sufficient cash flow to satisfy our obligations as they come due, whether due to a downgrade in our credit ratings or for any other reasons, it could materially adversely affect our future business operations.***

CIT’s liquidity is essential for the operation of our business. Our liquidity, and our ability to issue debt in the capital markets or fund our activities through bank deposits, could be affected by a number of factors, including market conditions, our capital structure and capital levels, our credit ratings, and the performance of our business. An adverse change in any of those factors, and particularly a downgrade in our credit ratings, could negatively affect CIT’s liquidity and competitive position, increase our funding costs, or limit our access to the capital markets or deposit markets. Further, an adverse change in the performance of our business could have a negative impact on our operating cash flow. CIT’s credit ratings are subject to ongoing review by the rating agencies, which consider a number of factors, including CIT’s own financial strength, performance, prospects, and operations, as well as factors not within our control, including conditions affecting the financial services industry generally. There can be no assurance that we will maintain or improve our current ratings, which currently are not investment grade at the holding company level. If we experience a substantial, unexpected, or prolonged change in the level or cost of liquidity, or fail to generate sufficient cash flow to satisfy our obligations, it could materially adversely affect our business, financial condition, or results of operations.

***Our business may be adversely affected if we fail to successfully expand our sources of deposits at CIT Bank.***

CIT Bank currently has a branch network with 70 branches, which offer a variety of deposit products. However, CIT also must rely on its online bank, brokered deposits, and certain deposit sweep accounts to raise additional deposits. Our ability to raise deposits and offer competitive interest rates on deposits is dependent on CIT Bank's capital levels. Federal banking law generally prohibits a bank from accepting, renewing or rolling over brokered deposits, unless the bank is well-capitalized or it is adequately capitalized and obtains a waiver from the FDIC. There are also restrictions on interest rates that may be paid by banks that are less than well capitalized, under which such a bank generally may not pay an interest rate on any deposit of more than 75 basis points over the national rate published by the FDIC, unless the FDIC determines that the bank is operating in a high-rate area. Continued expansion of CIT Bank's retail online banking platform to diversify the types of deposits that it accepts may require significant time, effort, and expense to implement. We are likely to face significant competition for deposits from larger BHCs who are similarly seeking larger and more stable pools of funding. If CIT Bank fails to expand and diversify its deposit-taking capability, it could have an adverse effect on our business, results of operations, and financial condition.

***We may be restricted from paying dividends or repurchasing our common stock.***

CIT is a legal entity separate and distinct from its subsidiaries, including CIT Bank, and relies on dividends from its subsidiaries for a significant portion of its cash flow. Federal banking laws and regulations limit the amount of dividends that CIT Bank can pay to CIT. In addition, BHCs with assets in excess of \$50 billion must develop and submit to the FRB for review an annual capital plan detailing their plans for the payment of dividends on their common or preferred stock or the repurchase of common stock. If our capital plan is not approved or if we do not satisfy applicable capital requirements, our ability to pay dividends or undertake other capital actions may be restricted. We received a qualitative objection to our initial capital plan in 2016. On October 6, 2016, we announced that we had received a "non-objection" from the FRBNY to our amended capital plan. We will submit our next annual capital plan in April 2017. We cannot determine whether the FRBNY will object to future capital returns.

***Regulatory and Legal Risks***

***We could be adversely affected by the additional enhanced prudential supervision requirements applicable to large banking organizations.***

When we acquired IMB Holdco LLC and its subsidiary, OneWest Bank we exceeded the \$50 billion threshold and became subject to the FRB's enhanced prudential standards applicable to BHC's with an average of \$50 billion or more of assets for the prior four quarters. There are a number of regulations that are now applicable to us that are not applicable to smaller banking organizations, including but not limited to enhanced rules on capital plans and stress testing, enhanced governance standards, liquidity stress testing and enhanced reporting requirements, and a requirement to develop a resolution plan. Each of these rules required CIT to dedicate significant time, effort, and expense during 2016 to comply with the enhanced standards and requirements, and we expect to continue dedicating significant time, effort, and expense during 2017 and thereafter. If we fail to develop at a reasonable cost the systems and processes necessary to comply with the enhanced standards and requirements imposed by these rules, it could have a material adverse effect on our business, financial condition, or results of operations.

***Our business is subject to significant government regulation and supervision and we could be adversely affected by banking or other regulations, including new regulations or changes in existing regulations or the application thereof.***

The financial services industry, in general, is heavily regulated. We are subject to the comprehensive, consolidated supervision of the FRB, including risk-based and leverage capital requirements and information reporting requirements. In addition, CIT Bank is subject to supervision by the OCC, including risk-based

Item 1A. Risk Factors

---

**Table of Contents**

and leverage capital requirements and information reporting requirements. This regulatory oversight is established to protect depositors, federal deposit insurance funds and the banking system as a whole, and is not intended to protect debt and equity

security holders. If we fail to satisfy regulatory requirements applicable to bank holding companies that have elected to be treated as financial holding companies, including maintaining our status as well managed and well capitalized, our financial condition and results of operations could be adversely affected, and we may be restricted in our ability to undertake certain capital actions (such as declaring dividends or repurchasing outstanding shares) or to engage in certain activities or acquisitions. In addition, our banking regulators have significant discretion in the examination and enforcement of applicable banking statutes and regulations, and may restrict our ability to engage in certain activities or acquisitions, or may require us to maintain more capital.

Proposals for legislation to further regulate, restrict, and tax certain financial services activities are continually being introduced in the United States Congress and in state legislatures. The Dodd-Frank Act, which was adopted in 2010, constitutes the most wide-ranging overhaul of financial services regulation in decades, including provisions affecting, among other things, (i) corporate governance and executive compensation of companies whose securities are registered with the SEC, (ii) FDIC insurance assessments based on asset levels rather than deposits, (iii) minimum capital levels for BHCs, (iv) derivatives activities, proprietary trading, and private investment funds offered by financial institutions, and (v) the regulation of large financial institutions. In addition, the Dodd-Frank Act established additional regulatory bodies, including the Financial Stability Oversight Council ("FSOC"), which is charged with identifying systemic risks, promoting stronger financial regulation, and identifying those non-bank companies that are "systemically important", and the Consumer Financial Protection Bureau ("CFPB"), which has broad authority to establish a federal regulatory framework for consumer financial protection. The agencies regulating the financial services industry periodically adopt changes to their regulations and are still finalizing regulations to implement various provisions of the Dodd-Frank Act. In recent years, regulators have increased significantly the level and scope of their supervision and regulation of the financial services industry. We are unable to predict the form or nature of any future changes to statutes or regulation, including the interpretation or implementation thereof. Such increased supervision and regulation could significantly affect our ability to conduct certain of our businesses in a cost-effective manner, restrict the type of activities in which we are permitted to engage, or subject us to stricter and more conservative capital, leverage, liquidity, and risk management standards. Any such action could have a substantial impact on us, significantly increase our costs, limit our growth opportunities, affect our strategies and business operations and increase our capital requirements, and could have an adverse effect on our business, financial condition and results of operations. While the change in administration in the U.S. may ultimately roll back or modify certain of the regulations adopted in recent years, including regulations adopted or proposed pursuant to the Dodd-Frank Act, uncertainty about the timing and scope of any such changes as well as the cost of complying with a new regulatory regime, may negatively impact our businesses, at least in the short term, even if the long-term impact of any such changes are positive for our businesses.

Our Aerospace, Rail, Maritime and other equipment financing operations are subject to various laws, rules, and regulations administered by authorities in jurisdictions where we do business. In the U.S., our equipment leasing operations, including for aircraft, railcars, ships, and other equipment, are subject to rules and regulations relating to safety, operations, maintenance, and mechanical standards promulgated by various federal and state agencies and industry organizations, including the U.S. Department of Transportation, the Federal Aviation Administration, the Federal Railroad Administration, the Association of American Railroads, the Maritime Administration, the U.S. Coast Guard, and the U.S. Environmental Protection Agency. Similar governmental agencies issue similar rules and regulations in other countries in which we do business. In 2015, the U.S. Pipeline and Hazardous Materials Safety Administration ("PHMSA") and Transport Canada ("TC") each released final rules establishing enhanced design and performance criteria for tank cars loaded with a flammable liquid and requiring retrofitting of existing tank cars to meet the enhanced standards within a specified time frame. In addition, the U.S. Congress enacted the Fixing America's Surface Transportation Act ("FAST Act"), which, among other things, expanded the scope of tank cars classified as carrying flammable liquids, added additional design and performance criteria for tank cars in flammable service, and required additional studies of certain criteria established by PHMSA and TC. In addition, state agencies regulate some aspects of rail and maritime operations with respect to health and safety matters not otherwise preempted by federal law. Our business operations and our equipment leasing portfolios may be adversely impacted by rules and regulations promulgated by governmental and industry agencies, which could require substantial modification, maintenance, or refurbishment of our aircraft, railcars, ships, or other equipment, or potentially make such equipment inoperable or obsolete. Violations of these rules and regulations can result in substantial fines and penalties, including potential limitations on operations or forfeitures of assets.

***We are currently involved in a number of legal proceedings, and may from time to time be involved in government investigations and inquiries, related to the conduct of our business, the results of which could have a material adverse effect on our business, financial condition, or results of operation.***

We are currently involved in a number of legal proceedings, and may from time to time be involved in government and regulatory investigations and inquiries, relating to matters that arise in connection with the conduct of our business (collectively, "Litigation"). We are also at risk when we have agreed to indemnify others for losses related to Litigation they face, such as in connection with the sale of a business or assets by us. It is inherently difficult to predict the outcome of Litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages. We cannot state with certainty what the eventual outcome of the pending Litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter will be, if any. The actual results from resolving Litigation matters may involve substantially higher costs and expenses than the amounts reserved or amounts estimated to be reasonably possible,

or judgments may be rendered, or fines or penalties assessed in matters for which we have no reserves or have not estimated reasonably possible losses. Adverse judgments, fines or penalties in one or more Litigation

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 27

matters could have a material adverse effect on our business, financial condition, or results of operations.

### ***We could be adversely affected by changes in tax laws and regulations or the interpretations of such laws and regulations***

We are subject to the income tax laws of the U.S., its states and municipalities and those of the foreign jurisdictions in which we have business operations. These tax laws are complex and may be subject to different interpretations. We must make judgments and interpretations about the application of these inherently complex tax laws when determining our provision for income taxes, our deferred tax assets and liabilities, and our valuation allowance. Changes to the tax laws, administrative rulings or court decisions could increase our provision for income taxes and reduce our net income.

It is difficult to predict whether changes to the U.S. tax laws and regulations will occur within the next few years. Governments' need for additional revenue makes it likely that there will be continued proposals to change tax rules in ways that could increase our effective tax rate. In addition, such changes could include a widening of the corporate tax base by including earnings from international operations. Such changes to the tax laws could have a material impact on our income tax expense and deferred tax balances.

Conversely, should the tax laws be amended to reduce our effective tax rate, the value of our remaining deferred tax asset would decline resulting in a charge to our net income during the period in which the amendment is enacted. In addition, the value assigned to our deferred tax assets is dependent upon our ability to generate future taxable income. If we are not able to do so at the rates currently projected, we may need to increase our valuation allowance for deferred tax assets with a corresponding charge recorded to net income.

These changes could affect our regulatory capital ratios as calculated in accordance with the Basel III Final Rule. The exact impact is dependent upon the effects an amendment has on our net deferred tax assets arising from net operating loss and tax credit carry-forwards, versus our net deferred tax assets related to temporary timing differences, as the former is a deduction from capital (the numerator to the ratios), while the latter is included in risk-weighted assets (the denominator). See "*Regulation — Banking Supervision and Regulation — Capital Requirements*" section of *Item 1. Business Overview* for further discussion regarding the impact of deferred tax assets on regulatory capital.

### ***Our investments in certain tax-advantaged projects may not generate returns as anticipated and may have an adverse impact on our financial results.***

We invest in certain tax-advantaged projects promoting affordable housing, community development and renewable energy resources. Our investments in these projects are designed to generate a return primarily through the realization of federal and state income tax credits, and other tax benefits, over specified time periods. We are subject to the risk that previously recorded tax credits, which remain subject to recapture by taxing authorities based on compliance features required to be met at the project level, will fail to meet certain government compliance requirements and will not be able to be realized. The risk of not being able to realize the tax credits and other tax benefits depends on many factors outside of our control, including changes in the applicable tax code and the ability of the projects to be completed. If we are unable to realize these tax credits and other tax benefits, it may have a material adverse effect on our financial results.

### ***We previously originated and securitized and currently service reverse mortgages, which subjects us to additional risks and could have a material adverse effect on our business, liquidity, financial condition, and results of operations.***

We previously originated and securitized and currently service reverse mortgages. The reverse mortgage business is subject to substantial risks, including market, credit, interest rate, liquidity, operational, reputational and legal risks. A reverse mortgage is a loan available to seniors aged 62 or older that allows homeowners to borrow money against the value of their home. Defaults on reverse mortgages leading to foreclosures may occur if borrowers fail to meet maintenance obligations, such as payment of taxes or home insurance premiums, or fail to meet requirements to occupy the premises. An increase in foreclosure rates may increase our cost of servicing. We may become subject to negative publicity if defaults on reverse mortgages lead to foreclosures or evictions of senior homeowners.

As a reverse mortgage servicer, we are responsible for funding any payments due to borrowers in a timely manner, remitting to credit owners interest accrued, paying for interest shortfalls, and funding advances such as taxes and home insurance premiums. During any period in which a borrower is not making required real estate tax and property insurance premium payments, we may be required under servicing agreements to advance our own funds to pay property taxes, insurance premiums, legal expenses and other protective advances. We also may be required to advance funds to maintain, repair and market real estate properties. In certain situations, our contractual obligations may require us to make certain advances for which we may not be reimbursed. In addition, if a mortgage loan serviced by us defaults or becomes delinquent, the repayment to us of the advance may be delayed until the mortgage loan is repaid or refinanced or liquidation occurs. A delay in collecting advances may adversely affect our liquidity, and a failure to be reimbursed for advances could adversely affect our business, financial condition or results of operations. Advances are typically recovered upon weekly or monthly reimbursement or from securitization in the market. We could receive requests for advances in excess of amounts we are able to fund, which could materially and adversely affect our liquidity. All of the above factors could have a material adverse effect on our business, liquidity, financial condition and results of operations.

***Material changes to the laws, regulations, rules or practices applicable to reverse mortgage programs operated by the FHA, HUD or the government-sponsored enterprises, or a loss of our approved status under such programs, could adversely affect our reverse mortgage division.***

The mortgage industry, including both forward mortgages and reverse mortgages, is largely dependent upon the FHA, HUD and government-sponsored enterprises, like the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). There can be no guarantee that any or all of these entities will continue to

Item 1A. Risk Factors

---

## Table of Contents

### 28 CIT ANNUAL REPORT 2016

participate in the mortgage industry, including forward mortgages and reverse mortgages, or that they will not make material changes to the laws, regulations, rules or practices applicable to the mortgage industry. For example, the FHA has issued regulations since January 1, 2013, governing its reverse mortgage program that impact initial mortgage insurance premiums and principal limit factors, impose restrictions on the amount of funds that senior borrowers may draw down at closing and during the first 12 months after closing, and will require a financial assessment for all borrowers to ensure that they have the capacity and willingness to meet their financial obligations and the terms of the reverse mortgage. In addition, the changes require borrowers to set aside a portion of the loan proceeds they receive at closing (or withhold a portion of monthly loan disbursements) for the payment of property taxes and homeowners insurance based on the results of the financial assessment. Similarly, the CFPB has issued new rules for mortgage origination and mortgage servicing. Both the origination and servicing rules create new private rights of action for consumers against lenders and servicers in the event of certain violations.

Additionally, two GSEs (Fannie Mae and Freddie Mac) are currently in conservatorship, with their primary regulator acting as a conservator. We cannot predict when or if the conservatorships will end or whether, as a result of legislative or regulatory action, there will be any associated changes to the structure of these GSEs or the housing finance industry more generally, including, but not limited to, changes to the structure of these GSEs or the housing finance industry more generally, including, but not limited to, changes to the relationship among these GSEs, the government and the private markets. The effects of any such reform on our business and financial results are uncertain.



Any material changes to the laws, regulations, rules or practices applicable to our residential mortgage business could have a material adverse effect on our overall business and our financial position, results of operations and cash flows.

***If we are determined to be liable with respect to interest curtailment obligations related to reverse mortgages arising out of servicing errors, and we are required to record incremental charges for such amounts, there may be an adverse impact on our results of operations or financial condition.***

We have acquired and securitized reverse mortgages for which we have retained the servicing rights. Certain of these mortgage loans are insured and guaranteed by the FHA, which is administered by HUD. FHA regulations provide that servicers must meet a series of event-specific timeframes during the default, foreclosure, conveyance, and mortgage insurance claim cycles. Failure to timely meet any processing deadline may stop the accrual of debenture interest otherwise payable in satisfaction of a claim under the FHA mortgage insurance contract and the servicer may be responsible to HUD for debenture interest that is not self-curtailed or for making the credit owner whole for any interest curtailed by HUD due to not meeting the required event-specific timeframes. The penalty HUD applies for failure to meet the foreclosure timeline is curtailment of interest from the date of failure (e.g. the date to take the first legal action in the foreclosure process is missed) to the claims settlement date, which might be months or years after the missed deadline.

As a servicer of reverse mortgage loans owned by the GSEs, the servicing guides provide that servicers may become liable for curtailed interest for certain delays in completing the foreclosure process with respect to defaulted loans in accordance with servicer guides. If we are required to record incremental charges for interest curtailment obligations, there may be a material adverse effect on our results of operations or financial condition.

#### ***Credit and Market Risks***

***We could be adversely affected by the actions and commercial soundness of other financial institutions.***

CIT's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. CIT has exposure to many different industries and counterparties, and it routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, private equity funds, and hedge funds, and other institutional clients. Defaults by, or even rumors or questions about, one or more financial institutions, or the financial services industry generally, could affect market liquidity and could lead to losses or defaults by us or by other institutions. Many of these transactions could expose CIT to credit risk in the event of default by its counterparty or client. In addition, CIT's credit risk may be impacted if the collateral held by it cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to CIT. There is no assurance that any such losses would not adversely affect, possibly materially, CIT.

***Our Commercial Aerospace business is concentrated by industry and our retail banking business is concentrated geographically, and any downturn in the aerospace industry or in the geographic area of our retail banking business may have a material adverse effect on our business.***

Most of our business is diversified by customer, industry, and geography. However, although our Commercial Aerospace business, most of which is subject to a definitive sale agreement and classified as a discontinued operation, is diversified by customer and geography, it is concentrated in one industry. If there is a significant downturn in commercial air travel, it could have a material adverse effect on our business and results of operations.

Our retail banking business is primarily concentrated within our retail branch network, which is located in Southern California. Although our other businesses are national in scope, these other businesses also have a presence within the Southern California geographic market. Adverse conditions in the Southern California geographic market, such as inflation, unemployment, recession, natural disasters, or other factors beyond our control, could impact the ability of borrowers in Southern California to repay their loans, decrease the value of the collateral securing loans in Southern California, or affect the ability of our customers in Southern California to continue conducting business with us, any of which could have a material adverse effect on our business and results of operations.

***Our allowance for loan losses may prove inadequate.***

The quality of our financing and leasing assets depends on the creditworthiness of our customers and their ability to fulfill their obligations to us. We maintain a consolidated allowance for loan losses on our financing and leasing assets to provide for loan defaults and non-performance. The amount of our allowance reflects management's judgment of losses inherent in the portfolio. However, the economic environment is dynamic, and our portfolio credit quality could decline in the future.

Our allowance for loan losses may not keep pace with changes in the credit-worthiness of our customers or in collateral values. If the credit quality of our customer base declines, if the risk profile of a market, industry, or group of customers changes significantly, if we are unable to collect the full amount on accounts receivable taken as collateral, or if the value of equipment, real estate, or other collateral deteriorates significantly, our allowance for loan losses may prove inadequate, which could have a material adverse effect on our business, results of operations, and financial condition.

In addition to customer credit risk associated with loans and leases, we are 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. If 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.

***We may not be able to realize our entire investment in the equipment we lease to our customers.***

Our financing and leasing assets include a significant portion of leased equipment, including but not limited to railcars and locomotives, technology and office equipment, and medical equipment, along with aircraft included in discontinued operations. The realization of equipment values (residual values) during the life and at the end of the term of a lease is an important element in the profitability of our 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 end of the lease term or end of the equipment's estimated useful life.

If the market value of leased equipment decreases at a rate greater than we projected, whether due to rapid technological or economic obsolescence, unusual wear and tear on the equipment, excessive use of the equipment, recession or other adverse economic conditions, or other factors, it could adversely affect the current values or the residual values of such equipment. For example, as the price of or demand for crude oil, coal, or other commodities goes up or down, it may affect the demand for railcars used to ship such commodities and the lease rates for such railcars, which could ultimately affect the residual values of such railcars.

Further, certain equipment residual values, including commercial aerospace residuals, are dependent on the manufacturers' or vendors' warranties, reputation, and other factors, including market liquidity. Residual values for certain equipment, including aerospace, rail, and medical equipment, may also be affected by changes in laws or regulations that mandate design changes or additional safety features. For example, new regulations issued by the PHMSA in the U.S. and TC in Canada in 2015, and supplemented by the FAST Act in the U.S., will require us to retrofit a significant portion of our tank cars over the next several years in order to continue leasing those tank cars for the transport of crude oil. In addition, we may not realize the full market value of equipment if we are required to sell it to meet liquidity needs or for other reasons outside of the ordinary course of business. Consequently, there can be no assurance that we will realize our estimated residual values for equipment.

The degree of residual realization risk varies by transaction type. Capital leases bear the least risk because contractual payments usually 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 cash flows over the term of the lease. A significant portion of our leasing portfolios are comprised of operating leases, which increase our residual realization risk.

***Investment in and revenues from our foreign operations are subject to various risks and requirements 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, our foreign operations generally conduct business in foreign currencies, which subject us to foreign currency exchange rate fluctuations. These exposures, if not effectively hedged could have a material adverse effect on our investment in international operations and the level of international revenues that we generate from international financing and leasing transactions. 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.

Foreign countries have various compliance requirements for financial statement audits and tax filings, which are required in order to obtain and maintain licenses to transact business and may be different in some respects from GAAP in the U.S. or the tax laws and regulations of the U.S. If we are unable to properly complete and file our statutory audit reports or tax filings, regulators or tax authorities in the applicable jurisdiction may restrict our ability to do business.

Furthermore, our international operations could expose us to trade and economic sanctions or other restrictions imposed by the United States or other governments or organizations. The U.S. Department of Justice ("DOJ") and other federal agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for violations of trade sanction laws, the Foreign Corrupt Practices Act ("FCPA") and other federal statutes. Under trade sanction laws, the government may seek to impose modifications to business practices, including cessation of business activities with sanctioned parties or in sanctioned countries, and modifications to compliance programs, which may increase compliance costs, and may subject us to fines, penalties and other sanctions. If any

Item 1A. Risk Factors

---

## Table of Contents

### 30 CIT ANNUAL REPORT 2016

of the risks described above materialize, it could adversely impact our operating results and financial condition.

These laws also prohibit improper payments or offers of payments to foreign governments and their officials and political parties for the purpose of obtaining or retaining business. We have operations, deal with government entities and have contracts in countries known to experience corruption. Our activities in these countries create the risk of unauthorized payments or offers of payments by one of our employees, consultants, sales agents, or associates that could be in violation of various laws, including the FCPA, even though these parties are not always subject to our control. Our employees, consultants, sales agents, or associates may engage in conduct for which we may be held responsible. Violations of the FCPA may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results, and financial condition.

#### ***We may be adversely affected by significant changes in interest rates.***

We rely on borrowed money from deposits, secured debt, and unsecured debt to fund our business. We derive the bulk of our income from net finance revenue, which is the difference between interest and rental income on our financing and leasing assets and interest expense on deposits and other borrowings, depreciation on our operating lease equipment and maintenance and other operating lease expenses. Prevailing economic conditions, the trade, fiscal, and monetary policies of the federal government and the policies of various regulatory agencies all affect market rates of interest and the availability and cost of credit, which in turn significantly affects our net finance revenue. Volatility in interest rates can also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as federal government and corporate securities and other investment vehicles, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than financial institutions.

Although interest rates are currently lower than usual, any significant decrease in market interest rates may result in a change in net interest margin and net finance revenue. A substantial portion of our loans and other financing products, and a portion of our deposits and other borrowings, bear interest at floating interest rates. If interest rates increase, monthly interest obligations owed by our customers to us will also increase, as will our own interest expense. Demand for our loans or other financing products may decrease as interest rates rise or if interest rates are expected to rise in the future. In addition, if prevailing interest rates increase, some of our customers may not be able to make the increased interest payments or refinance their balloon and bullet payment transactions, resulting in payment defaults and loan impairments. Conversely, if interest rates remain low, our interest expense may

decrease, but our customers may refinance the loans they have with us at lower interest rates, or with others, leading to lower revenues. As interest rates rise and fall over time, any significant change in market rates may result in a decrease in net finance revenue, particularly if the interest rates we pay on our deposits and other borrowings and the interest rates we charge our customers do not change in unison, which may have a material adverse effect on our business, operating results, and financial condition.

***Changes in interest rates can reduce the value of our mortgage servicing rights and mortgages held for sale, and can make our mortgage banking revenue volatile from quarter to quarter, which can reduce our earnings.***

We have a portfolio of mortgage servicing rights (“MSRs”), which is the right to service a mortgage loan — collect principal, interest and escrow amounts — for a fee, which we retained after selling or securitizing mortgage loans that we originated or purchased. We initially carry our MSRs at fair value, measured by the present value of the estimated future net servicing income, which includes assumptions about the likelihood of prepayment by borrowers. Changes in interest rates can affect the prepayment assumptions and thus fair value. As interest rates fall, borrowers are usually more likely to prepay their mortgages by refinancing at a lower rate. As the likelihood of prepayment increases, the fair value of MSRs can decrease. Each quarter we evaluate the fair value of our MSRs, and decreases in fair value below amortized cost will reduce earnings in the period in which the decrease occurs. Even if interest rates fall or remain low, mortgage originations may also fall or increase only modestly due to economic conditions or a weak or deteriorating housing market, which may not be enough to offset the decrease in the MSRs’ value caused by lower rates.

***We may be adversely affected by deterioration in economic conditions that is general in scope or affects specific industries, products or geographic areas.***

Given the high percentage of our financing and leasing assets represented directly or indirectly by loans and leases, and the importance of lending and leasing to our overall business, weak economic conditions are likely to have a negative impact on our business and results of operations. Prolonged economic weakness or other adverse economic or financial developments in the U.S. or global economies in general, or affecting specific industries, geographic locations and/or products, would likely adversely impact credit quality as borrowers may fail to meet their debt payment obligations, particularly customers with highly leveraged loans. Adverse economic conditions have in the past and could in the future result in declines in collateral values, which also decreases our ability to fund against collateral. This would result in higher levels of nonperforming loans, net charge-offs, provision for credit losses, and valuation adjustments on loans held for sale. The value to us of other assets such as investment securities, most of which are debt securities or other financial instruments supported by loans, similarly would be negatively impacted by widespread decreases in credit quality resulting from a weakening of the economy. Accordingly, higher credit and collateral related losses and decreases in the value of financial instruments could impact our financial position or operating results.

Aside from a general economic downturn, a downturn in certain industries may result in reduced demand for products that we finance in that industry or negatively impact collection and asset recovery efforts. Decreased demand for the products of various manufacturing customers due to recession may adversely affect their ability to repay their loans and leases with us. Similarly, a decrease in the level of airline passenger traffic or a decline in railroad shipping volumes may adversely affect our aerospace and rail businesses, the value of our aircraft and rail assets, and the ability of our lessees to make lease payments. Further, a

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 31

decrease in prices or reduced demand for certain raw materials or bulk products, such as oil, coal, or steel, may result in a significant decrease in gross revenues and profits of our borrowers and lessees or a decrease in demand for certain types of equipment for the production, processing and transport of such raw materials or bulk products, including certain specialized railcars, which may adversely affect the ability of our customers to make payments on their loans and leases and the value of our rail assets and other leased equipment.

We are also affected by the economic and other policies adopted by various governmental authorities in the U.S. and other jurisdictions in reaction to economic conditions. Changes in monetary policies of the FRB and non-U.S. central banking authorities

directly impact our cost of funds for lending, capital raising, and investment activities, and may impact the value of financial instruments we hold. In addition, such changes may affect the credit quality of our customers. Changes in domestic and international monetary policies are beyond our control and difficult to predict.

### **Operational Risks**

#### ***Revenue growth from new business initiatives and expense reductions from efficiency improvements may not be achieved.***

As part of its ongoing business, CIT from time to time enters into new business initiatives. In addition, CIT from time to time has targeted certain expense reductions in its business. The new business initiatives may not be successful in increasing revenue, whether due to significant levels of competition, lack of demand for services, lack of name recognition or a record of prior performance, or otherwise, or may require higher expenditures than anticipated to generate new business volume. The expense initiatives may not reduce expenses as much as anticipated, whether due to delays in implementation, higher than expected or unanticipated costs of implementation, increased costs for new regulatory obligations, or for other reasons. If CIT is unable to achieve the anticipated revenue growth from its new business initiatives or the projected expense reductions from efficiency improvements, its results of operations and profitability may be adversely affected.

#### ***If we fail to maintain adequate internal control over financial reporting, it could result in a material misstatement of the Company's annual or interim financial statements.***

Management of CIT is responsible for establishing and maintaining adequate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. If we identify material weaknesses or other deficiencies in our internal controls, or if material weaknesses or other deficiencies exist that we fail to identify, our risk will be increased that a material misstatement to our annual or interim financial statements will not be prevented or detected on a timely basis. Any such potential material misstatement, if not prevented or detected, could require us to restate previously released financial statements and could otherwise have a material adverse effect on our business, results of operations, and financial condition. As of December 31, 2016, CIT has two material weaknesses outstanding in our internal controls related to information technology and in the Financial Freedom reverse mortgage servicing business related to the Home Equity Conversion Mortgages interest curtailment reserve. *See Item 9A. Controls and Procedures.*

#### ***Changes in accounting standards or interpretations could materially impact our reported earnings and financial condition.***

The Financial Accounting Standards Board, the SEC and other regulatory agencies periodically change the financial accounting and reporting standards that govern the preparation of CIT's consolidated financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, potentially resulting in changes to previously reported financial results, or a cumulative charge to retained earnings.

#### ***If the models that we use in our business are poorly designed, our business or results of operations may be adversely affected.***

We rely on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy, and calculating regulatory capital levels, as well as to estimate the value of financial instruments and balance sheet items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating models will be adversely affected due to the inadequacy of that information. Also, information we provide to the public or to our regulators based on poorly designed or implemented models could be inaccurate or misleading. Some of the decisions that our regulators make, including those related to capital distributions to our shareholders, could be affected adversely if their perception is that the quality of the models used to generate the relevant information is insufficient.

#### ***It could adversely affect our business if we fail to retain and/or attract skilled employees.***

Our business and results of operations will depend in part upon our ability to retain and attract highly skilled and qualified executive officers and management, financial, compliance, technical, marketing, sales, and support employees. Competition for qualified executive officers and employees can be challenging, and CIT cannot ensure success in attracting or retaining such individuals. This competition can lead to increased expenses in many areas. If we fail to attract and retain qualified executive officers and employees, it could materially adversely affect our ability to compete and it could have a material adverse effect on our ability to

successfully operate our business or to meet our operations, risk management, compliance, regulatory, funding and financial reporting requirements.

In the second quarter of 2016, the FRB, other federal banking agencies and the SEC jointly published proposed rules designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking at covered financial institutions, which include a bank or BHC with \$1 billion or more of assets, such as CIT and CIT Bank. Although the proposed rules include more

Item 1A. Risk Factors

---

## **Table of Contents**

### 32 CIT ANNUAL REPORT 2016

stringent requirements, particularly for larger institutions, it cannot be determined at this time whether or when a final rule will be adopted. Compliance with such a final rule may substantially affect the manner in which we structure compensation for our executives and other employees. Depending on the nature and application of the final rules, we may not be able to successfully compete with certain financial institutions and other companies that are not subject to some or all of the rules to retain and attract executives and other high performing employees. If this were to occur, our business, financial condition and results of operations would be adversely affected.

***We and our subsidiaries are party to various financing arrangements, commercial contracts and other arrangements that under certain circumstances give, or in some cases may give, the counterparty the ability to exercise rights and remedies under such arrangements which, if exercised, may have material adverse consequences.***

We and our subsidiaries are party to various financing arrangements, commercial contracts and other arrangements, such as securitization transactions, derivatives transactions, funding facilities, and agreements to purchase or sell loans, leases or other assets, that give, or in some cases may give, the counterparty the ability to exercise rights and remedies upon the occurrence of certain events. Such events may include a material adverse effect or material adverse change (or similar event), a breach of representations or warranties, a failure to disclose material information, a breach of covenants, certain insolvency events, a default under certain specified other obligations, or a failure to comply with certain financial covenants. The counterparty could have the ability, depending on the arrangement, to, among other things, require early repayment of amounts owed by us or our subsidiaries and in some cases payment of penalty amounts, or require the repurchase of assets previously sold to the counterparty. Additionally, a default under financing arrangements or derivatives transactions that exceed a certain size threshold in the aggregate may also cause a cross-default under instruments governing our other financing arrangements or derivatives transactions. If the ability of any counterparty to exercise such rights and remedies is triggered and we are unsuccessful in avoiding or minimizing the adverse consequences discussed above, such consequences could have a material adverse effect on our business, results of operations, and financial condition.

***We may be exposed to risk of environmental liability or claims for negligence, property damage, or personal injury when we take title to properties or lease certain equipment.***

In the course of our business, we may foreclose on and take title to real estate that contains or was used in the manufacture or processing of hazardous materials, or that is subject to other hazardous risks. In addition, we may lease equipment to our customers that is used to mine, develop, process, or transport hazardous materials. As a result, we could be subject to environmental liabilities or claims for negligence, property damage, or personal injury with respect to these properties or equipment. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination, accidents or other hazardous risks, or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site or equipment involved in a hazardous incident, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination, property damage, personal injury or other hazardous risks emanating from the property or related to the equipment. If we become subject to significant environmental liabilities or claims for negligence, property damage, or personal injury, our financial condition and results of operations could be adversely affected.

***We rely on our systems, employees, and certain third party vendors and service providers in conducting our operations, and certain failures, including internal or external fraud, operational errors, systems malfunctions, disasters, or terrorist activities, could materially adversely affect our operations.***

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical and recordkeeping errors, and computer or telecommunications systems malfunctions. Our businesses depend on our ability to process a large number of increasingly complex transactions. If any of our operational, accounting, or other data processing systems fail or have other significant shortcomings, we could be materially adversely affected. We are similarly dependent on our employees. We could be materially adversely affected if one of our employees causes a significant operational break-down or failure, either as a result of human error or intentional sabotage or fraudulent manipulation of our operations or systems. Third parties with which we do business, including vendors that provide internet access, portfolio servicing, deposit products, or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns, failures, or capacity constraints of their own systems or employees. Any of these occurrences could diminish our ability to operate one or more of our businesses, or cause financial loss, potential liability to clients, inability to secure insurance, reputational damage, or regulatory intervention, which could have a material adverse effect on our business.

We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, electrical or telecommunications outages, natural or man-made disasters, such as fires, earthquakes, hurricanes, floods, or tornados, disease pandemics, or events arising from local or regional politics, including terrorist acts or international hostilities. Such disruptions may give rise to losses in service to clients and loss or liability to us. In addition, there is the risk that our controls and procedures as well as business continuity and data security systems prove to be inadequate. The computer systems and network systems we and others use could be vulnerable to unforeseen problems. These problems may arise in both our internally developed systems and the systems of third-party hardware, software, and service providers. In addition, our computer systems and network infrastructure present security risks, and could be susceptible to hacking, computer viruses, or identity theft. Any such failure could affect our operations and could materially adversely affect our results of operations by requiring us to expend significant resources to correct the defect, as well as by exposing us to litigation or losses not covered by insurance. The adverse impact of disasters,

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 33

terrorist activities, or international hostilities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses that we deal with, particularly those that we depend upon but have no control over.

***We continually encounter technological change, and if we are unable to implement new or upgraded technology when required, it may have a material adverse effect on our business.***

The financial services industry is continually undergoing rapid technological change with frequent introduction of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our continued success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that satisfy customer demands and create efficiencies in our operations. If we are unable to effectively implement new technology-driven products and services that allow us to remain competitive or be successful in marketing these products and services to our customers, or if we implement technology that is susceptible to information security breaches or cyber security attacks, it may have a material adverse effect on our business.

***We could be adversely affected by information security breaches or cyber security attacks.***

Information security risks for large financial institutions such as CIT have generally increased in recent years, in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties, some of

which may be linked to terrorist organizations or hostile foreign governments. Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our businesses rely on our digital technologies, computer and email systems, software, and networks to conduct their operations. Our technologies, systems, networks, and our customers' devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of CIT's or our customers' confidential, proprietary and other information, including personally identifiable information of our customers and employees, or otherwise disrupt CIT's or its customers' or other third parties' business operations.

In recent years, there have been several well-publicized attacks on retailers, financial services companies, social media companies, and personal, proprietary, and public e-mail systems in which the perpetrators gained unauthorized access to confidential information and customer data, often through the introduction of computer viruses or malware, cyber attacks, phishing, or other means. There have also been a series of denial of service attacks on large financial services companies. In a denial of service attack, hackers flood commercial websites with extraordinarily high volumes of traffic, with the goal of disrupting the ability of commercial enterprises to process transactions and possibly making their websites unavailable to customers for extended periods of time. Even if not directed at CIT specifically, attacks on other entities with whom we do business or on whom we otherwise rely or attacks on financial or other institutions important to the overall functioning of the financial system could adversely affect, directly or indirectly, aspects of our business.

Since January 1, 2014, we have not experienced any material information security breaches involving either proprietary or customer information. However, if we experience cyber attacks or other information security breaches in the future, either the Company or its customers may suffer material losses. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the prominent size and scale of CIT and its role in the financial services industry, our plans to continue to implement our online banking channel strategies and develop additional remote connectivity solutions to serve our customers when and how they want to be served, our geographic footprint and international presence, the outsourcing of some of our business operations, and the continued uncertain global economic environment. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in customer attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

Item 1A. Risk Factors

---

## Table of Contents

34 CIT ANNUAL REPORT 2016

---

## Item 1B. Unresolved Staff Comments

There are no unresolved SEC staff comments.

---

## Item 2. Properties

CIT primarily operates in North America, with additional locations in Europe, and Asia. CIT occupies approximately 1.9 million square feet of space, which includes office space and branch network, the majority of which is leased.

---

## Item 3. Legal Proceedings



CIT is currently involved, and from time to time in the future may be involved, in a number of judicial, regulatory, and arbitration proceedings relating to matters that arise in connection with the conduct of its business (collectively, "Litigation"), certain of which Litigation matters are described in *Note 22 — Contingencies of Item 8. Financial Statements and Supplementary Data*. In view of the inherent difficulty of predicting the outcome of Litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages, CIT cannot state with confidence what the eventual outcome of the pending Litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter may be, if any. In accordance with applicable accounting guidance, CIT establishes reserves for Litigation when those matters present loss contingencies as to which it is both probable that a loss will occur and the amount of such loss can be reasonably estimated. Based on currently available information, CIT believes that the results of Litigation that is currently pending, taken together, will not have a material adverse effect on the Company's financial condition, but may be material to the Company's operating results or cash flows for any particular period, depending in part on its operating results for that period. The actual results of resolving such matters may be substantially higher than the amounts reserved.

For more information about pending legal proceedings, including an estimate of certain reasonably possible losses in excess of reserved amounts, see *Note 22 — Contingencies of Item 8. Financial Statements and Supplementary Data*.

## Item 4. Mine Safety Disclosures

Not applicable.

### Table of Contents

CIT ANNUAL REPORT 2016 35

Part Two

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

**Market Information** — CIT's common stock trades on the New York Stock Exchange ("NYSE") under the symbol "CIT."

The following tables set forth the high and low reported closing prices for CIT's common stock.

	2016		2015	
	High	Low	High	Low
<b>Common Stock</b>				
First Quarter	\$39.70	\$25.65	\$47.83	\$43.34
Second Quarter	\$34.57	\$28.45	\$48.07	\$44.62
Third Quarter	\$36.88	\$30.66	\$48.51	\$39.61
Fourth Quarter	\$43.85	\$35.25	\$46.14	\$39.70

**Holders of Common Stock** — As of February 13, 2017, there were 45,971 beneficial holders of common stock.

**Dividends** — We declared the following dividends in 2016 and 2015:

Per Share Dividend

	Per Share Dividend	
	2016	2015
<b>Declaration Date</b>		
January	\$0.15	\$0.15
April	\$0.15	\$0.15
July	\$0.15	\$0.15
October	\$0.15	\$0.15

On January 18, 2017, the Board of Directors declared a quarterly cash dividend of \$0.15 per share payable on February 24, 2017 to shareholders of record on February 10, 2017.

**Shareholder Return** — The following graph shows the annual cumulative total shareholder return for common stock during the period from December 31, 2011 to December 31, 2016. The chart also shows the cumulative returns of the S&P 500 Index and S&P Banks Index for the same period. The comparison assumes \$100 was invested on December 31, 2011. Each of the indices shown assumes that all dividends paid were reinvested.

#### CIT STOCK PERFORMANCE DATA

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

#### Table of Contents

#### 36 CIT ANNUAL REPORT 2016

**Securities Authorized for Issuance Under Equity Compensation Plans** — There were two equity compensation plans in effect during 2016. The Amended and Restated CIT Group Inc. Long-Term Incentive Plan was approved by the Bankruptcy Court in 2009 and did not require shareholder approval. The CIT Group Inc. 2016 Omnibus Incentive Plan was approved by shareholders in 2016. Equity awards associated with these plans are presented in the following table.

	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by shareholders and the Court	7,268	\$33.80	6,284,699*

\* Excludes the number of securities to be issued upon exercise of outstanding options and 3,286,786 shares underlying outstanding awards granted to employees and/or directors that are unvested and/or unsettled.

During 2016, we had no equity compensation plans that were not approved by shareholders or the Court. For further information on our equity compensation plans, including the weighted average exercise price, see *Item 8. Financial Statements and Supplementary Data, Note 20 — Retirement, Postretirement and Other Benefit Plans*.

**Issuer Purchases of Equity Securities** — There were no authorized share repurchase programs in effect during 2016. In April 2015, the Board authorized a \$200 million share repurchase program. In January and April 2014, the Board of Directors approved

## Edgar Filing: CIT GROUP INC - Form 10-K

the repurchase of up to \$307 million and \$300 million, respectively, of common stock through December 31, 2014. On July 22, 2014, the Board of Directors approved an additional repurchase of up to \$500 million of common stock through June 30, 2015. All of these approved purchases were completed. Management determined the timing and amount of shares repurchased under the share repurchase authorizations based on market conditions and other considerations. The repurchases were effected via open market purchases and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended. The repurchased common stock is held as treasury shares and may be used for the issuance of shares under CIT's employee stock plans.

We received a non-objection letter from the Federal Reserve Bank of New York to return up to \$3.3 billion of capital to shareholders that would occur in conjunction with the Commercial Air separation.\* The Company's management and the Board will determine the timing and amount of any share repurchases and special dividends that may be authorized based on market conditions and other considerations. Any share repurchases may be effected in the open market, through derivative, accelerated share repurchase, and other negotiated transactions, and through plans designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934.

**Unregistered Sales of Equity Securities** — There were no sales of common stock during 2016 and 2014. During the third quarter of 2015, the Company issued 30.9 million shares of unregistered common stock held in treasury, mostly repurchased through share buyback plans, as a component of the purchase price paid for the acquisition of OneWest Bank. In addition, there were issuances of common stock under equity compensation plans and an employee stock purchase plan, both of which are subject to registration statements.

\* Amended capital plan approval authorizes CIT to return \$2.975 billion of common equity from the net proceeds of the Commercial Air sale; additional \$0.325 billion contingent upon the issuance of a similar amount of Tier 1 qualifying preferred stock.

---

### Table of Contents

CIT ANNUAL REPORT 2016 37

---

## Item 6. Selected Financial Data

The following table sets forth selected consolidated financial information regarding our results of operations, balance sheets and certain ratios.

The data presented below is explained further in, and should be read in conjunction with, *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 *Item 8. Financial Statements and Supplementary Data*.

**Select Data** (dollars in millions, except per share data)

	At or for the Years Ended December 31,				
	2016	2015	2014	2013	2012
<b>Select Statement of Operations Data</b>					
Net interest revenue	\$ 1,158.3	\$ 713.8	\$ 440.5	\$ 439.2	\$ (464.5)
Provision for credit losses	(194.7)	(158.6)	(104.4)	(75.3)	(41.7)
Total non-interest income	1,182.2	1,167.7	1,213.5	1,183.0	1,407.7
Total non-interest expenses	2,124.9	1,536.9	1,305.1	1,252.2	1,208.7

Edgar Filing: CIT GROUP INC - Form 10-K

At or for the Years Ended December 31,

(Loss) income from continuing operations	(182.6)	724.1	675.7	238.4	(388.8)
Net (loss) income	(848.0)	1,034.1	1,119.1	675.7	(592.3)
<b>Per Common Share Data</b>					
Diluted (loss) income per common share — continuing operations	\$ (0.90)	\$ 3.89	\$ 3.57	\$ 1.18	\$ (1.94)
Diluted (loss) income per common share	\$ (4.20)	\$ 5.55	\$ 5.91	\$ 3.35	\$ (2.95)
Book value per common share	\$ 49.50	\$ 54.45	\$ 50.07	\$ 44.78	\$ 41.49
Tangible book value per common share	\$ 45.41	\$ 48.33	\$ 47.59	\$ 43.56	\$ 40.22
Dividends declared per common share	\$ 0.60	\$ 0.60	\$ 0.50	\$ 0.10	\$ —
Dividend payout ratio	NM	10.8%	8.5%	3.0%	—
<b>Performance Ratios</b>					
Pre-tax return from continuing operations on average tangible common stockholders' equity	0.2%	1.9%	2.8%	3.4%	(3.6)%
Return (continuing operations) on average common stockholders' equity	(1.6)%	7.5%	7.7%	2.8%	(4.6)%
Net finance revenue as a percentage of average earning assets	3.60%	3.47%	3.30%	3.37%	0.11%
Return on average earning assets	(1.78)%	2.72%	3.74%	2.41%	(2.31)%
Return on average continuing operations total assets	(0.34)%	1.68%	2.01%	0.78%	(1.39)%
<b>Balance Sheet Data</b>					
Loans including receivables pledged	\$29,535.9	\$30,518.7	\$18,260.6	\$17,745.3	\$16,304.5
Allowance for loan losses	(432.6)	(347.0)	(334.2)	(339.1)	(353.0)
Operating lease equipment, net	7,486.1	6,851.7	5,980.9	4,765.7	4,304.2
Goodwill	685.4	1,063.2	432.3	233.7	245.0
Total cash and deposits	6,430.6	7,652.4	6,155.2	5,369.0	6,139.7
Investment securities	4,491.1	2,953.7	1,550.3	2,630.2	1,065.5
Assets of discontinued operation	13,220.7	13,059.6	12,493.7	14,742.1	14,625.6
Total assets	64,170.2	67,391.9	47,755.5	46,996.8	43,860.1
Deposits	32,304.3	32,761.4	15,838.7	12,523.3	9,681.5
Borrowings	14,935.5	16,350.3	15,969.7	16,036.5	15,683.5
Liabilities of discontinued operation	3,737.7	4,302.0	3,818.1	6,993.7	7,540.3
Total common stockholders' equity	10,002.7	10,944.7	9,057.9	8,838.8	8,334.8
<b>Credit Quality</b>					
Non-accrual loans as a percentage of finance receivables	0.94%	0.83%	0.88%	1.28%	1.83%
Net charge-offs as a percentage of average	0.37%	0.58%	0.55%	0.47%	0.48%

Edgar Filing: CIT GROUP INC - Form 10-K

At or for the Years Ended December 31,

finance receivables					
Allowance for loan losses as a percentage of finance receivables	1.46%	1.14%	1.83%	1.91%	2.17%
<b>Capital Ratios</b>					
Total ending equity to total ending assets	15.6%	16.2%	19.0%	18.8%	19.0%
Common Equity Tier 1 Capital Ratio (fully phased-in)	13.8%	12.6%	—	—	—
Tier 1 Capital Ratio (fully phased-in)	13.8%	12.6%	14.5%	16.7%	16.2%
Total Capital Ratio (fully phased-in)	14.6%	13.2%	15.1%	17.4%	17.0%

NM — Not meaningful due to the net loss.

Item 6: Selected Financial Data

**Table of Contents**

38 CIT ANNUAL REPORT 2016

The following revenues and expenses are reflective of continuing operations. See footnote “(5)” below the table for note on average borrowings balance and the related expense and rate.

**Average Balances<sup>(1)</sup> and Associated Income and Expense for the year ended:** (dollars in millions)

	December 31, 2016			December 31, 2015			December 31, 2014		
	Average Balance	Revenue / Expense <sup>(6)</sup>	Average Rate (%)	Average Balance	Revenue / Expense <sup>(6)</sup>	Average Rate (%)	Average Balance	Revenue / Expense <sup>(6)</sup>	Average Rate (%)
Interest bearing deposits	\$ 6,450.6	\$ 33.1	0.51%	\$ 5,486.6	\$ 17.1	0.31%	\$ 4,652.5	\$ 17.7	0.38%
Securities purchased under agreements to resell	—	—	—	411.5	2.3	0.56%	242.3	1.2	0.49%
Investment securities	3,384.0	98.8	2.92%	2,239.3	51.8	2.31%	1,667.6	16.6	0.99%
Loans (including held for sale) <sup>(2)(3)</sup>									
U.S. <sup>(2)</sup>	30,482.5	1,708.8	5.85%	22,810.3	1,189.2	5.58%	15,726.3	834.2	5.30%
Non-U.S.	1,037.1	95.0	9.16%	2,016.2	185.3	9.19%	3,269.0	285.9	8.75%
Total loans <sup>(2)</sup>	31,519.6	1,803.8	5.97%	24,826.5	1,374.5	5.89%	18,995.3	1,120.1	5.89%
Total interest earning assets / interest income <sup>(2)(3)</sup>	41,354.2	1,935.7	4.83%	32,963.9	1,445.7	4.59%	25,557.7	1,155.6	4.52%

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2016			December 31, 2015			December 31, 2014		
Operating lease equipment, net (including held for sale) <sup>(4)</sup>									
U.S. <sup>(4)</sup>	5,855.4	447.1	7.64%	5,178.9	491.2	9.48%	4,846.8	454.9	
Non-U.S. <sup>(4)</sup>	1,367.4	109.8	8.03%	1,180.7	112.6	9.54%	923.1	93.2	1
Total operating lease equipment, net <sup>(4)</sup>	7,222.8	556.9	7.71%	6,359.6	603.8	9.49%	5,769.9	548.1	
Indemnification assets	373.8	(24.2)	(6.47)%	188.6	(0.5)	(0.27)%	—	—	
Total earning assets <sup>(2)</sup>	48,950.8	\$2,468.4	5.18%	39,512.1	\$2,049.0	5.39%	31,327.6	\$1,703.7	
Non interest earning assets									
Cash due from banks	882.1			967.6			836.5		
Allowance for loan losses	(390.8)			(333.0)			(334.9)		
All other non-interest earning assets	4,048.3			2,958.3			1,719.0		
Assets of discontinued operation	13,021.2			12,333.1			12,854.9		
<b>Total Average Assets</b>	<b>\$66,511.6</b>			<b>\$55,438.1</b>			<b>\$46,403.1</b>		
<b>Average Liabilities</b>									
Borrowings									
Deposits	\$31,545.1	\$ 394.8	1.25%	\$22,762.7	\$ 330.1	1.45%	\$13,890.9	\$ 231.0	
Borrowings <sup>(5)</sup>	15,493.6	358.4	2.31%	15,519.1	401.3	2.59%	15,977.0	484.1	
Total interest-bearing liabilities	47,038.7	753.2	1.60%	38,281.8	731.4	1.91%	29,867.9	715.1	
Non-interest bearing deposits	1,177.5			503.6			56.9		
Credit balances of factoring clients	1,286.6			1,492.4			1,368.5		
Other non-interest bearing liabilities	1,689.2			1,541.0			1,321.9		
Liabilities of discontinued operation	4,236.5			3,975.6			4,950.4		
Noncontrolling interests	0.5			(0.9)			7.0		
Stockholders' equity	11,082.6			9,644.6			8,830.5		
<b>Total Average Liabilities and Stockholders' Equity</b>	<b>\$66,511.6</b>			<b>\$55,438.1</b>			<b>\$46,403.1</b>		
Net revenue spread			3.58%			3.48%			
Impact of non-interest bearing sources			0.02%			(0.01)%			
<b>Net revenue / yield on earning assets<sup>(2)</sup></b>		\$1,715.2	3.60%		\$1,317.6	3.47%		\$ 988.6	

(1) The average balances presented are derived based on month end balances during the year. Tax exempt income was not significant in any of the years presented. Average rates are impacted by PAA and FSA accretion and amortization.

## Edgar Filing: CIT GROUP INC - Form 10-K

- (2) The rate presented is calculated net of average credit balances for factoring clients.
- (3) Non-accrual loans and related income are included in the respective categories.
- (4) Operating lease rental income is a significant source of revenue; therefore, we have presented the rental revenues net of depreciation and net of Maintenance and other operating lease expenses.
- (5) The interest expense presented pertains only to continuing operations and reflects the allocation of interest expense to discontinued operations. The average rate for borrowings before the allocation of interest expense to discontinued operations was 4.15% for 2016, 4.31% for 2015 and 5.53% for 2014.
- (6) Interest and expense and average rates include PAA and FSA accretion, including amounts accelerated due to redemptions or extinguishments, and accelerated original issue discount on debt extinguishment related to the TRS Transactions.

### Table of Contents

CIT ANNUAL REPORT 2016 **39**

The table below disaggregates CIT's year-over-year changes (2016 versus 2015 and 2015 versus 2014) in net interest revenue and operating lease margins as presented in the preceding tables between volume (level of lending or borrowing) and rate (rates charged customers or incurred on borrowings). Volume change is calculated as change in volume times the previous rate, while rate change is change in rate times the previous volume. The rate/volume change, change in rate times change in volume, is allocated between volume change and rate change at the ratio each component bears to the absolute value of their total. See Net Finance Revenue section for further discussion.

#### Changes in Net Finance Revenue (dollars in millions)

	2016 Compared to 2015			2015 Compared to 2014		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
	Volume	Rate	Net	Volume	Rate	Net
<b>Interest Income</b>						
Loans (including held for sale and net of credit balances of factoring clients)	\$368.8	\$ 60.5	\$429.3	\$ 275.0	\$ (20.6)	\$ 254.4
Interest bearing deposits	3.4	12.6	16.0	2.9	(3.5)	(0.6)
Securities purchased under agreements to resell	(1.1)	(1.2)	(2.3)	0.9	0.2	1.1
Investments	31.1	15.9	47.0	7.2	28.0	35.2
Interest income	402.2	87.8	490.0	286.0	4.1	290.1
Operating lease equipment, net (including held for sale) <sup>(1)</sup>	75.5	(122.4)	(46.9)	56.0	(0.3)	55.7
Indemnification assets	(1.0)	(22.7)	(23.7)	(0.5)		(0.5)
<b>Interest Expense</b>						
Interest on deposits	114.5	(49.8)	64.7	131.8	(32.7)	99.1
Borrowings	(0.7)	(42.2)	(42.9)	(13.5)	(69.3)	(82.8)

	2016 Compared to 2015			2015 Compared to 2014		
Interest expense	113.8	(92.0)	21.8	118.3	(102.0)	16.3
Net finance revenue	\$362.9	\$ 34.7	\$397.6	\$ 223.2	\$ 105.8	\$ 329.0
<b>Loans U.S. and Non-U.S. (including held for sale and net of credit balances of factoring clients):</b>						
U.S.	\$458.5	\$ 61.1	\$519.6	\$ 389.5	\$ (34.5)	\$ 355.0
Non-U.S.	(89.7)	(0.6)	(90.3)	(114.5)	13.9	(100.6)

(1) Operating lease rental income is a significant source of revenue; therefore, we have presented the net revenues.

Item 6: Selected Financial Data

## Table of Contents

40 CIT ANNUAL REPORT 2016

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

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

#### BACKGROUND

CIT Group Inc., together with its subsidiaries (collectively "we", "our", "CIT" or the "Company"), has provided financial solutions to its clients since its formation in 1908. We provide financing, leasing and advisory services principally to middle market companies in a wide variety of industries primarily in North America, and equipment financing and leasing solutions to the transportation industry. We had \$46.8 billion of earning assets from continuing operations at December 31, 2016. CIT is a bank holding company ("BHC") and a financial holding company ("FHC"). CIT provides a full range of banking and related services to commercial and individual customers through its bank subsidiary, CIT Bank, N.A., which includes 70 branches located in southern California, and its online bank, bankoncit.com, and through other offices in the U.S. and select international locations.

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. CIT Bank, N.A. is regulated by the Office of the Comptroller of the Currency, U.S. Department of the Treasury ("OCC").

On October 6, 2016, we entered into a definitive agreement to sell the Commercial Air business, except for certain commercial aerospace loans and investments in CIT Bank, and our investment in two joint ventures (collectively "TC-CIT Aviation"). The Commercial Air business, along with our Business Air and Financial Freedom businesses, were reported as discontinued operations. All prior period balances have been conformed. Results from our discontinued operations are discussed in the following section and *Note 2 — Acquisition and Discontinued Operations* in *Item 8. Financial Statements and Supplementary Data*.

Effective as of August 3, 2015, CIT Group Inc. ("CIT") acquired IMB HoldCo LLC ("IMB"), the parent company of OneWest Bank, National Association, a national banking association ("OneWest Bank"). Upon acquisition, CIT Bank, then a Utah-state chartered bank and a wholly owned subsidiary of CIT, merged with and into OneWest Bank (the "OneWest Transaction"), with OneWest Bank surviving as a wholly-owned subsidiary of CIT with the name CIT Bank, National Association, a national banking association ("CIT Bank" or "CIT Bank, N.A."). See *Note 2 — Acquisitions and Discontinued Operations* in *Item 8. Financial Statements and*



## Edgar Filing: CIT GROUP INC - Form 10-K

*Supplementary Data* for a summary of the assets acquired and liabilities assumed.

The consolidated financial statements include the effects of Purchase Accounting Adjustments (“PAA”) upon completion of the OneWest Transaction, as required by U.S. GAAP. Accretion and amortization of certain PAA are included in the consolidated Statements of Income, primarily impacting Net Finance Revenue (Interest income and interest expense) and Non-interest expenses.

Due to changes in our business, our segments have been realigned since they were reported in our 2015 Annual Report and have been further refined during the fourth quarter of 2016. As of December 31, 2016, CIT manages its business and reports its financial results in three operating segments: Commercial Banking, Consumer Banking, and Non-Strategic Portfolios (“NSP”), and a non-operating segment, Corporate and Other. All prior periods were conformed to reflect the changes. See *Business Segments* in *Item 1. Business Overview* for a summary of changes and other segment information. Business segments and results are discussed later in this section and presented in *Note 25 — Business Segment Information* in *Item 8. Financial Statements and Supplementary Data*.

*Management’s Discussion and Analysis of Financial Condition and Results of Operations* and *Quantitative and Qualitative Disclosures about Market Risk* contain financial terms that are relevant to our business and a *Glossary* of key terms has been updated and is included at the end of *Item 1. Business Overview* in this document. In limited instances, Management uses certain non-GAAP financial measures in its analysis of the financial condition and results of operations of the Company. See “*Non-GAAP Financial Measurements*” for a reconciliation of these financial measures to comparable financial measures based on U.S. GAAP.

### 2016 ACCOMPLISHMENTS AND FINANCIAL REVIEW

#### 2016 PRIORITIES AND ACCOMPLISHMENTS

We are committed to delivering long-term value for shareholders by focusing on the following priorities:

**Focus on Core Businesses:** Invest in growth, strengthen our capabilities with respect to our primary lending, leasing and depository solutions for small business and middle market customers, while we seek to optimize value by exiting non-core businesses. Examples include:

- We signed a definitive agreement in October 2016 to sell our Commercial Air business for \$10.0 billion, which represents a 6.7% premium to net assets. The transaction is targeted to close by the end of the first quarter of 2017, subject to certain pending conditions described below; and
- We sold our U.K. Equipment Finance business in the first quarter of 2016 and our Canada Equipment and Corporate Finance businesses in October 2016.

---

### Table of Contents

CIT ANNUAL REPORT 2016 41

**Improve Profitability and Return Capital:** Achieve a return on tangible common equity (ROTCE) of 10 percent by 2018 by executing on our strategic and expense reduction initiatives. Examples include:

- Our return on tangible common equity (“ROTCE<sup>(t)</sup>”) excluding noteworthy items for total CIT for the year ended December 31, 2016, was 8%. (ROTCE for the year was not meaningful due to the net loss.);
- We met our goal to be about a third of the way through our expense savings target by year end as discussed further below;

## Edgar Filing: CIT GROUP INC - Form 10-K

- We closed two offices, combined systems and integrated OneWest Bank, and addressed certain legacy OneWest Bank issues.
- We redeployed cash at CIT Bank, N.A. into higher-yielding “High Quality Liquid Assets.” The year end 2016 investment securities balance increased to \$4.5 billion from \$3.0 billion at December 31, 2015, while the average yield increased to 2.9% in 2016 from 2.3% in 2015;
- We maintained our quarterly dividend at \$0.15 per share; and
- We received a non-objection from the Federal Reserve Bank of New York to return up to \$3.3 billion of capital to shareholders that would occur in conjunction with the Commercial Air separation<sup>(2)</sup>.

**Maintain Strong Risk Management:** The improvement in CIT’s credit ratings reflects the strength of our franchises, robust liquidity and capital positions and the expansion and diversification of deposit funding. Examples include:

- We maintained strong regulatory capital ratios;
- We maintained solid credit metrics despite some increased provisioning in the maritime and energy portfolios; and
- We enhance our capital planning process.

### Expense Savings Summary

Our cost reduction plan is focused in three main areas:

- organization simplification: structuring the company to be more efficient while ensuring we have the talent and resources;
- third-party efficiencies: includes items such as evaluating vendor agreements, improving processes and reducing travel costs; and
- technology and operational improvements: reengineering processes and automating certain functions, as well as standardizing technology.

We plan to eliminate \$150 million of operating expense from continuing operations by 2018 compared to our normalized annual run rate of approximately \$1.2 billion in the fourth quarter of 2015. This includes our original target of \$125 million plus an additional \$25 million of indirect costs associated with the Commercial Air sale. While the aggregate reduction target has not changed, we recasted the way we are tracking the operating expense reductions as a result of transferring Commercial Air to discontinued operations. The \$80 million reduction in expenses associated with the Commercial Air business reflects \$55 million of direct costs in discontinued operations and \$25 million of indirect costs that remain in continuing operations.

Although our total expenses were up in 2016 due to elevated operational costs and costs from strategic initiatives, we completed one-third of the underlying annual expense save target in 2016, primarily through organizational changes. Given investments in/planned improvements to our CCAR capabilities and other strategic initiatives, we expect costs to remain elevated in the first quarter of 2017 as we prepare for the capital plan submission and to decline thereafter.

### Commercial Air Sale Summary

On October 6, 2016, we announced a definitive agreement to sell Commercial Air, our commercial aircraft leasing business, to Avolon Holdings Limited (“Avolon”), an international aircraft leasing company and a wholly-owned subsidiary of Bohai Capital Holding Co. Ltd. (“Bohai”).

The sale includes the Commercial Air operations, forward order commitments, and certain assets and liabilities. The aggregate purchase price payable by the Purchaser and its subsidiaries to CIT and its subsidiaries for the Transaction (the “Purchase Price”)

## Edgar Filing: CIT GROUP INC - Form 10-K

will be an amount in cash equal to (a) the adjusted net asset amount of the Business (the "Net Asset Value" as defined by the purchase and sale agreement) as of the closing of the Transaction (the "Closing") plus (b) a premium of \$627 million. As of December 31, 2016, the Net Asset Value was approximately \$9.6 billion. The Net Asset Value is subject to fluctuation in the ordinary course of business through closing and there can be no assurances as to whether the Net Asset Value at closing will be higher, lower or the same as the Net Asset Value as of December 31, 2016.

We continue to target closing by the end of the first quarter of 2017. In March 2017, Bohai has advised us that they received approval of Bohai shareholders to complete the transaction. A key remaining milestone for closing includes receipt of Chinese regulatory approvals. Bohai has advised us that they continue to work toward achieving the milestone by the end of the first quarter.

Avolon has deposited \$600 million into an escrow account with a U.S. bank, which is payable to CIT at closing as part of the purchase price and in certain circumstances if the transaction is not consummated.

In anticipation of the sale, we terminated the Canadian TRS that would not be used after the sale of Commercial Air, and repaid approximately \$550 million of commercial air secured debt in the fourth quarter of 2016 and approximately \$1.0 billion in February 2017. See "*Funding and Liquidity*" section for discussion on the Canadian TRS termination.

- (1) *ROTCE is a non-GAAP measure. See "Non-GAAP Financial Measurements" for reconciliation of non-GAAP to GAAP financial information.*
- (2) *Amended capital plan approval authorizes CIT to return \$2.975 billion of common equity from the net proceeds of the Commercial Air sale; additional \$0.325 billion contingent upon the issuance of a similar amount of Tier 1 qualifying preferred stock.*

Item 7: Management's Discussion and Analysis

---

### **Table of Contents**

42 CIT ANNUAL REPORT 2016

### **SUMMARY OF 2016 FINANCIAL RESULTS**

Our 2016 results reflected solid business activity, the inclusion of OneWest Bank activity for the entire year (compared to five months in 2015), noteworthy items related to strategic initiatives, goodwill impairment, simplification actions and progress on the resolution of legacy OneWest Bank matters. Revenues continued to be challenged by the low interest rate environment, which took the form of margin pressure in certain industries and asset classes. Funding costs were lower, benefiting from the OneWest Transaction, liability management actions and the low rate environment. Other income reflected payment of a significant termination fee related to the Canadian TRS. Operating expenses were up, as they included a full year of additional costs from the OneWest Bank transaction and costs supporting our strategic initiatives, including the Commercial Air separation, but we achieved underlying operating savings, as summarized below.

#### *Net (loss) income*

The net loss for 2016 of \$848 million, \$(4.20) per diluted share, was driven by significant net charges in discontinued operations, as well as in continuing operations, compared to net income for 2015 of \$1,034 million, \$5.55 per diluted share, and \$1,119 million, \$5.91 per diluted share, for 2014. Net income excluding noteworthy items<sup>(3)</sup> totaled \$710 million, \$3.52 per diluted share, for 2016, \$606 million, \$3.25 per diluted share, for 2015 and \$704 million, \$3.72 per diluted share, for 2014.

There was a loss from continuing operations (after taxes) for 2016 of \$183 million, \$0.90 per diluted share, compared to income of \$724 million, \$3.89 per diluted share, for 2015 and \$676 million, \$3.57 per diluted share, for 2014. Income from continuing operations excluding noteworthy items<sup>(4)</sup> totaled \$385 million, \$1.91 per diluted share, for 2016, \$296 million, \$1.59 per diluted share, for 2015 and \$313 million, \$1.65 per diluted share, for 2014.

## Edgar Filing: CIT GROUP INC - Form 10-K

We reconcile our GAAP balances in our non-GAAP reconciliation section at the end of Item 7. Management's Discussion and Analysis. These non-GAAP measures and others that follow 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. The non-GAAP noteworthy items are summarized in the following categories: significant due to the magnitude of the transaction; transactions pertaining to items no longer considered core to CIT's on-going operations (i.e. sales of Non-Strategic Portfolios); legacy OneWest Bank issues prior to CIT's ownership; and recurring items consistently noted in other non-GAAP measures, even though its balance may not have been significant.

The loss from discontinued operations (after taxes) for 2016 was \$665 million, \$3.30 per diluted share, which included \$455 million from Aerospace and \$210 million from Financial Freedom. The loss in Aerospace included an \$847 million net tax expense related to the pending Commercial Air sale, while the loss from Financial Freedom reflected a \$179 million after tax curtailment reserve charge. Income from discontinued operations totaled \$310 million, \$1.66 per diluted share, for 2015 and \$443 million, \$2.34 per diluted share, for 2014.

### *Income from continuing operations, before provision for income taxes*

Pre-tax income of \$21 million for 2016 was down from income of \$186 million for 2015 and \$245 million for 2014. The pre-tax income in 2016 was down, driven by goodwill impairment charges of \$354 million and an approximately \$245 million of net charges related to the termination of our Canadian subsidiary's total return swap facility (the "Canadian TRS") and other net charges listed in our non-GAAP table. Aside from the noteworthy net charges, 2016 reflected higher revenues, driven by the higher asset base from the prior year acquisition, lower funding costs, improvements in net charge-offs and higher operating expenses.

### *Net finance revenue<sup>(5)</sup> ("NFR")*

NFR was \$1.7 billion in 2016, up from \$1.3 billion in 2015 and \$1.0 billion in 2014, on higher average earning assets ("AEA"). Growth in AEA and accretion of purchase accounting adjustments increased NFR in 2016 and 2015. AEA was \$47.7 billion in 2016, up from \$38.0 billion in 2015 and from \$30.0 billion in 2014. Purchase accounting accretion increased NFR by \$292 million in 2016 and \$122 million in 2015. The acquisition of OneWest Bank in 2015 resulted in higher revenues from the additional earning assets and lower funding costs, as OneWest Bank's funding consisted mostly of deposits, which have a lower interest rate.

Compared to the prior year, the decrease in net operating lease revenue reflected pressure on lease rates and utilization in our rail portfolio, and higher depreciation and maintenance costs.

### *Provision for credit losses*

The provision for 2016 was \$195 million, up from \$159 million in 2015 and \$104 million in 2014. The provision for credit losses reflected reserve build and an increase in the reserve resulting from the recognition of provisions on non-PCI loans. 2016 included increased provisioning in the maritime and energy portfolios. The 2015 increase also reflected increases in reserves related to the energy sector and, to a lesser extent, the maritime portfolios, as well as from the establishment of reserves on certain acquired non-credit impaired loans in the initial period post acquisition.

### *Credit metrics*

Net charge-offs were \$111 million (0.37% of average finance receivables) in 2016, compared to \$137 million (0.58%) in 2015 and \$99 million (0.55%) in 2014. Excluding assets transferred to held for sale, net charge-offs were 0.23%, 0.27% and 0.31%, for the years ended December 31, 2016, 2015 and 2014, respectively. Non-accrual loans rose to \$279 million (0.94% of finance receivables) at December 31, 2016 from \$252 million (0.83%) a year ago and \$160 million (0.88%) at December 31, 2014. The increase compared to the year-ago was related to one loan in our maritime business within Commercial Finance, while the rise in 2015 was driven mostly by an increase in the Commercial Banking energy portfolio.

<sup>(3)</sup> Net income excluding noteworthy items is a non-GAAP measure; see "Non-GAAP Financial Measurements" for a reconciliation of non-GAAP to GAAP financial information.

<sup>(4)</sup> Income from continuing operations excluding noteworthy items is a non-GAAP measure; see "Non-GAAP Financial Measurements" for a reconciliation of non-GAAP to GAAP financial information.

<sup>(5)</sup> Net finance revenue and average earning assets are non-GAAP measures; see "Non-GAAP Financial Measurements" for a reconciliation of non-GAAP to GAAP financial information.

**Table of Contents**CIT ANNUAL REPORT 2016 **43***Other income*

Other income was driven by various fee revenue and commissions in each of 2016, 2015 and 2014. In addition, other income of \$151 million in 2016 was net of approximately \$245 million of net charges related to the termination of the Canadian TRS, compared to \$150 million in 2015, which reflected net losses on portfolios sold, driven primarily by the realization of currency translation adjustment losses, and \$264 million in 2014.

*Operating expenses*

Operating expenses were \$1,284 million, up from \$1,121 million in 2015 and \$900 million in 2014. 2016 reflected the inclusion of OneWest Bank activity for the full year 2016 compared with five months during 2015. Also, 2016 reflected higher regulatory costs resulting from SIFI compliance, costs associated with implementing our strategic initiatives, OneWest Bank integration costs, additional and compliance costs related to legacy OneWest Bank items existing prior to the 2015 acquisition. The increased expenses in 2015 compared to 2014 mostly reflected the OneWest Transaction and the associated five months of expenses. In addition, 2015 included elevated transaction costs to close the OneWest Bank acquisition (included primarily in professional fees) and an increase in FDIC insurance costs resulting from the acquisition, partially offset by savings from the completion of business sales in 2015.

*Goodwill impairment*

The Company recorded goodwill impairment of \$319 million in Consumer Banking and \$35 million related to our factoring business in Business Capital, during the fourth quarter of 2016. See *Note 26 — Goodwill and Intangible Assets* in *Item 8. Financial Statements and Supplementary Data* and *Critical Accounting Estimates* in the MD&A, both of which discuss goodwill impairment testing.

*(Provision) benefit for income taxes*

The tax provision for 2016 totaled \$204 million, compared to benefits of \$538 million in 2015 and \$432 million in 2014. The 2015 benefit reflected a \$647 million reversal of the valuation allowance on the U.S. federal deferred tax asset, while the 2014 benefit mostly reflected a \$375 million partial reversal of the U.S. Federal deferred tax asset valuation allowance.

*Total assets of continuing operations*

Total assets of continuing operations at December 31, 2016 were \$50.9 billion, down from \$54.3 billion at December 31, 2015, reflecting asset sales and the reduction of deferred tax assets in connection with the Commercial Air transaction. Total assets of continuing operations were up from \$35.3 billion at December 31, 2014, primarily reflecting the addition of assets acquired in the OneWest Transaction in 2015.

- *Financing and leasing assets* ("FLA"), which includes loans, operating lease equipment and assets held for sale ("AHFS"), decreased to \$37.7 billion at December 31, 2016, from \$39.4 billion at December 31, 2015, mostly reflecting sales of non-strategic businesses, and was up from \$25.1 billion at December 31, 2014, due to the OneWest Bank acquisition of \$13.6 billion of FLA in 2015.
- *Cash (cash and due from banks and interest bearing deposits)* totaled \$6.4 billion at December 31, 2016, compared to \$7.7 billion at December 31, 2015 and \$6.2 billion at December 31, 2014, reflecting the redeployment of cash into investment securities as noted below, while the 2015 increase reflected \$4.4 billion of cash acquired in the OneWest Transaction, partially offset by the payment of \$1.9 billion as consideration for the OneWest Transaction.

## Edgar Filing: CIT GROUP INC - Form 10-K

- *Investment securities and securities purchased under resale agreements* totaled \$4.5 billion at December 31, 2016 compared to \$3.0 billion at December 31, 2015, and \$2.2 billion at December 31, 2014. The increase in 2016 reflected our 2016 business strategy to redeploy cash at CIT Bank, N.A. into higher-yielding “High Quality Liquid Assets,” and the increase in 2015, reflected \$1.3 billion of investment securities, primarily comprised of MBS, acquired in the OneWest Transaction.
- *Goodwill and Intangible assets* decreased in 2016 primarily due to goodwill impairment of \$354 million, mostly related to the Consumer Banking segment, and increased in 2015 due to the addition of \$663 million of goodwill and \$165 million of intangible assets related to the OneWest Transaction.
- *Other assets* of \$1.2 billion at December 31, 2016, were down from \$2.5 billion, primarily due to the reduction in the deferred tax assets. The components are included in *Note 8 — Other Assets in Item 8. Financial Statements and Supplementary Data*.

### *Deposits*

Deposits were down \$0.5 billion to \$32.3 billion at December 31, 2016, from \$32.8 billion at December 31, 2015, reflecting the decline in financing and leasing assets and our decision to call certain brokered deposits, but increased as a proportion of total funding (68% at December 31, 2016, up from 67% at December 31, 2015), and up from \$15.8 billion at December 31, 2014.

### *Borrowings*

Borrowings were \$14.9 billion at December 31, 2016, down from \$16.4 billion at December 31, 2015, reflecting lower secured debt due to sales of financing and leasing assets and \$16.0 billion at December 31, 2014, reflecting the maturity of unsecured debt.

### *Capital*

Common stockholders’ equity and tangible common equity decreased in 2016 primarily due to the net loss. Book value per share and tangible book value per share decreased from 2015, reflecting the decline in common stockholders’ equity and the increase of one million outstanding shares. The Common Equity Tier 1 capital and Total Capital ratios increased from last year, driven by a decline in risk weighted assets.

Item 7: Management’s Discussion and Analysis

## **Table of Contents**

**44** CIT ANNUAL REPORT 2016

### *Changes to Results Reported in Current Report on Form 8-K*

After the Company filed its Current Report on Form 8-K announcing preliminary results for the quarter and year ended December 31, 2016, the Company recorded an additional pre-tax goodwill impairment charge of approximately \$20 million associated with the Consumer Banking segment and certain revision entries. Impacts to certain of the Company’s quarterly and annual financial statements are presented in *Note 29 Selected Financial Data* and *Note 30 Revisions of Previously Reported Annual Financial Statements* in *Item 8. Financial Statements and Supplementary Data*. The impacts of the adjustments were as follows:

	Year Ended December 31, 2016		Quarter Ended December 31, 2016	
(dollars in millions)	As Reported in Form 8-K	As Adjusted	As Reported in Form 8-K	As Adjusted

Edgar Filing: CIT GROUP INC - Form 10-K

(dollars in millions)	Year Ended December 31, 2016		Quarter Ended December 31, 2016	
Loss from continuing operations	\$ (195.5)	\$ (182.6)	\$ (424.2)	\$ (425.8)
Net loss	\$ (860.9)	\$ (848.0)	\$ (1,154.7)	\$ (1,142.5)
Diluted income per common share				
(Loss) income from continuing operations	\$ (0.97)	\$ (0.90)	\$ (2.10)	\$ (2.10)
Diluted (loss) income per common share	\$ (4.27)	\$ (4.20)	\$ (5.71)	\$ (5.65)

PERFORMANCE MEASUREMENTS

The following chart reflects key performance indicators evaluated by management and used throughout this management discussion and analysis:

KEY PERFORMANCE INDICATORS	MEASUREMENTS
<i>Asset Generation</i> — originate new business and grow earning assets.	-New business volumes; -Financing and leasing assets (included in earning assets); and Earning asset balances.
<i>Revenue Generation</i> — lend money at rates in excess of borrowing costs and consistent with risk profile of obligor, earn rentals on the equipment we lease commensurate with the risk, and generate other revenue streams.	-Net finance revenue and other income; -Net finance margin; Operating lease revenue as a percentage of average operating lease equipment; and -Asset yields and funding costs.
<i>Credit Risk Management</i> — accurately evaluate credit worthiness of customers, maintain high-quality assets and balance income potential with loss expectations.	-Net charge-offs, amounts and as a percentage of AFR; -Non-accrual loans, balances and as a percentage of loans; -Classified assets and delinquencies balances; and -Loan loss reserve, balance and as a percentage of loans.
<i>Equipment and Residual Risk Management</i> — appropriately evaluate collateral risk in leasing transactions and remarket or sell equipment at lease termination.	-Equipment utilization; -Market value of equipment relative to book value; and -Gains and losses on equipment sales.
<i>Expense Management</i> — maintain efficient operating platforms and related infrastructure.	-SG&A expenses and trends; -SG&A expenses as a percentage of AEA; and -Net efficiency ratio.
<i>Profitability</i> — generate income and appropriate returns to shareholders.	-Net income per common share (EPS); -Net income and pre-tax income, each as a percentage of average earning assets (ROA); and -Net income and pre-tax income as a percentage of average tangible common stockholders' equity (ROTCE).
<i>Capital Management</i> — maintain a strong capital position, while deploying excess capital.	-Common equity tier 1, Tier 1 and Total capital ratios; -Tier 1 capital as a percentage of adjusted average assets;

*Liquidity Management* — maintain access to ample funding at competitive rates to meet obligations as they come due.

*Manage Market Risk* — measure and manage risk to income statement and economic value of enterprise due to movements in interest and foreign currency exchange rates.

(“Tier 1 Leverage Ratio”); and  
 -Book value and Tangible book value per share.  
 -Levels of high quality liquid assets and as a % of total assets;  
 -Committed and available funding facilities;  
 -Debt maturity profile and ratings; and  
 -Funding mix.  
 -Net Interest Income Sensitivity; and  
 -Economic Value of Equity (EVE).

---

**Table of Contents**

CIT ANNUAL REPORT 2016 45

---

**DISCONTINUED OPERATIONS**

Discontinued operations is comprised of the Commercial Air leasing business that is subject to a definitive sale agreement, Business Air, and Financial Freedom, our reverse mortgage servicing business. Discontinued operations are discussed, along with balance sheet and income statement items, in *Note 2 — Acquisition and Discontinued Operations in Item 8. Financial Statements and Supplementary Data*. See also *Note 22 — Contingencies* for discussion related to the Financial Freedom servicing business.

The loss on discontinued operations (after taxes) was \$665 million, which included losses of \$455 million from Aerospace and \$210 million from Financial Freedom. The loss in Aerospace included an \$847 million net tax expense related to the pending Commercial Air sale, while the loss from Financial Freedom reflected \$179 million after tax of curtailment reserve charges.

**Aerospace**

*Commercial Air* provides aircraft leasing, lending, asset management, and advisory services to global and regional airlines around the world. Offices are located in the U.S., Europe and Asia.

*Business Air* offers financing and leasing programs for corporate and private owners of business jets. Serving clients around the world, we provide financing that is tailored to our clients’ unique business requirements. Products include term loans, leases, pre-delivery financing, fractional share financing and vendor / manufacturer financing.

The loss in Aerospace included an \$847 million net tax expense related to the pending Commercial Air sale. See condensed statements of income in *Note 2 — Acquisition and Discontinued Operations in Item 8. Financial Statements and Supplementary Data*. Aerospace pre-tax earnings totaled \$459 million, \$366 million and \$419 million for the years ended December 31, 2016, 2015 and 2014, respectively. Pre-tax income for 2016 benefited from \$106 million of suspended depreciation on operating lease equipment held for sale, as discussed below. Also reflected in discontinued operations are impairment charges of \$32 million essentially all related to the Business Air portfolio.

NFR totaled \$563 million, \$381 million and \$470 million for the years ended December 31, 2016, 2015, and 2014, respectively. NFR benefited in 2016 from \$106 million of suspended depreciation, which represents approximately one quarter’s amount. Prior year balances were not significant in comparison. When a long-lived asset is classified as AHFS, depreciation expense is no longer



## Edgar Filing: CIT GROUP INC - Form 10-K

recognized, and the asset is evaluated for impairment with any such charge recorded in other income. Consequently, net operating lease revenue includes rental income on operating lease equipment classified as AHFS, but there is no related depreciation expense. NFR for 2015 was down slightly from 2014, as asset growth and lower funding costs were offset by yield compression and higher operating lease equipment expenses.

Financing and leasing assets totaled \$10.7 billion, \$10.9 billion and \$10.6 billion at December 31, 2016, 2015, and 2014, respectively. Of those balances, Commercial Air consisted of \$10.2 billion, \$10.1 billion and \$9.7 billion at December 31, 2016, 2015, and 2014, respectively, most of which represents operating lease equipment. See below for details on the operating lease equipment. The remaining amounts reflected loans in the Business Air portfolio.

As detailed in the following table, at December 31, 2016, there were 282 commercial aircraft on operating lease that were subject to the definitive sale agreement. We also have commitments to purchase aircraft, as noted below and disclosed in *Item 8. Financial Statements and Supplementary Data, Note 2 — Acquisitions and Discontinued Operations*.

Aircraft Type	Operating Lease Fleet	Order Book
Airbus A310/319/320/321	119	50
Airbus A330	40	15
Airbus A350	2	10
Boeing 737	84	37
Boeing 757	7	—
Boeing 767	5	—
Boeing 787	4	16
Embraer 175	4	—
Embraer 190/195	16	—
Other	1	—
<b>Total</b>	<b>282</b>	<b>128</b>

Aircraft utilization remained strong through 2016, as the portfolio ended the year with all aircraft leased or under a commitment. All of the 17 aircraft scheduled for delivery in 2017 have lease commitments.

The following tables present detail on our Commercial Air portfolio by product in discontinued operations.

### Commercial Air Portfolio (dollars in millions)

	December 31, 2016		December 31, 2015		December 31, 2014	
	Net Investment	Number	Net Investment	Number	Net Investment	Number
<b>By Product:</b>						
Operating lease <sup>(1)</sup>	\$ 9,658.7	282	\$ 9,772.2	284	\$9,309.3	279
Loan	31.2	5	49.3	9	71.5	11
Capital lease	495.6	23	320.4	21	335.6	21
<b>Total</b>	<b>\$10,185.5</b>	<b>310</b>	<b>\$10,141.9</b>	<b>314</b>	<b>\$9,716.4</b>	<b>311</b>

Item 7: Management's Discussion and Analysis

The information presented below by region, manufacturer, and body type, is based on our operating lease aircraft portfolio.

**Commercial Air Operating Lease Portfolio (dollars in millions)<sup>(1)</sup>**

	December 31, 2016		December 31, 2015		December 31, 2014	
	Net Investment	Number	Net Investment	Number	Net Investment	Number
<b>By Region:</b>						
Asia / Pacific	\$3,931.0	96	\$3,704.2	88	\$3,505.9	84
U.S. and Canada	2,087.9	64	2,091.0	65	1,802.6	57
Europe	1,940.0	72	2,195.4	80	2,239.4	86
Latin America	1,056.2	35	1,152.6	38	994.9	37
Africa / Middle East	643.6	15	629.0	13	766.5	15
Total	\$9,658.7	282	\$9,772.2	284	\$9,309.3	279
<b>By Manufacturer:</b>						
Airbus	\$6,193.2	161	\$6,232.3	161	\$5,985.5	160
Boeing	2,891.5	100	2,929.6	101	2,711.6	98
Embraer	530.9	20	552.7	21	547.2	20
Other	43.1	1	57.6	1	65.0	1
Total	\$9,658.7	282	\$9,772.2	284	\$9,309.3	279
<b>By Body Type<sup>(2)</sup>:</b>						
Narrow body	\$6,219.8	230	\$6,211.4	230	\$6,287.8	230
Intermediate	3,396.0	51	3,502.2	52	2,955.3	47
Regional and other	42.9	1	58.6	2	66.2	2
Total	\$9,658.7	282	\$9,772.2	284	\$9,309.3	279
Number of customers		101		95		98
Weighted average age of fleet (years)		6		5		5

<sup>(1)</sup> Includes operating lease equipment held for sale.

<sup>(2)</sup> Narrow body are single aisle design and consist primarily of Boeing 737 and 757 series, Airbus A320 series, and Embraer E170 and E190 aircraft. Intermediate body are smaller twin aisle design and consist primarily of Boeing 767 and 787 series and Airbus A330 series aircraft. Regional and Other includes aircraft and related equipment, such as engines.

Our top five Commercial Air outstanding exposures totaled \$2,400 million at December 31, 2016. The largest individual outstanding exposure totaled \$869 million at December 31, 2016, which was to a U.S. carrier. See *Item 8. Financial Statements and Supplementary Data, Note 2 — Acquisitions and Discontinued Operations* for additional information regarding commitments to purchase additional aircraft.

**Reverse Mortgage Servicing**

Approximately \$210 million of the loss, net of tax, for 2016, in discontinued operations relates to Financial Freedom, a reverse mortgage servicing business CIT acquired as part of the OneWest Transaction in August 2015.

The 2016 loss included a pre-tax charge of approximately \$260 million related to an increase in the interest curtailment reserve described below. In addition, the loss included \$19 million of pre-tax impairment charges on the servicing liability related to our reverse mortgage servicing operations.

## Edgar Filing: CIT GROUP INC - Form 10-K

The Financial Freedom reverse mortgage servicing operation services approximately 81,400 reverse mortgages, with over \$17.1 billion of unpaid principal balance. The majority of the mortgages are Home Equity Conversion Mortgages (“HECMs”) that are administered by the Department of Housing and Urban Development (“HUD”) and insured by the Federal Housing Administration (“FHA”).

Pursuant to ASC 205-20, the Financial Freedom business was reflected as discontinued operations as of the date of the OneWest Transaction and in the subsequent periods. The business includes the entire third party servicing of reverse mortgage operations, which consist of personnel, systems and servicing assets. The \$448 million of assets of discontinued operations include primarily HECM loans and servicing advances. The liabilities of discontinued operations include reverse mortgage servicing liabilities, which relates primarily to loans serviced for third party investors, secured borrowings and contingent liabilities. In addition, continuing operations includes a portfolio of reverse mortgages of \$859 million at December 31, 2016, which are recorded in the Consumer Banking segment and are serviced by Financial Freedom.

During the year ended December 31, 2016, in connection with the preparation of the Company’s financial statements, as a result of new information and taking into consideration the investigation being conducted by the Office of Inspector General (“OIG”) for HUD, the Company recorded additional reserves, reflecting a change in estimate, of approximately \$260 million, which is net of a corresponding increase in the indemnification receivable from the FDIC. See Item 9A. Controls and Procedures.

---

### Table of Contents

CIT ANNUAL REPORT 2016 47

#### Student Lending

On April 25, 2014, the Company completed the sale of its student lending business, along with certain secured debt and servicing rights. As a result, the student lending business is reported as a discontinued operation for the year ended December 31, 2014.

Further details of the discontinued businesses, along with condensed balance sheet and income statement items are included in *Note 2 — Acquisition and Disposition Activities in Item 8. Financial Statements and Supplementary Data*. See also *Note 22 — Contingencies* for discussion related to the servicing business.

*Unless specifically noted, the discussions and data presented throughout the following sections reflect CIT balances on a continuing operations basis.*

## Results From Continuing Operations:

---

### NET FINANCE REVENUE

The following tables present management’s view of consolidated NFR. The 2015 data includes approximately five months of activity for OneWest Bank.

#### **Net Finance Revenue**<sup>(1)</sup> (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
Interest income	\$ 1,911.5	\$ 1,445.2	\$ 1,155.6
Rental income on operating leases	1,031.6	1,018.1	949.6
Finance revenue	2,943.1	2,463.3	2,105.2

Edgar Filing: CIT GROUP INC - Form 10-K

Years Ended December 31,

Interest expense	(753.2)	(731.4)	(715.1)
Depreciation on operating lease equipment	(261.1)	(229.2)	(229.8)
Maintenance and other operating lease expenses	(213.6)	(185.1)	(171.7)
Net finance revenue	\$ 1,715.2	\$ 1,317.6	\$ 988.6
Average Earning Assets <sup>(2)</sup> ("AEA")	\$47,664.2	\$38,019.8	\$29,959.3
Net finance margin ("NFM")	3.60%	3.47%	3.30%

(1) NFR and AEA are non-GAAP measures; see "Non-GAAP Financial Measurements" sections for a reconciliation of non-GAAP to GAAP financial information.

(2) AEA balances in this table are net of credit balances of factoring clients; and therefore, are less than balances in Item 6. Selected Financial Data referred to as interest earning assets.

NFR and NFM are key metrics used by management to measure the profitability of our earning assets. NFR includes interest and yield-related fee income on our loans and capital leases, rental income on our operating lease equipment, and interest and dividend income on cash and investments, less funding costs and depreciation, maintenance and other operating lease expenses from our operating lease equipment. Since our asset composition includes a high level of operating lease equipment (15% of AEA for the year ended December 31, 2016), NFM is a more appropriate metric for CIT than net interest margin ("NIM") (a common metric used by other BHCs), as NIM does not fully reflect the earnings of our portfolio because it includes the impact of debt costs on all our assets but excludes the net revenue (rental income less depreciation and maintenance and other operating lease expenses) from operating leases.

Item 7: Management's Discussion and Analysis

**Table of Contents**

48 CIT ANNUAL REPORT 2016

The following table includes average balances from revenue generating assets along with the respective revenues, and average balances of deposits and borrowings along with the respective interest expenses. The interest expense presented pertains only to continuing operations and does not reflect allocation of interest expense to discontinued operations.

**Average Balances and Rates<sup>(1)</sup>** (dollars in millions)

	December 31, 2016			December 31, 2015			December 31, 2014		
	Average Balance	Revenue / Expense	Average Rate (%)	Average Balance	Revenue / Expense	Average Rate (%)	Average Balance	Revenue / Expense	Average Rate (%)
Cash / interest bearing deposits	\$ 6,450.6	\$ 33.1	0.51%	\$ 5,486.6	\$ 17.1	0.31%	\$ 4,652.5	\$ 17.7	0.38%
Securities purchased under agreements to resell	–	–	–	411.5	2.3	0.56%	242.3	1.2	0.50%
Investment securities	3,384.0	98.8	2.92%	2,239.3	51.8	2.31%	1,667.6	16.6	1.00%
Loans (including held for sale and credit balances of	30,233.0	1,803.8	5.97%	23,334.2	1,374.5	5.89%	17,626.9	1,120.1	6.35%

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2016			December 31, 2015			December 31, 2014		
factoring clients) <sup>(2)(3)</sup>									
Operating lease equipment, net (including held for sale) <sup>(4)</sup>	7,222.8	556.9	7.71%	6,359.6	603.8	9.49%	5,769.9	548.1	9.50%
Indemnification assets	373.8	(24.2)	(6.47)%	188.6	(0.5)	(0.27)%	—	—	—
Average earning assets <sup>(2)</sup>	\$47,664.2	2,468.4	5.18%	\$38,019.8	2,049.0	5.39%	\$29,959.2	1,703.7	5.69%
Deposits	\$31,545.1	\$ 394.8	1.25%	\$22,762.7	\$ 330.1	1.45%	\$13,890.9	\$ 231.0	1.66%
Borrowings <sup>(5)</sup>	15,493.6	358.4	2.31%	15,519.1	401.3	2.59%	15,977.0	484.1	3.03%
Total interest-bearing liabilities	\$47,038.7	753.2	1.60%	\$38,281.8	731.4	1.91%	\$29,867.9	715.1	2.39%
NFR and NFM		\$1,715.2	3.60%		\$1,317.6	3.47%		\$ 988.6	3.30%

	2016 Over 2015 Comparison			2015 Over 2014 Comparison		
	Increase (Decrease) Due To Change In:			Increase (Decrease) Due To Change In:		
	Volume	Rate	Net	Volume	Rate	Net
Interest bearing deposits	\$ 3.4	\$ 12.6	\$ 16.0	\$ 2.9	\$ (3.5)	\$ (0.6)
Securities purchased under agreements to resell	(1.1)	(1.2)	(2.3)	0.9	0.2	1.1
Investments	31.1	15.9	47.0	7.2	28.0	35.2
Loans (including held for sale and net of credit balances of factoring clients) <sup>(2)(3)</sup>	368.8	60.5	429.3	275.0	(20.6)	254.4
Operating lease equipment, net (including held for sale) <sup>(4)</sup>	75.5	(122.4)	(46.9)	56.0	(0.3)	55.7
Indemnification assets	(1.0)	(22.7)	(23.7)	(0.5)		(0.5)
Total	\$476.7	\$ (57.3)	\$419.4	\$341.5	\$ 3.8	\$345.3
Deposits	\$114.5	\$ (49.8)	\$ 64.7	\$131.8	\$ (32.7)	\$ 99.1
Borrowings <sup>(5)</sup>	(0.7)	(42.2)	(42.9)	(13.5)	(69.3)	(82.8)
Total	\$113.8	\$ (92.0)	\$ 21.8	\$118.3	\$ (102.0)	\$ 16.3

(1) Interest and average rates include PAA and FSA accretion, including amounts accelerated due to redemptions or extinguishments, and accelerated original issue discount on debt extinguishment related to the TRS Transactions.

(2) The balance and rate presented is calculated net of average credit balances for factoring clients.

(3) Non-accrual loans and related income are included in the respective categories.

(4) Operating lease rental income is a significant source of revenue; therefore, we have presented the rental revenues net of depreciation and net of maintenance and other operating lease expenses.

(5) The interest expense presented pertains only to continuing operations and reflects allocation of interest expense to discontinued operations. As detailed in a forthcoming table, the average rate for borrowings before the allocation of interest expense to discontinued operations was 4.15% for 2016, 4.31% for 2015 and 5.53% for 2014.

Average earning assets increased 25% from 2015 benefiting from an entire year of higher asset levels from the 2015 acquisition and portfolio growth from new business volume. The increase was partially offset by sales of Non-Strategic Portfolios, as well as prepayments and sales of loans in Commercial Finance, as we are positioning Commercial Finance to emphasize opportunities

that build upon our specialty lending expertise by providing credit as well as other bank products and deposits to customers. The growth of 27% in 2015 compared to 2014 resulted principally from the OneWest Transaction. The increase in investment securities in 2015 primarily reflects investments acquired in the OneWest Bank acquisition, mostly MBS securities.

Revenues generated by the higher asset level and accretion of \$277 million resulting from the fair value discount on earning assets recorded for purchase accounting contributed to the higher finance revenues that were up 19% from 2015. Finance revenue was up 17% in

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 49

2015 reflecting similar items. (The impact of purchase accounting accretion on interest income and interest expense is displayed in a table below.)

Revenues generated on our cash deposits and investments are indicative of the existing low rate environment and while such revenues increased from 2015, they were not a primary driver of earnings. Revenues on cash deposits and investments have grown as the investments from the OneWest Transaction, mostly MBS, carry a higher rate of return than the previously owned investment portfolio and include a purchase accounting adjustment that accretes into income, thus increasing the yield. Also, 2016 included the higher balance of cash deposits and investments for the entire year, compared to the partial year in 2015. As part of our 2016 business strategy, we redeployed cash at CIT Bank into higher-yielding "High Quality Liquid Assets," which increased the year end 2016 investment securities balance to \$4.5 billion from \$3.0 billion at December 31, 2015.

The yield on AEA of 5.18% was down from 2015, as the benefit from higher accretion of purchase accounting adjustments resulting from the acquisition timing was offset by lower operating lease yields on our rail portfolio, driven by lower utilization of certain rail car types related to the energy sector and lower renewal rates, and by yield compression in certain loan and lease classes. The yield on AEA of 5.39% in 2015 was down from 2014, driven by the continued low rate environment and an increased mix of low yielding cash and securities stemming from the OneWest Transaction. Although interest on loans was up as a result of the acquisition, yield compression in certain loan classes continued, as well as lower interest recoveries and lower prepayments. Operating lease revenues and yields are discussed later in this section and portfolio yields by division are included in a forthcoming table.

The increase in average interest bearing liabilities reflects the acquired deposits and borrowings, essentially all FHLB advances, along with growth. The overall rate as a percentage of AEA was down due to the higher percentage of AEA being funded by deposits, along with a higher mix of low cost deposits. While interest expense was up modestly in amount in 2016 and 2015 due to the higher balances, the overall rate as a % of AEA was down from 2014, reflecting lower rates in nearly all deposit and borrowing categories and a higher mix of low cost deposits. Interest expense for 2016 and 2015 was reduced by \$15 million and \$12 million, respectively, reflecting the accretion of purchase accounting adjustments on borrowings and deposits.

Interest expense on deposits was up from 2015, driven by the higher balances and partially offset by deposit mix. The decline in rate was primarily the result of the lower cost deposits from OneWest Bank.

Interest expense on borrowings is a function of the products and was mostly impacted by the OneWest Transaction, which increased FHLB advances. FHLB advances had lower rates than our average borrowings, thus reducing the average rate. The interest expense presented pertains only to continuing operations and does not reflect allocation of interest expense to discontinued operations.

The composition of our funding was significantly impacted by the OneWest Transaction. At December 31, 2016, 2015 and 2014 our funding mix was as follows:

### **Funding Mix**

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2016	December 31, 2015	December 31, 2014
Deposits	68%	67%	50%
Unsecured	23%	22%	37%
Secured Borrowings:			
Structured financings	4%	5%	12%
FHLB Advances	5%	6%	1%

These proportions will fluctuate in the future depending upon our funding activities.

The following table details further the rates of interest bearing liabilities.

**Deposits and Borrowings** (dollars in millions)

	Year Ended December 31, 2016			Year Ended December 31, 2015			Year Ended December 31, 2014		
	Average Balance	Interest Expense	Rate %	Average Balance	Interest Expense	Rate %	Average Balance	Interest Expense	Rate %
<b>Deposits</b>									
CDs	\$17,981.1	\$ 291.1	1.62%	\$13,799.9	\$ 252.4	1.83%	\$ 8,672.0	\$ 180.1	2.08%
Interest-bearing checking	2,534.8	15.0	0.59%	1,308.3	6.8	0.52%	-	-	-
Savings	4,517.4	40.0	0.89%	4,301.6	42.1	0.98%	3,361.7	32.1	0.95%
Money markets	6,511.8	48.7	0.75%	3,352.9	28.8	0.86%	1,857.2	18.8	1.01%
Total deposits*	31,545.1	394.8	1.25%	22,762.7	330.1	1.45%	13,890.9	231.0	1.66%
<b>Borrowings</b>									
Unsecured notes	10,600.5	553.3	5.22%	10,855.6	561.3	5.17%	12,371.0	639.3	5.17%
Secured borrowings	4,316.4	161.0	3.73%	5,686.3	205.2	3.61%	6,829.1	430.0	6.30%
FHLB advances	2,865.3	24.1	0.84%	1,374.6	5.7	0.41%	151.0	0.6	0.40%
Total borrowings	17,782.2	738.4	4.15%	17,916.5	772.2	4.31%	19,351.1	1,069.9	5.53%
Allocated to Discontinued Operations	(2,288.6)	(380.0)		(2,397.4)	(370.9)		(3,374.1)	(585.8)	
Total Borrowings**	15,493.6	358.4	2.31%	15,519.1	401.3	2.59%	15,977.0	484.1	3.03%
Total interest-bearing liabilities	\$47,038.7	\$ 753.2	1.60%	\$38,281.8	\$ 731.4	1.91%	\$29,867.9	\$ 715.1	2.39%

\* Excludes certain deposits such as escrow accounts, security deposits, and other similar accounts, therefore totals may differ from other average balances included in this document.

\*\* The interest expense presented pertains only to continuing operations and reflects allocation of interest expense to discontinued operations. As detailed, the average rate for borrowings before the allocation of interest expense to discontinued operations was 4.15% for 2016, 4.31% for 2015 and 5.53% for 2014.

**Table of Contents**

50 CIT ANNUAL REPORT 2016

Deposits and borrowings are also discussed in *Funding and Liquidity*. See *Select Financial Data (Average Balances)* section for more information on borrowing rates.

The following table depicts selected earning asset yields and margin related data for our segments and divisions within the segments.

**Select Segment and Division Margin Metrics** (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
<b>Commercial Banking</b>			
AEA	\$29,762.9	\$25,339.6	\$20,833.7
NFR	1,314.1	1,125.7	927.2
Gross yield	7.75%	7.93%	8.36%
NFM	4.42%	4.44%	4.45%
<b>AEA</b>			
Commercial Finance	\$11,289.3	\$10,047.9	\$ 8,174.0
Rail	7,089.3	6,245.5	5,651.6
Real Estate Finance	5,453.7	3,216.6	1,687.6
Business Capital	5,930.6	5,829.6	5,320.5
<b>Gross yield</b>			
Commercial Finance	5.36%	4.87%	5.28%
Rail	12.86%	14.34%	14.57%
Real Estate Finance	5.25%	4.80%	4.15%
Business Capital	8.52%	8.09%	7.82%
<b>NFR</b>			
Commercial Finance	\$ 447.7	\$ 338.2	\$ 284.7
Rail	349.9	382.1	339.0
Real Estate Finance	209.8	109.5	44.0
Business Capital	306.7	295.9	259.5
<b>NFM</b>			
Commercial Finance	3.97%	3.37%	3.48%
Rail	4.94%	6.12%	6.00%
Real Estate Finance	3.85%	3.40%	2.61%
Business Capital	5.17%	5.08%	4.88%
<b>Consumer Banking</b>			
AEA	\$ 7,527.4	\$ 3,202.4	—
NFR	410.6	151.2	—
Gross yield	5.59%	5.50%	—
NFM	5.45%	4.72%	—
<b>AEA</b>			
Legacy Consumer Mortgages	\$ 5,558.8	\$ 2,511.3	—
All Other Consumer Banking	1,968.6	691.1	—
<b>Gross yield</b>			
Legacy Consumer Mortgages	6.28%	6.00%	—



	Years Ended December 31,		
All Other Consumer Banking	3.65%	3.68%	—
<b>NFR</b>			
Legacy Consumer Mortgages	\$ 252.9	\$ 109.6	—
All Other Consumer Banking	157.7	41.6	—
<b>NFM</b>			
Legacy Consumer Mortgages	4.55%	4.36%	—
All Other Consumer Banking	8.01%	6.02%	—
<b>Non-Strategic Portfolios</b>			
AEA	\$ 1,175.6	\$ 2,375.7	\$ 3,955.4
NFR	45.2	89.2	102.0
Gross yield	7.86%	9.32%	8.83%
NFM	3.84%	3.75%	2.58%

## Table of Contents

CIT ANNUAL REPORT 2016 51

Gross yields (interest income plus rental income on operating leases as a % of AEA) in Commercial Banking were down from 2015 and 2014 driven primarily by reduced lease rates and utilization in energy-related railcars in the Rail division, which offset increases in each of the remaining divisions. Higher gross yields in 2016 in Commercial Finance and Real Estate Finance benefited primarily from purchase accounting accretion for the full year as well as interest recoveries on loans previously charged off, while higher gross yields in Business Capital benefited from a shift to higher yielding assets.

Consumer Banking gross yields were slightly lower from 2015, as the benefit from higher purchase accounting accretion on mortgage loans in LCM was offset by run-off of this portfolio, and an increase in other mortgage loans at a lower yield.

NSP contains run-off portfolios, and as a result, gross yields varied due to asset sales and lower balances.

As a result of the purchase accounting adjustments (“PAA”) for the acquired loan balances, CIT recorded a discount to unpaid principal balance (“UPB”) of approximately \$2.2 billion (“Total UPB Discount”) as of the acquisition date. When CIT acquired OneWest Bank, this discount was comprised of two components, 1) the “Incremental Yield Discount”, which are amounts expected to result in \$1.3 billion of additional yield income above the contractual coupon, and 2) the “Principal Loss Discount”, which are amounts relating to the UPB at acquisition of \$0.9 million that will be utilized to offset the loss of principal on PCI loans.

As of December 31, 2016, the remaining Incremental Yield Discount and Principal Loss Discount on loans were approximately \$1.3 billion and \$0.5 billion, respectively. The Incremental Yield Discount will primarily be reflected, along with the underlying contractual yield, in interest income, and will cause the Total UPB Discount to decline as it accretes into income. In addition, the Total UPB Discount will also decline as a result of asset sales, transfers to held for sale, and loans charged off.

Essentially all of the PAA accretion relates to the 2015 acquisition of OneWest Bank. There is a small balance in Corporate (interest expense) remaining from a prior acquisition. Generally, PAA accretes or amortizes over the life of the loan or liability instrument (debt or deposits). The remaining terms of the individual commercial loans and consumer loans within pools acquired in the OneWest Bank acquisition varied greatly. Commercial loan portfolios as of the acquisition date (August 3, 2015) had a weighted average life that generally ranged from two to six years, while the consumer portfolios had longer durations, generally six to eleven years. In instances when a loan prepays, the loan’s remaining PAA will be accelerated into interest income. This accelerated amount could result in fluctuations from quarter to quarter. The following table displays PAA accretion by segment and

Edgar Filing: CIT GROUP INC - Form 10-K

division for both interest income and interest expense.

**Purchase Accounting Accretion (PAA)** (dollars in millions)

	Years Ended					
	December 31, 2016			December 31, 2015		
	PAA Accretion Recognized in:			PAA Accretion Recognized in:		
	Interest Income <sup>(1)</sup>	Interest Expense <sup>(2)</sup>	NFR	Interest Income <sup>(1)</sup>	Interest Expense <sup>(2)</sup>	NFR
<b>Commercial Banking</b>						
Commercial Finance	\$ 75.8	\$ 2.2	\$ 78.0	\$ 35.4	\$ 2.0	\$ 37.4
Real Estate Finance	71.6	–	71.6	27.9	–	27.9
Total Commercial Banking	147.4	2.2	149.6	63.3	2.0	65.3
<b>Consumer Banking</b>						
Other Consumer Banking	2.8	9.0	11.8	(0.3)	6.2	5.9
Legacy Consumer Mortgages	126.6	–	126.6	47.4	–	47.4
Total Consumer Banking	129.4	9.0	138.4	47.1	6.2	53.3
<b>Corporate and Other</b>	–	4.2	4.2	–	3.6	3.6
<b>Total CIT</b>	<b>\$276.8</b>	<b>\$15.4</b>	<b>\$292.2</b>	<b>\$110.4</b>	<b>\$11.8</b>	<b>\$122.2</b>

(1) Loans acquired in the OneWest Bank acquisition were recorded at a net discount, therefore the purchase accounting accretion of that adjustment increases interest income. Included in the above are accelerated recognition of approximately \$96.4 million for 2016 and \$26.0 million for 2015.

(2) Debt and deposits acquired in the OneWest Bank acquisition were recorded at a net premium, therefore the purchase accounting accretion of that adjustment decreases interest expense.

Item 7: Management's Discussion and Analysis

**Table of Contents**

52 CIT ANNUAL REPORT 2016

The following table sets forth the details on net operating lease revenues.

**Net Operating Lease Revenue as a % of Average Operating Leases** (dollars in millions)

	Years Ended December 31,					
	2016		2015		2014	
Rental income on operating leases	\$1,031.6	14.35%	\$1,018.1	16.13%	\$ 949.6	16.57%
Depreciation on operating lease equipment	(261.1)	(3.63)%	(229.2)	(3.63)%	(229.8)	(4.01)%

## Edgar Filing: CIT GROUP INC - Form 10-K

Years Ended December 31,

Maintenance and other operating lease expenses	(213.6)	(2.97)%	(185.1)	(2.93)%	(171.7)	(3.00)%
Net operating lease revenue and %	\$ 556.9	7.75%	\$ 603.8	9.57%	\$ 548.1	9.56%
Average Operating Lease Equipment ("AOL")	\$7,188.6		\$6,311.2		\$5,732.1	

Net operating lease revenue is generated by our Rail and Business Capital divisions of Commercial Banking. Net operating lease revenue was down from 2015, as the benefit from growth in the portfolio was offset by lower rail utilization and rates.

Railcar utilization, including commitments to lease, declined to 94% from 96% and 99% at December 31, 2015 and 2014, respectively, reflecting pressures in demand for cars that transport crude, coal and steel. We expect the pressures to continue into 2017, with utilization rates declining to the low 90% range. We also expect rental rates to continue to re-price downward as leases renew. We are experiencing lease renewal rates down about 20%-30% on average. Our railcar portfolio is also discussed in the "Concentrations" section.

Depreciation is recognized on railcars and other operating lease equipment, primarily in Commercial Banking and includes amounts related to impairments on equipment in the portfolio. Operating lease equipment held in portfolio is subject to impairment reviews. In instances when equipment is determined to be impaired, the impairment is recorded as additional depreciation. Depreciation expense, while up in amount due to growth in the portfolio, was flat as a percentage of AOL compared to 2015 and down from 2014.

Once a long-lived asset is classified as assets held for sale, depreciation expense is no longer recognized, and the asset is evaluated for impairment with any such charge recorded in other income. (See "Non-interest Income — Impairment on assets held for sale" for discussion on impairment charges). Consequently, net operating lease revenue includes rental income on operating lease equipment classified as assets held for sale, but there is no related depreciation expense. The amount of suspended depreciation on operating lease equipment in assets held for sale totaled \$10 million for 2016, \$14 million for 2015 and \$14 million for 2014. Operating lease equipment in assets held for sale totaled less than a million dollars at December 31, 2016, \$59 million at December 31, 2015, and \$47 million at December 31, 2014.

Maintenance and other operating lease expenses relates to the rail portfolio. The increase in 2016 reflected increased maintenance, freight and storage costs in rail due to the higher number of railcars off-lease, and growth in the portfolio.

Upon emergence from bankruptcy in 2009, CIT applied Fresh Start Accounting ("FSA") in accordance with GAAP. The most significant remaining discount at December 31, 2016, related to operating lease equipment (\$1.2 billion related to rail operating lease equipment). The discount on the operating lease equipment was, in effect, an impairment of the operating lease equipment upon emergence from bankruptcy, as the assets were recorded at their fair value, which was less than their carrying value. The recording of the FSA adjustment reduced the asset balances subject to depreciation and thus decreases depreciation expense over the remaining useful life of the operating lease equipment or until it is sold.

See "Expenses — Depreciation on operating lease equipment" and "Concentrations — Operating Leases" for additional information.

### CREDIT METRICS

Credit metrics were solid despite some increased provisioning in the maritime and energy portfolios during 2016.

Non-accrual loans were \$279 million (0.94% of finance receivables), up from \$252 million (0.83%) at December 31, 2015 and \$160 million (0.88%) at December 31, 2014. Non-accrual loans increased in 2016, compared to 2015, as decreases in Non-strategic Portfolios were more than offset by increases in Commercial Banking. Non-accrual loans rose in 2015, due mainly to an increase in the energy portfolio, partially offset by a reduction from the sales of portfolios. The change in the percentage (*i.e.* higher dollar balance but lower percentage) in 2015 compared to 2014 reflects the impact of the acquired OneWest Bank assets. Non-accruals are discussed further in this section.

## Edgar Filing: CIT GROUP INC - Form 10-K

The provision for credit losses reflects loss adjustments related to loans recorded at amortized cost, off-balance sheet commitments and related reimbursements under indemnification agreements. The provision for credit losses was \$195 million, up from \$159 million in 2015 and \$104 million in 2014. The increase from 2015 was driven primarily by the maritime portfolio and the energy portfolio. The provision for credit losses in 2016 and 2015 reflected the reserve build on certain portfolios in Commercial Banking, and an increase in the reserve resulting from the recognition of purchase accounting accretion on loans. The purchase accounting accretion, in effect, reduces the discount on the non-PCI loans, thus requiring a higher reserve. The 2015 provision was also elevated due to increases in reserves related to the energy sector, and to a lesser extent the maritime portfolios, and from the establishment

### Table of Contents

CIT ANNUAL REPORT 2016 **53**

of reserves on certain acquired non-credit impaired loans in the initial period post acquisition.

Net charge-offs were \$111 million (0.37% as a percentage of average finance receivables) in 2016, compared to \$137 million (0.58%) in 2015 and \$99 million (0.55%) in 2014. Net charge-offs include \$41 million in 2016, \$73 million in 2015, and \$43 million in 2014 related to the transfer of receivables to assets held for sale. Absent AHFS transfer related charge-offs, net charge-offs were 0.23%, 0.27% and 0.31% for the years ended December 31, 2016, 2015 and 2014, respectively. Recoveries of \$25 million were down from approximately \$28 million in both 2015 and 2014.

The following table presents detail on our allowance for loan losses, including charge-offs and recoveries and provides summarized components of the provision and allowance:

#### **Allowance for Loan Losses and Provision for Credit Losses** (dollars in millions)

	Years ended December 31,				
	2016	2015	2014	2013	2012
<b>Allowance – beginning of period</b>	\$ 347.0	\$ 334.2	\$ 339.1	\$ 353.0	\$ 390.3
Provision for credit losses <sup>(1)</sup>	194.7	158.6	104.4	75.3	41.7
Other <sup>(1)</sup>	2.2	(9.1)	(10.7)	(7.3)	(5.8)
Net additions	196.9	149.5	93.7	68.0	35.9
Gross charge-offs <sup>(2)</sup>	(136.6)	(165.1)	(126.8)	(138.6)	(140.8)
Recoveries	25.3	28.4	28.2	56.7	67.6
Net Charge-offs	(111.3)	(136.7)	(98.6)	(81.9)	(73.2)
<b>Allowance – end of period</b>	<b>\$ 432.6</b>	<b>\$ 347.0</b>	<b>\$ 334.2</b>	<b>\$ 339.1</b>	<b>\$ 353.0</b>
<b>Provision for credit losses</b>					
Specific allowance – impaired loans					
impaired loans	\$ 33.7	\$ 18.1	\$ (15.3)	\$ (3.0)	\$ (14.1)
Non-specific allowance	161.0	140.5	119.7	78.3	55.8
Total	\$ 194.7	\$ 158.6	\$ 104.4	\$ 75.3	\$ 41.7
<b>Allowance for loan losses</b>					
Specific reserves on impaired loans	\$ 33.7	\$ 27.4	\$ 12.4	\$ 29.8	\$ 36.3
Non-specific reserves	398.9	319.6	321.8	309.3	316.7
Total	\$ 432.6	\$ 347.0	\$ 334.2	\$ 339.1	\$ 353.0
<b>Ratio</b>					
	1.46%	1.14%	1.83%	1.91%	2.17%

Edgar Filing: CIT GROUP INC - Form 10-K

Years ended December 31,

Allowance for loan losses as a percentage of total loans					
Allowance for loan losses as a percent of finance receivable / Commercial	1.81%	1.44%	1.83%	1.91%	2.17%
Allowance for loan losses plus principal loss discount as a percent of finance receivables (before the principal loss discount) / Commercial	1.97%	1.82%	1.83%	1.91%	2.17%
Allowance for loan losses plus principal loss discount as a percent of finance receivables (before the principal loss discount) / Consumer	6.05%	8.63%	—	—	—

(1) *The provision for credit losses includes amounts related to reserves on unfunded loan commitments, unused letters of credit, and for deferred purchase agreements, all of which are reflected in other liabilities. The items included in other liabilities totaled \$44 million, \$43 million, \$35 million, \$28 million and \$23 million at December 31, 2016, 2015, 2014, 2013 and 2012, respectively. "Other" also includes allowance for loan losses associated with loan sales and foreign currency translations.*

(2) *Gross charge-offs included \$41 million, \$73 million, \$43 million, and \$39 million of charge-offs related to the transfer of receivables to assets held for sale for the years ended December 31, 2016, 2015, 2014 and 2013, respectively. Prior year amounts were not significant.*

The allowance for loan losses was \$433 million (1.46% of finance receivables, 1.72% excluding loans subject to loss sharing agreements with the FDIC) at December 31, 2016, compared to \$347 million (1.14% of finance receivables, 1.36% excluding loans subject to loss sharing agreements with the FDIC) at December 31, 2015. The increase in the 2016 allowance for loan losses from 2015 was primarily due to reserve builds across the divisions of Commercial Banking, including \$32 million related to maritime loans within the Commercial Finance division. Including the impact of the principal loss discount on credit impaired loans, which is essentially a reserve for credit losses on the discounted loans, the commercial loan allowance to finance receivables was 1.97% compared to 1.82% at December 31, 2015. The consumer loans ratio was 6.05% at December 31, 2016 compared to 8.63%

Item 7: Management's Discussion and Analysis

## **Table of Contents**

**54** CIT ANNUAL REPORT 2016

at December 31, 2015, as most of the consumer loans purchased were credit impaired and are partially covered by loss sharing agreements with the FDIC. The decrease was driven by the shift in asset mix as new originations offset the run-off of the purchased credit impaired portfolio. The decline in the percentage of allowance to finance receivables in 2015 compared to the prior years reflects the OneWest Transaction, which added \$13.6 billion of loans at fair value with no related allowance at the time of acquisition.

In addition, we continuously update the allowance as we monitor credit quality within industry sectors. For instance, industry pressures in the energy and maritime sectors resulted in a reserve build in both portfolios in 2016. CIT's loans to the oil and gas industry are included in Commercial Banking and totaled \$0.6 billion or approximately 2% of total loans at December 31, 2016, of which 37% were criticized. The decline in oil and gas loans from December 31, 2015, was driven by loan sales and pay downs. The portfolio has loss coverage of 10.8% of the principal balance, reflecting the purchase accounting discount for loans acquired from OneWest Bank and the allowance for loan losses. The impact of lower oil and natural gas prices on the energy related sectors of Rail are reflected in lower utilization rates and lease rates for tank cars, sand cars and coal cars, not in non-accrual loans, provision for credit losses, or net charge-offs, since it is primarily an operating lease portfolio, not a loan portfolio.

Edgar Filing: CIT GROUP INC - Form 10-K

See Note 1 — Business and Summary of Significant Accounting Policies for discussion on policies relating to the allowance for loan losses and Note 4 — Allowance for Loan Losses for additional segment related data in Item 8 Financial Statements and Supplementary Data, and Critical Accounting Estimates for further analysis of the allowance for credit losses.

**Segment Finance Receivables and Allowance for Loan Losses** (dollars in millions)

	Finance Receivables	Allowance for Loan Losses	Net Carrying Value
<b>December 31, 2016</b>			
Commercial Banking	\$22,562.3	\$(408.4)	\$22,153.9
Consumer Banking	6,973.6	(24.2)	6,949.4
Total	\$29,535.9	\$(432.6)	\$29,103.3
<b>December 31, 2015</b>			
Commercial Banking	\$23,332.4	\$(336.8)	\$22,995.6
Consumer Banking	7,186.3	(10.2)	7,176.1
Total	\$30,518.7	\$(347.0)	\$30,171.7
<b>December 31, 2014</b>			
Commercial Banking	\$16,727.8	\$(296.7)	\$16,431.1
Non-Strategic Portfolio	1,532.8	(37.5)	1,495.3
Total	\$18,260.6	\$(334.2)	\$17,926.4
<b>December 31, 2013</b>			
Commercial Banking	\$14,556.6	\$(283.1)	\$14,273.5
Non-Strategic Portfolio	3,188.7	(56.0)	3,132.7
Total	\$17,745.3	\$(339.1)	\$17,406.2
<b>December 31, 2012</b>			
Commercial Banking	\$12,394.6	\$(265.8)	\$12,128.8
Non-Strategic Portfolio	3,909.9	(87.2)	3,822.7
Total	\$16,304.5	\$(353.0)	\$15,951.5

**Table of Contents**

CIT ANNUAL REPORT 2016 55

The following table presents charge-offs, by class. See *Results by Business Segment* for additional information.

**Charge-offs as a Percentage of Average Finance Receivables** (dollars in millions)

	2016		2015		2014		2013		2012	
<b>Gross Charge-offs</b>										
Commercial										
Finance	\$62.2	0.57 %	\$59.5	0.61 %	\$29.7	0.38 %	\$21.8	0.31 %	\$37.6	0.6
Real Estate										
Finance	1.6	0.03 %	-	-	-	-	-	-	-	-
Business										
Capital	70.0	1.05 %	53.5	0.81 %	39.6	0.67 %	31.9	0.59 %	48.5	0.9

Edgar Filing: CIT GROUP INC - Form 10-K

	2016		2015		2014		2013		2012	
<b>Commercial Banking<sup>(1)</sup></b>	133.8	0.58 %	113.0	0.57 %	69.3	0.44 %	53.7	0.39 %	86.1	0.7
Legacy										
Consumer Mortgages	2.8	0.04 %	1.3	0.04 %	–	–	–	–	–	–
<b>Consumer Banking</b>	2.8	0.04 %	1.3	0.04 %	–	–	–	–	–	–
<b>Non-Strategic Portfolio<sup>(2)</sup></b>	–	–	50.8	5.17 %	57.5	2.35 %	84.9	2.31 %	54.7	1.4
<b>Total</b>	<b>\$136.6</b>	<b>0.45 %</b>	<b>\$165.1</b>	<b>0.70 %</b>	<b>\$126.8</b>	<b>0.70 %</b>	<b>\$138.6</b>	<b>0.80 %</b>	<b>\$140.8</b>	<b>0.9</b>
<b>Recoveries</b>										
Commercial Finance	\$(2.1 )	(0.02)%	\$(3.7 )	(0.04)%	\$(0.6 )	(0.01)%	\$(7.2 )	(0.11)%	\$(5.8 )	(0.0
Business Capital	(20.0 )	(0.30)%	(13.9 )	(0.21)%	(16.9 )	(0.29)%	(24.0 )	(0.44)%	(35.2 )	(0.0
<b>Commercial Banking<sup>(1)</sup></b>	(22.1 )	(0.10)%	(17.6 )	(0.09)%	(17.5 )	(0.11)%	(31.2 )	(0.23)%	(41.0 )	(0.0
Legacy										
Consumer Mortgages	(3.1 )	(0.04)%	(1.1 )	(0.03)%	–	–	–	–	–	–
<b>Consumer Banking</b>	(3.1 )	(0.04)%	(1.1 )	(0.03)%	–	–	–	–	–	–
<b>Non-Strategic Portfolio<sup>(2)</sup></b>	(0.1 )	–	(9.7 )	(0.98)%	(10.7 )	(0.44)%	(25.5 )	(0.70)%	(26.6 )	(0.0
<b>Total</b>	<b>\$(25.3 )</b>	<b>(0.08)%</b>	<b>\$(28.4 )</b>	<b>(0.12)%</b>	<b>\$(28.2 )</b>	<b>(0.15)%</b>	<b>\$(56.7 )</b>	<b>(0.33)%</b>	<b>\$(67.6 )</b>	<b>(0.0</b>
<b>Net Charge-offs</b>										
Commercial Finance	\$60.1	0.55 %	\$55.8	0.57 %	\$29.1	0.37 %	\$14.6	0.20 %	\$31.8	0.5
Real Estate Finance	1.6	0.03 %	–	–	–	–	–	–	–	–
Business Capital	50.0	0.75 %	39.6	0.60 %	22.7	0.38 %	7.9	0.15 %	13.3	0.2
<b>Commercial Banking<sup>(1)</sup></b>	111.7	0.48 %	95.4	0.48 %	51.8	0.33 %	22.5	0.16 %	45.1	0.3
Legacy										
Consumer Mortgages	(0.3 )	–	0.2	0.01 %	–	–	–	–	–	–
<b>Consumer Banking</b>	(0.3 )	–	0.2	0.01 %	–	–	–	–	–	–
<b>Non-Strategic Portfolio<sup>(2)</sup></b>	(0.1 )	–	41.1	4.19 %	46.8	1.91 %	59.4	1.61 %	28.1	0.7
<b>Total</b>	<b>\$111.3</b>	<b>0.37 %</b>	<b>\$136.7</b>	<b>0.58 %</b>	<b>\$98.6</b>	<b>0.55 %</b>	<b>\$81.9</b>	<b>0.47 %</b>	<b>\$73.2</b>	<b>0.4</b>

(1) Commercial Banking charge-offs for 2016, 2015, 2014, 2013 and 2012 included approximately \$41 million, \$33 million, \$18 million, \$5 million and \$3 million, respectively, related to the transfer of receivables to assets held for sale.

(2) NSP charge-offs for 2016, 2015, 2014, 2013 and 2012 included approximately \$0 million, \$40 million, \$24 million, \$34 million and \$0, respectively, related to the transfer of receivables to assets held for sale.

Commercial Banking net charge-offs were up from 2015, mostly driven by accounts in the energy sector. In conjunction with strategic initiatives, transfers of portfolios to assets held for sale elevated net charge-offs beginning in 2013. This trend continued into 2016, with charge-offs of \$41 million related to Commercial Finance loans transferred to AHFS. In 2015, significant charge-offs were recorded on the transfers to AHFS of the Canada and China portfolios in NSP, along with certain asset sales in Commercial Finance. Charge-offs associated with loans transferred to AHFS do not generate future recoveries as the loans are generally sold before recoveries can be realized and any gains on sales are reported in other income. Excluding assets transferred to held for sale, net charge-offs in 2016 were \$70 million, up from \$64 million, \$56 million, \$43 million and \$70 million for 2015, 2014, 2013 and 2012, respectively.

Item 7: Management's Discussion and Analysis

**Table of Contents**

56 CIT ANNUAL REPORT 2016

The tables below present information on non-accruing loans, which includes loans related to AHFS for each period, and when added to OREO and other repossessed assets, sums to non-performing assets. PCI loans are excluded from these tables as they are written down at acquisition to their fair value using an estimate of cashflows deemed to be collectible. Accordingly, such loans are no longer classified as past due or non-accrual even though they may be contractually past due because we expect to fully collect the new carrying values of these loans.

**Non-accrual and Accruing Past Due Loans at December 31** (dollars in millions)

	2016	2015	2014	2013	2012
<b>Non-accrual loans</b>					
U.S.	\$218.9	\$185.3	\$ 71.8	\$176.3	\$271.0
Foreign	59.7	67.0	88.6	50.1	27.6
Non-accrual loans	\$278.6	\$252.3	\$160.4	\$226.4	\$298.6
<b>Troubled Debt Restructurings</b>					
U.S.	\$ 41.7	\$ 26.4	\$ 13.5	\$216.2	\$263.3
Foreign	40.6	4.6	3.7	2.9	25.9
Restructured loans	\$ 82.3	\$ 31.0	\$ 17.2	\$219.1	\$289.2
<b>Accruing loans past due 90 days or more</b>					
Accruing loans past due 90 days or more	\$ 32.0	\$ 15.8	\$ 10.3	\$ 9.9	\$ 3.4

**Segment Non-accrual Loans as a Percentage of Finance Receivables at December 31** (dollars in millions)

	2016		2015		2014	
Commercial Finance	\$188.8	1.90%	\$131.5	1.15%	\$ 30.8	0.38%
Real Estate Finance	20.4	0.37%	3.6	0.07%	—	—
Business Capital	41.7	0.60%	56.0	0.86%	57.7	0.87%
<b>Commercial Banking</b>	250.9	1.11%	191.1	0.82%	88.5	0.53%
Legacy Consumer Mortgages	17.3	0.36%	4.8	0.09%	—	—
Other Consumer Banking	0.1	0.00%	0.4	0.02%	—	—
<b>Consumer Banking</b>	17.4	0.25%	5.2	0.07%	—	—
<b>Non-Strategic Portfolio</b>	10.3	NM	56.0	NM	71.9	4.69%
Total	\$278.6	0.94%	\$252.3	0.83%	\$160.4	0.88%

NM — not meaningful; The December 31, 2016 and 2015 loan balance was classified as held for sale. Non-accrual loans include loans held for sale; since there were no portfolio loans, no % is displayed.

Non-accrual loans were up in 2016, driven by a \$49 million Maritime account and a few other large accounts in the Commercial Finance division and a large account in Real Estate Finance (all within the Commercial Banking segment), partially offset by decreases due to portfolio sales of the Canadian and U.K. portfolios in the NSP segment. Non-accrual loans rose in 2015, with energy related accounts driving the increase in Commercial Finance, partially offset by a reduction from the sales of international platforms, including Mexico and Brazil, in NSP. Non-accrual loans remained at low levels during 2014. The improvements in 2014 reflect the relatively low levels of new non-accruals, the resolution of a small number of larger accounts in Commercial Finance and the sale of the Small Business Lending unit in NSP. NSP non-accruals as a percentage of finance receivables in 2014 reflected a greater proportion of loans classified as held for sale.



## Edgar Filing: CIT GROUP INC - Form 10-K

Approximately 75% of our non-accrual accounts were paying currently compared to 64% at December 31, 2015. Our impaired loan carrying value (including PAA discount, specific reserves and charge-offs) to estimated outstanding unpaid principal balances approximated 91%, compared to 85% at December 31, 2015. For this purpose, impaired loans are comprised principally of non-accrual loans over \$500,000 and TDRs.

Total delinquency (30 days or more) was 1.1% of finance receivables at December 31, 2016, essentially unchanged from December 31, 2015.

### Table of Contents

CIT ANNUAL REPORT 2016 57

#### **Foregone Interest on Non-accrual Loans and Troubled Debt Restructurings** (dollars in millions)

	2016			2015			2014		
	U.S.	Foreign	Total	U.S.	Foreign	Total	U.S.	Foreign	Total
Interest revenue that would have been earned at original terms	\$24.5	\$ 4.0	\$28.5	\$23.7	\$ 9.4	\$33.1	\$22.8	\$12.4	\$ 35.2
Less:									
Interest recorded	(6.8)	(0.2)	(7.0)	(5.9)	(3.2)	(9.1)	(6.7)	(4.2)	(10.9)
Foregone interest revenue	\$17.7	\$ 3.8	\$21.5	\$17.8	\$ 6.2	\$24.0	\$16.1	\$ 8.2	\$ 24.3

The Company periodically modifies the terms of loans/finance receivables in response to borrowers' difficulties. Modifications that include a financial concession to the borrower, which otherwise would not have been considered, are accounted for as troubled debt restructurings ("TDRs"). For those accounts that were modified but were not considered to be TDRs, it was determined that no concessions had been granted by CIT to the borrower. Borrower compliance with the modified terms is the primary measurement that we use to determine the success of these programs.

The tables that follow reflect loan carrying values of accounts that have been modified, excluding PCI loans.

#### **Troubled Debt Restructurings and Modifications at December 31** (dollars in millions)

	2016		2015		2014	
		% Compliant		% Compliant		% Compliant
<b>Troubled Debt Restructurings</b>						
Deferral of principal and/or interest	\$ 9.6	99%	\$ 23.0	99%	\$ 6.0	96%
Covenant relief and other	72.7	95%	8.0	90%	11.2	58%

Edgar Filing: CIT GROUP INC - Form 10-K

	2016		2015		2014	
Total TDRs	\$ 82.3	84%	\$ 31.0	86%	\$ 17.2	88%
Percent non-accrual	41%		84%		75%	
<b>Modifications<sup>(1)</sup></b>						
Extended maturity	\$ 95.0	100%	\$ 0.2	100%	\$ 0.4	100%
Covenant relief	261.1	100%	65.6	100%	—	—
Interest rate increase	138.2	100%	43.0	100%	62.1	100%
Other	216.0	92%	138.1	96%	91.9	100%
Total Modifications	\$710.3		\$246.9		\$154.4	
Percent non-accrual	23%		16%		10%	

<sup>(1)</sup> Table depicts the predominant element of each modification, which may contain several of the characteristics listed.

TDRs were up in 2016, reflecting the increase in maritime portfolio accounts, while the primary drivers to the increase in modifications in 2016 were the maritime and energy portfolios. The increase in modifications in 2015 reflects the addition of a few larger accounts.

*Purchased Credit-Impaired Loans*

Loans acquired in the OneWest Transaction were recorded at estimated fair value at the time of acquisition. Credit losses were included in the determination of estimated fair value and were effectively recorded as purchase accounting discounts on loans as part of the fair value of the finance receivables. For PCI loans, a portion of the discount attributable to embedded credit losses of both principal, which we refer to as “principal loss discount,” and future interest was recorded as a non-accretable discount and is utilized as such losses occur. Any incremental deterioration on these loans results in incremental provisions or charge-offs. Improvements, or an increase in forecasted cash flows in excess of the non-accretable discount, reduces any allowance on the loan established after the acquisition date. Once such allowance (if any) has been reduced, the non-accretable discount is reclassified to accretable discount and is recorded as finance income over the remaining life of the account. PCI loans are not included in non-accrual loans or in past-due loans.

PCI loans, TDRs and other credit quality information is included in *Note 3 — Loans in Item 8. Financial Statements and Supplementary Data*. See also *Note 1 — Business and Summary of Significant Accounting Policies in Item 8. Financial Statements and Supplementary Data*.

Item 7: Management’s Discussion and Analysis

**Table of Contents**

58 CIT ANNUAL REPORT 2016

**NON-INTEREST INCOME**

As presented in the following table, Non-interest Income includes Rental Income on Operating Leases and Other Income. Non-interest income is also discussed in each of the individual segments in *Results By Business Segment*. Comparisons of Other Income were impacted by the inclusion of OneWest Bank activity for the full year 2016 and five months during 2015.

**Non-interest Income** (dollars in millions)

**Years Ended December 31,**

Edgar Filing: CIT GROUP INC - Form 10-K

	Years Ended December 31,		
	2016	2015	2014
Rental income on operating leases	\$1,031.6	\$1,018.1	\$ 949.6
Other Income:			
Fee revenues	111.6	105.7	92.4
Factoring commissions	105.0	116.5	120.2
Net gains (losses) on derivatives and foreign currency exchange	55.9	(37.9)	(51.8)
Gains on sales of leasing equipment	51.1	57.0	59.6
Gain on investments	34.6	0.9	38.3
Gains (losses) on loan and portfolio sales	34.2	(47.2)	34.3
Gains (losses) on OREO sales	10.2	(5.4)	–
Impairment on assets held for sale	(36.6)	(55.9)	(81.2)
Termination fees on Canadian total return swap	(280.8)	–	–
Other revenues	65.4	15.9	52.1
Total other income	150.6	149.6	263.9
Total non-interest income	\$1,182.2	\$1,167.7	\$1,213.5

#### Rental Income on Operating Leases

*Rental income on operating leases* from equipment we lease is generated in the Rail and Business Capital divisions in the Commercial Banking segment and recognized principally on a straight line basis over the lease term. Rental income is discussed in “*Net Finance Revenues*” and “*Results by Business Segment*”. See also *Note 6 — Operating Lease Equipment* in *Item 8 Financial Statements and Supplementary Data* for additional information on operating leases.

#### Other Income

*Other income* declined in 2016 and 2015 from 2014, reflecting the following:

*Fee revenues* included fees on lines of credit and letters of credit, capital markets-related fees, agent and advisory fees, and servicing fees for the assets that we sell, but for which we retain servicing. As a result of the 2015 acquisition, banking fee products expanded and included items such as cash management fees and account fees. Fee revenues are mainly driven by our Commercial Banking segment.

*Factoring commissions* declined, reflecting the change in the underlying portfolio mix and decline in pricing, along with lower factoring volume. Factoring volume was \$24.9 billion in 2016, down from \$25.8 billion in 2015 and \$26.7 billion in 2014.

*Net gains (losses) on derivatives and foreign currency exchange* in 2016 activity reflected valuations of the Canadian TRS and our Dutch subsidiary’s total return swap facility (the “Dutch TRS”, together with the Canadian TRS, collectively, the “TRS Transactions”) that resulted in gains of \$44 million in 2016, primarily due to the termination of the Canadian TRS in December 2016 which resulted in a \$37 million benefit from the reversal of mark-to-market charges related to the derivative portion of the terminated facility, compared to losses of \$30 million in 2015, and \$15 million in 2014. See *Termination fees* discussion below.

In addition, activity included transactional foreign currency movements that resulted in net gains of \$11 million in 2016 and \$4 million in 2015 and net loss of \$23 million in 2014. On a gross basis, transactional foreign currency movements resulted in losses of \$27 million in 2016, \$112 million in 2015, and \$135 million in 2014. The impact of these transactional foreign currency movements was mitigated by gains of \$38 million in 2016, \$116 million in 2015 and \$112 million in 2014 on derivatives that economically hedge foreign currency movements and other exposures.

Activity also included gains of less than \$1 million in 2016, and losses of \$12 million and \$14 million in 2015 and 2014, respectively, on the realization of cumulative translation adjustment (“CTA”) amounts from AOCI due to translational adjustments related to liquidating portfolios. As of December 31, 2016, there was approximately \$5 million of CTA losses included in accumulated other comprehensive loss in the Consolidated Balance Sheet related to the China business held for sale.

## Edgar Filing: CIT GROUP INC - Form 10-K

For additional information on the impact of derivatives on the income statement, refer to *Note 11 — Derivative Financial Instruments* in *Item 8 Financial Statements and Supplementary Data*.

*Gains on sales of leasing equipment* in 2016 was driven by sales of approximately \$345 million of equipment in 2016. \$49 million of the gain was attributed to sales on \$259 million of equipment in Commercial Banking. While most of the gain was due to the sale of \$84 million of rail equipment, the vast majority of the equipment sold was in Business Capital. The remaining gain of \$2 million and volume sold of \$86 million resulted from the

---

### **Table of Contents**

CIT ANNUAL REPORT 2016 59

liquidating portfolios in the NSP segment. Gains in 2015 were driven by sales of \$342 million of equipment. \$49 million of the gain was attributed to sales on \$217 million in Commercial Banking. Most of the 2015 gain was due to rail equipment, while the vast majority of the equipment sold was in the Business Capital division. The remaining gain of \$8 million and volume sold of \$125 million was in the NSP segment. Gains in 2014 were driven by sales of \$443 million of equipment. \$43 million of the gain was attributed to sales of \$243 million of equipment in Commercial Banking. About half of the Commercial Banking gain in 2014 was on sales of rail equipment, while the other half was split between Business Capital and Commercial Finance divisions. The remaining gain of \$17 million and volume sold of \$200 million was in the NSP segment. Gains as a percentage of equipment sold will vary based on the type and age of equipment sold.

*Gains on investments* primarily reflected sales of equity investments that were received as part of a lending transaction or, in some cases, a workout situation and were reflected in Commercial Banking. The 2016 balance was driven primarily by a \$22 million equity security sale from a loan workout in the fourth quarter. Gains in 2014 reflected sales of investments, primarily in adherence with the Volcker Rule requirements.

*Gains (losses) on loan and portfolio sales* were driven by \$1.3 billion of sales in 2016. Of that amount, gains of \$22 million on sales of \$0.7 billion related to the sale of the Canadian Equipment and Corporate Finance businesses in NSP. In the Commercial Finance division of Commercial Banking, we sold \$0.5 billion loans at a \$12 million gain. The remaining sales of about \$0.1 billion at a slight gain related to mortgage loans sold in our Consumer Banking segment. The loss for 2015 was driven by \$66 million of losses in NSP, primarily due to the realization of CTA losses of approximately \$70 million related to the sales of the Mexico and Brazil businesses. Sales totaled \$1.1 billion in 2015, of which \$0.8 billion was in Commercial Banking and \$0.3 billion was in NSP. Sales in Commercial Banking resulted in \$18 million of gains, mostly in the Commercial Finance division. The 2014 sales volume totaled \$1.4 billion, which included nearly \$1.0 billion in NSP (\$5 million gain) and \$0.4 billion in Commercial Banking (\$29 million gain, most of which was in Commercial Finance). NSP activity in 2014 was primarily due to the sale of the U.K. corporate lending portfolio, which offset losses in other liquidating portfolios.

*Gains (losses) on OREO sales* were up in 2016, reflecting an entire year of transactions, compared to five months in 2015. Balances reflect adjustments to the carrying value of Other Real Estate Owned (OREO) assets. OREO properties pertain to foreclosures in the mortgage portfolios.

*Impairment on assets held for sale* in 2016 included \$22 million in NSP relating to the China and Canada portfolios, with the remainder related to Commercial Banking, driven by impairments on rail equipment. Impairments in 2015 were driven by charges in NSP on the Mexico and Brazil portfolios held for sale, the transfer of the Canada portfolio to AHFS and impairment of associated goodwill, and on other international portfolios held for sale. Impairment charges in 2014 related to portfolios in NSP identified as subscale platforms. Impairment charges are also recorded on operating lease equipment in AHFS. When an operating lease asset is classified as held for sale, depreciation expense is suspended and the asset is evaluated for impairment with any such charge recorded in other income. (See *Other Expenses* for related discussion on depreciation on operating lease equipment.)

*Termination fees on Canadian TRS* reflect payment to GSI on December 7, 2016, of the present value of the remaining facility fee in an amount equal to approximately \$280 million. Although associated with removal of the derivative liability related to the unused portion of the Canadian TRS derivative noted above, the payment was a termination fee, and thus recorded separately and not

## Edgar Filing: CIT GROUP INC - Form 10-K

combined with the derivative liability benefit of \$37 million from the reversal of mark-to-market charges.

*Other revenues* included items that are more episodic in nature, such as gains on work-out related claims, proceeds received in excess of carrying value on non-accrual accounts held for sale, which were repaid or had another workout resolution, insurance proceeds in excess of carrying value on damaged leased equipment, and income from joint ventures. Other revenues for 2016 included a gain on sale of the U.K. business of \$24 million in NSP, inclusive of previously recorded CTA losses. Other revenue also included certain recoveries not part of the provision for credit losses, which totaled \$12 million in 2016, \$15 million in 2015, and \$20 million in 2014. The 2014 balance also included accretion of a counterparty receivable of \$11 million.

Item 7: Management's Discussion and Analysis

### Table of Contents

60 CIT ANNUAL REPORT 2016

## EXPENSES

As discussed below, comparisons of operating expenses were impacted by the inclusion of OneWest Bank activity for the full year 2016 and five months during 2015.

### **Non-Interest Expense** (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
Depreciation on operating lease equipment	\$ (261.1)	\$ (229.2)	\$ (229.8)
Maintenance and other operating lease expenses	(213.6)	(185.1)	(171.7)
Operating expenses:			
Compensation and benefits	(585.5)	(549.6)	(495.1)
Professional fees	(175.8)	(135.0)	(75.3)
Technology	(133.7)	(109.2)	(84.5)
Insurance	(96.5)	(61.6)	(45.3)
Net occupancy expense	(71.9)	(49.1)	(33.7)
Advertising and marketing	(20.5)	(30.4)	(33.2)
Other	(137.8)	(114.6)	(100.2)
Operating expenses, excluding restructuring costs and intangible asset amortization	(1,221.7)	(1,049.5)	(867.3)
Provision for severance and facilities exiting activities	(36.2)	(58.3)	(31.4)
Intangible assets amortization	(25.6)	(13.3)	(1.4)
Total operating expenses	(1,283.5)	(1,121.1)	(900.1)
Goodwill impairment	(354.2)	-	-
Loss on debt extinguishments and deposit redemptions	(12.5)	(1.5)	(3.5)
Total non-interest expenses	\$(2,124.9)	\$(1,536.9)	\$(1,305.1)
Headcount (continuing operations)	4,080	4,460	3,220
Operating expenses excluding restructuring costs and intangible asset amortization as a % of AEA <sup>(1)</sup>	2.56%	2.76%	2.89%
Net efficiency ratio <sup>(2)</sup>	65.5%	71.5%	69.2%

(1)

## Edgar Filing: CIT GROUP INC - Form 10-K

*Operating expenses excluding restructuring costs and intangible amortization as a % of AEA is a non-GAAP measure; see "Non-GAAP Financial Measurements" for a reconciliation of non-GAAP to GAAP financial information.*

- (2) *Net efficiency ratio is a non-GAAP measurement used by management to measure operating expenses (before restructuring costs and intangible amortization) to the level of total net revenues. See "Non-GAAP Financial Measurements" for a reconciliation of non-GAAP to GAAP financial information.*

### Depreciation on Operating Lease Equipment

Depreciation on operating lease equipment is recognized on owned equipment over the lease term or estimated useful life of the asset. Depreciation expense is driven by rail equipment and smaller ticket equipment, such as office equipment, in the Rail and Business Capital divisions in Commercial Banking, respectively. Impairments recorded on equipment held in our portfolio are reported as depreciation expense. Equipment held for sale also impacts the balance, as depreciation expense is suspended on operating lease equipment once it is transferred to AHFS. The increase in depreciation expense in 2016 essentially matches the growth in the operating lease portfolio, as AOL is up 14% compared to 2015. While depreciation expense was relatively flat in 2015 compared to 2014, the change was offset by the decline in depreciation in NSP due to sales and suspended depreciation on equipment held for sale. Depreciation expense is also discussed in "Net Finance Revenue," as it is a component of our asset margin. See "Non-interest Income" for impairment charges on operating lease equipment classified as held for sale.

### Maintenance and Other Operating Lease Expenses

Maintenance and other operating lease expenses relates to equipment ownership and leasing costs associated with the rail portfolio. The maintenance expenses are related to the railcar fleet. CIT Rail provides railcars primarily pursuant to full-service lease contracts under which CIT Rail as lessor is responsible for railcar maintenance and repair. Maintenance expenses on railcars increased in 2016 and 2015 on the growing portfolio with increased costs associated with end of lease railcar returns and increased Railroad Interchange repair expenses.

### Operating Expenses

Operating expenses increased in 2016, impacted by the inclusion of OneWest Bank activity for the full year 2016 compared with five months during 2015. 2016 also reflected costs to remediate legacy OneWest Bank items, costs related to becoming SIFI compliant, along with costs associated with implementing our strategic initiatives, additional integration costs associated with OneWest Bank, and added technology costs. Expense reduction was one of our priorities in 2016 and although operating expenses were up reflecting these noted items, we met our goal and were about a third of the way through our expense savings

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 61

target by yearend 2016, as outlined previously in the *2016 Priorities and Accomplishments* section.

The increased expenses in 2015 compared to 2014, mostly reflected the acquisition of OneWest Bank and the associated five months of expenses. In addition, 2015 included elevated transaction costs to close the OneWest Bank acquisition (included primarily in professional fees) and an increase in FDIC insurance costs resulting from the acquisition, partially offset by savings from the completion of business sales in 2015.

Operating expenses reflect the following changes:

- *Compensation and benefits* increased in 2016 compared to 2015. The primary driver of the increase was the higher level of employees throughout the year, which included a full year of the additional employee costs from OneWest Bank. Through the

## Edgar Filing: CIT GROUP INC - Form 10-K

year, we reduced total employees as a result of business sales, such as the Canadian Equipment and Corporate Finance businesses, and other strategic initiatives, which resulted in the lower headcount from December 31, 2015. The compensation and benefits increase in 2015 compared to 2014 reflected the impact of the net increase of 1,240 employees, primarily associated with the OneWest Bank acquisition. See *Note 20 — Retirement, Postretirement and Other Benefit Plans* in *Item 8. Financial Statements and Supplementary Data*.

- *Professional fees* included legal and other professional fees, such as tax, audit, and consulting services. The increase in 2016 reflects costs incurred for various strategic initiatives, consulting services related to strategic reviews of our businesses, and continued OneWest Bank integration costs. We also incurred third-party costs to assist in improving our capital planning and CCAR reporting capabilities. The 2015 increase was driven by acquisition items such as transaction costs related to the OneWest Transaction, initial integration related costs, and exits of our non-strategic portfolios.
- *Technology* costs increased in 2016 related to system upgrades and enhancements incurred to integrate OneWest Bank, charges to write-off certain capitalized IT costs, and the additional regulatory reporting requirements of being a SIFI organization.
- Insurance expenses increased in 2016 and 2015, mostly reflecting higher FDIC costs to insure the increased deposit balances for the entire year compared to a partial year in 2015.
- Net Occupancy expenses were up in 2016 and 2015, reflecting the added costs associated with OneWest Bank related to the branch network and office locations the entire year compared to partial year in 2015.
- Advertising and marketing expenses included costs associated with raising deposits. Amounts were down in 2016 as we did not actively grow our deposit base, reflecting our asset levels and continued portfolio sales.
- Provision for severance and facilities exiting activities reflects costs associated with various organization efficiency initiatives. Restructuring costs in 2016 primarily reflects strategic initiatives to reduce operating expenses and streamline our operations, which along with portfolio exits, resulted in employee reductions. Restructuring costs in 2015 mostly reflected severance related to streamlining the senior management structure, mainly the result of the OneWest Transaction. The 2014 charges were primarily severance costs related to the termination of approximately 150 employees. The facility exiting activities were minor in comparison. See *Note 27 — Severance and Facility Exiting Liabilities* for additional information in *Item 8. Financial Statements and Supplementary Data*.
- Amortization of intangible assets increased in 2016, primarily reflecting a full year of amortization of the intangible assets recorded in the OneWest Transition, while the increase in 2015 compared to 2014 reflected five months of the added amortization expense. See *Note 26 — Goodwill and Intangible Assets* in *Item 8. Financial Statements and Supplementary Data*, which displays the intangible assets by type and segment, and describes the accounting methodologies.
- Other expenses include items such as travel and entertainment, office equipment and supplies costs and taxes (other than income taxes, such as state sales tax, etc.), and from time to time includes settlement agreement costs, including OneWest Bank legacy matters. Other expenses increased in 2016 and 2015 reflecting OneWest Bank activity and legacy matters, such as servicing related contingent obligations, items related to the loss share agreements with the FDIC, and other indemnifications that were inherited by CIT from OneWest Bank with the acquisition.

### Goodwill Impairment

The Company recorded goodwill impairment of \$319.4 million and \$34.8 million in the Consumer Banking and Commercial Banking segments, respectively, during the fourth quarter of 2016.

See *Note 26 — Goodwill and Intangible Assets* in *Item 8. Financial Statements and Supplementary Data* and *Critical Accounting Estimates* further in the MD&A, both of which discuss goodwill impairment testing.

### Loss on Debt Extinguishments and Deposit Redemptions

Loss on debt extinguishments and deposit redemptions in 2016 relate to certain secured debt instruments and early repayment of brokered certificates of deposits, as described in the *Funding and Liquidity* section. The 2014 expense primarily related to early extinguishments of unsecured debt maturing in February 2015.

**Table of Contents**

62 CIT ANNUAL REPORT 2016

**INCOME TAXES****Income Tax Data** (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
Provision for income taxes, before discrete tax items	\$ 143.5	\$ 79.5	\$ 19.5
Discrete tax items	60.0	(617.5)	(451.9)
Provision (benefit) for income taxes	\$ 203.5	\$ (538.0)	\$ (432.4)
Effective tax rate	978.0%	(289.2)%	(176.8)%
Effective tax rate, before discrete tax items	689.4%	42.8%	8.0%

The Company's 2016 income tax provision from continuing operations is \$203.5 million. This compares to an income tax benefit of \$538.0 million in 2015 and an income tax benefit of \$432.4 million in 2014. The income tax provision before the impact of discrete items was higher this year, as compared to 2015 and 2014, primarily driven by certain items in pretax income that shifted the geographic mix of earnings. Additionally, beginning in 2015, the tax provision included the recognition of deferred federal and state income tax expense on domestic earnings following the release of the domestic valuation allowance in 2014 on the domestic net deferred tax assets ("DTA"). The current year tax provision reflected federal and state income taxes in the U.S. as well as taxes on earnings of certain international operations. Included in the net discrete tax expense of \$60 million for the current year is:

- \$54 million tax expense related to establishment of domestic and international deferred tax liabilities due to Management's decision to no longer assert its intent to indefinitely reinvest its unremitted earnings in Canada,
- \$15 million tax expense related to the establishment of valuation allowances against certain international net deferred tax assets due to our international platform rationalizations,
- \$14 million tax benefit, including interest and penalties, recorded in the first quarter resulting from resolution of certain tax matters by the tax authorities related to uncertain tax positions taken on certain prior year non-U.S. tax returns, and
- \$5 million of miscellaneous net tax expense items.

The Company's 2015 income tax provision of \$79.5 million, excluding discrete items, reflected federal and state income taxes in the U.S. as well as taxes on earnings of certain international operations. Included in the prior year net discrete tax benefit of \$617.5 million was:

- \$647 million tax benefit corresponding to a reduction to the U.S. federal DTA valuation allowance after considering the impact on earnings of the OneWest acquisition to support the Company's ability to utilize the U.S. federal net operating losses,
- \$29 million tax expense including interest and penalties, related to an uncertain tax position taken on certain prior year international tax returns,



## Edgar Filing: CIT GROUP INC - Form 10-K

- \$28 million tax expense related to the establishment of domestic and international deferred tax liabilities due to Management's decision to no longer assert its intent to indefinitely reinvest its unremitted earnings in China,
- \$18 million tax benefit including interest and penalties, related to changes in uncertain tax positions from resolution of open tax matters and closure of statutes, and
- \$9 million tax benefit corresponding to a reduction of certain tax reserves upon the receipt of a favorable tax ruling on an uncertain tax position taken on prior years' tax returns.

The 2014 income tax provision of \$19.5 million, excluding discrete items, reflected income tax expense on the earnings of certain international operations and state income tax expense in the U.S. Included in 2014 net discrete tax benefits of \$451.9 million was a \$375 million tax benefit relating to the reduction to the U.S. net federal DTA valuation allowance, a \$44 million reduction to the valuation allowances on certain international net DTAs, and approximately a \$30 million tax benefit related to an adjustment to the U.S. federal and state valuation allowances due to the acquisition of Direct Capital, and other miscellaneous items.

The change in the effective tax rate each period is impacted by a number of factors, including the relative mix of domestic and international earnings, adjustments to the valuation allowances, and discrete items. The near term future periods effective tax rate may vary from the actual year-end 2016 effective tax rate due to the changes in these factors.

The 2016 global effective tax rate before discrete items was significantly impacted by noteworthy items that reduced pretax income. Excluding noteworthy items highlighted in the non-GAAP table, the Company estimates that the effective tax rate would have been approximately 39% in 2016. Management expects the 2017 global effective tax rate to be in the mid-30s range. However, there will be a minimal impact on cash taxes paid, until the related NOL carry-forward is fully utilized. The taxable income expected from the Commercial Air transaction will help utilize a significant amount of the NOLs in 2017. Additionally, the Company will expect to incur some amount of U.S. federal and state cash taxes, after applying available tax credits. The amount of future cash taxes will depend on the level of taxable income after utilization of the remaining NOLs, including the implications of the Company's annual limitation on use of the remaining pre-bankruptcy NOLs, which is approximately \$265 million per annum.

See *Note 19 — Income Taxes in Item 8. Financial Statements and Supplementary Data* for detailed discussion on the Company's domestic and foreign reporting entities' net DTAs, inclusive of the DTAs related to the net operating losses ("NOLs") in these entities and their respective valuation allowance analysis.

---

### Table of Contents

CIT ANNUAL REPORT 2016 63

---

## RESULTS BY BUSINESS SEGMENT

### SEGMENT REPORTING UPDATES

Due to changes in our business, we realigned our segment reporting in the first quarter of 2016 and then again in the fourth quarter in conjunction with the previously announced sale of Commercial Air. As of December 31, 2016, CIT manages its business and reports its financial results in three operating segments: Commercial Banking, Consumer Banking, and Non-Strategic Portfolios ("NSP"), and a non-operating segment, Corporate and Other.

All prior period comparisons are conformed to the current period presentation.

See *Business Segments in Item 1. Business Overview* for a complete summary of changes made to our segment reporting, along with more detailed descriptions of each of the current business segments and divisions therein.

## Edgar Filing: CIT GROUP INC - Form 10-K

Also see *Item 8. Financial Statements and Supplementary Data, Note 2— Acquisition and Discontinued Operations and Note 25— Business Segment Information.*

### SEGMENTS

#### Commercial Banking

Commercial Banking is comprised of four divisions, Commercial Finance, Rail, Real Estate Finance, and Business Capital. Commercial Banking provides a range of lending, leasing and deposit products, as well as ancillary products and services, including factoring, cash management and advisory services, primarily to small and medium- sized companies, as well as to the rail industry. Revenue is generated from interest earned on loans, rents on equipment leased, fees and other revenue from lending and leasing activities, and banking services, along with capital markets transactions and commissions earned on factoring and related activities.

#### Commercial Banking – Financial Data and Metrics (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
<b>Earnings Summary</b>			
Interest income	\$ 1,287.9	\$ 1,029.1	\$ 845.8
Rental income on operating leases	1,020.0	981.4	896.0
Finance revenue	2,307.9	2,010.5	1,741.8
Interest expense	(519.1)	(481.4)	(441.9)
Depreciation on operating lease equipment	(261.1)	(218.3)	(201.0)
Maintenance and other operating lease expenses	(213.6)	(185.1)	(171.7)
Net finance revenue (NFR)	1,314.1	1,125.7	927.2
Provision for credit losses	(183.1)	(143.7)	(73.3)
Other income	293.8	302.6	327.7
Operating expenses	(761.6)	(727.4)	(642.3)
Goodwill impairment	(34.8)	–	–
Income before provision for income taxes	\$ 628.4	\$ 557.2	\$ 539.3
<b>Select Average Balances</b>			
Average finance receivables (AFR)	\$23,128.6	\$19,702.3	\$15,636.4
Average earning assets (AEA)	29,762.9	25,339.6	20,833.7
Average operating leases (AOL)	7,188.6	6,283.4	5,673.4
<b>Statistical Data</b>			
Net finance margin — NFR as a % of AEA	4.42%	4.44%	4.45%
Net operating lease revenue — rental income, net of depreciation and maintenance and other operating lease expenses	\$ 545.3	\$ 578.0	\$ 523.3
Operating lease margin as a % of AOL	7.59%	9.20%	9.22%
Pretax return on AEA	2.11%	2.20%	2.59%
New business volume	\$ 8,216.2	\$ 9,005.1	\$ 7,522.0
Factoring volume	\$24,907.4	\$25,839.4	\$26,702.5

Item 7: Management's Discussion and Analysis

#### Table of Contents

As discussed below, 2016 operating results varied among the divisions, as improved margins in Commercial Finance, Real Estate Finance and Business Capital were offset by lower margins in the operating lease portfolio in Rail. During 2015, business activity increased due to the OneWest Transaction. The 2015 results included five months of revenues and expenses associated with OneWest Bank, while the 2014 activity and balances do not include such activity. The 2016 results include a full year of activity.

Pre-tax income increased from both 2015 and 2014, and benefited from higher earning assets, which offset higher credit costs associated with the increase in loans, and the rise in operating expenses driven primarily by the increased operations. Trends are further discussed below.

Financing and leasing assets totaled \$30.4 billion at December 31, 2016, compared to \$30.6 billion and \$22.7 billion at December 31, 2015 and 2014, respectively. The slight decrease in FLA in 2016 was driven by a \$1.4 billion decline in the Commercial Finance division, offset by a total of \$1.2 billion of increases in the other divisions. The Commercial Finance decrease reflects positioning the portfolio to emphasize opportunities that build upon our specialty lending expertise by providing credit as well as other bank products and services, prepayments, and lower volume. Financing and leasing assets at December 31, 2016 included \$10.3 billion in Commercial Finance, \$7.3 billion in Business Capital, \$7.2 billion in Rail, and \$5.6 billion in Real Estate Finance. The increase in 2015 from 2014 was due primarily to the OneWest Transaction. See tabular presentation by division in the *Financing and Leasing Assets* section for 2015 and 2014 comparative balances.

*Rail* financing and leasing assets grew to \$7.2 billion as we expanded our owned operating lease portfolio to over 131,000 railcars at December 31, 2016, mainly from scheduled deliveries in our order book, partially offset by sales and scrapping of certain railcars. Our owned portfolio approximated 128,000 and 120,000 railcars at December 31, 2015 and 2014, respectively. Absent acquisitions, rail assets are primarily originated through purchase commitments with manufacturers and are also supplemented by spot purchases. At December 31, 2016, we had approximately 2,400 railcars on order from manufacturers, with deliveries scheduled through 2018. See *Note 21 — Commitments in Item 8. Financial Statements and Supplementary Data and Concentrations* for further railcar manufacturer commitment data. A table reflecting railcar types is included in the *Concentrations* section.

New business volume was down from 2015, as the declines in Commercial Finance and Rail were partially offset by increases in Real Estate Finance and Business Capital. The Commercial Finance decline was mostly attributed to the maritime portfolio and the positioning of the business to a more strategic customer base. The Rail decline reflects market conditions. 2015 new business volume was up, reflecting the OneWest Transaction.

The Rail division's 2016 volume included the delivery of approximately 6,200 railcars, compared to delivery of approximately 9,250 railcars in 2015 and approximately 6,000 railcars in 2014.

Factoring volume was down from 2015 and 2014, reflective of mix and market conditions.

Highlights included:

- NFR increased from 2015 and 2014, and primarily benefited from higher average earning assets and purchase accounting accretion, as well as the impact of interest recoveries on loans previously charged off. Purchase accounting accretion totaled \$150 million in 2016, essentially all of which benefited interest income, with a small amount decreasing interest expense, up from \$65 million in 2015. (Purchase accounting accretion is presented in tabular form in the *Net Finance Revenue* section.) Loan prepayment activity was up in 2016 after it had slowed in 2015, and interest recoveries were also up from 2015 but below 2014. NFM was essentially flat in 2016, as improvements in three of the divisions were offset by a decline in Rail, as discussed below.
- Gross yields (interest income plus rental income on operating leases as a % of AEA) for the segment were down from 2015, as the decrease in Rail offset higher yields in Commercial Finance, Real Estate Finance, and Business Capital. Commercial Finance and Real Estate Finance benefited from PAA accretion and interest recoveries on loans previously charged off. Gross yields decreased in Rail, primarily reflecting lower utilization and lower lease rates on energy related cars. Gross yields in 2015 were down from 2014, mainly reflecting the impact of the acquired assets due to portfolio mix, along with continued pressures on yields, as new business yields were generally below maturing contracts. See Select Segment and Division Margin Metrics table in *Net Finance Revenue* section for further discussion of gross yields.
- Net operating lease revenue, which is a component of NFR, is driven primarily by the performance of our rail portfolio. Net operating lease revenue decreased from 2015, as increased rental income from growth in the Rail division was offset by lower

lease rates, as well as higher depreciation and maintenance and operating lease expenses. Maintenance and other operating lease expenses primarily relate to the rail portfolio, and were up reflecting increased maintenance, freight and storage costs in rail, and growth in the portfolio. Net operating lease revenue also reflects trends in equipment utilization with railcar utilization declining, a trend that is expected to continue into 2017 due to continued weakness in demand for select energy related car types. The decline in the operating lease margin (as a percentage of average operating lease equipment) reflects these trends primarily driven by the energy sector. Renewal rates on railcars have been repricing down 20%-30% on average. Net operating lease revenue increased in 2015 compared to 2014, driven by growth, while operating lease margin declined due to pressure on renewal rates on certain railcars.

- Railcar utilization rates, including commitments to lease, declined during 2016 to 94%, from 96% at December 31, 2015, and 99% at December 31, 2014, reflecting pressures mostly from energy related industries, which impacted certain railcars such as tank, sand and coal cars.

---

**Table of Contents**

CIT ANNUAL REPORT 2016 65

- Other income was down from 2015 and 2014, reflecting the following:
  - Factoring commissions of \$105 million were down from both prior years reflecting lower factoring volume and pressure on factoring commission rates due to changes in the portfolio mix and competition.
  - Gains on assets sold totaled \$83 million in 2016, \$75 million in 2015 and \$105 million in 2014. About half of the 2016 gain was on rail equipment, with most of the remaining in the Commercial Finance division, driven by a sizable investment gain in the fourth quarter. Nearly half of the gains in 2015 were on rail equipment, while the remaining was nearly split between Commercial Finance and Business Capital. In 2014, gains were driven by Commercial Finance.
  - Impairment charges on AHFS totaled \$15 million, \$4 million and \$0.1 million in 2016, 2015 and 2014, respectively, and predominantly related to rail cars.
  - Fee revenue was up from both 2015 and 2014, reflecting the impact of higher capital market fees in Commercial Finance and the OneWest Transaction in 2015 versus 2014. As a result of the acquisition, banking related fees expanded and includes items such as cash management fees and account fees. Fee revenue was \$99 million in 2016, up from \$94 million in 2015 and \$78 million in 2014.
  - The provision for credit losses was up from 2015 and 2014, and reflects additional new business volume and higher reserve rates in the Commercial Finance, Real Estate Finance and Business Capital divisions. The increase in 2015 from 2014 also reflected reserve build on the acquired receivables. Net charge-offs were \$112 million (0.48% of average finance receivables) for 2016, compared to \$95 million (0.48%) in 2015 and \$52 million (0.33%) in 2014. Net charge-offs excluding assets held for sale were \$71 million in the current year, compared to \$62 million in 2015 and \$34 million in 2014. The increases in 2016 reflected higher charge-offs in the energy sector. Non-accrual loans increased to \$251 million (1.11% of finance receivables), from \$191 million (0.82%) at December 31, 2015 and \$89 million (0.53%) at December 31, 2014. The increase in 2016 was driven mostly in the maritime portfolio, plus other sectors in Commercial Finance. The increase in 2015 was driven by the inclusion of the assets acquired in the OneWest Transaction.
  - The increases in operating expenses from 2015 and 2014 are primarily due to the inclusion of a full year of costs related to the OneWest Transaction.

## Edgar Filing: CIT GROUP INC - Form 10-K

Consumer Banking includes Retail Banking, Consumer Lending, and SBA Lending, which are grouped together for purposes of discussion as Other Consumer Banking and Legacy Consumer Mortgages ("LCM").

*Other Consumer Banking* offers mortgage lending and deposits to its consumer customers. Products offered include jumbo residential mortgage loans and conforming residential mortgage loans, primarily in Southern California. *LCM* includes portfolios of single family residential mortgages and reverse mortgages, certain of which are covered by loss sharing agreements with the FDIC.

Revenue is generated from interest earned on mortgages and loans, and from fees for banking services.

See *Note 1 — Business and Summary of Significant Accounting Policies* and *Note 5 — Indemnification Assets* in *Item 8. Financial Statements and Supplementary Data* for accounting and detailed discussions.

The following table presents full year 2016 financial data and metrics, while 2015 reflects balances for five months activity since the OneWest Transaction.

### Consumer Banking – Financial Data and Metrics (dollars in millions)

	Years Ended	
	December 31, 2016	December 31, 2015
<b>Earnings Summary</b>		
Interest income	\$ 420.8	\$ 176.1
Interest expense	(10.2)	(24.9)
Net finance revenue (NFR)	410.6	151.2
Provision for credit losses	(11.7)	(8.7)
Other income	40.0	5.4
Operating expenses	(380.9)	(158.4)
Goodwill impairment	(319.4)	—
Loss before provision for income taxes	\$ (261.4)	\$ (10.5)
<b>Select Average Balances</b>		
Average finance receivables (AFR)	\$ 7,105.1	\$ 2,998.9
Average earning assets (AEA)	\$ 7,527.4	\$ 3,202.4
<b>Statistical Data</b>		
Net finance margin — NFR as a % of AEA	5.45%	4.72%
Pretax return on AEA	(3.47)%	(0.33)%
<b>Other Select Balances</b>		
New business volume	\$ 960.5	\$ 249.9
Deposits	\$22,542.2	\$22,872.8

Item 7: Management's Discussion and Analysis

### Table of Contents

66 CIT ANNUAL REPORT 2016

Due to the timing of the OneWest Transaction, comparisons between 2016 and 2015 are not relevant.

## Edgar Filing: CIT GROUP INC - Form 10-K

Pretax results for 2016 reflected interest on loans, which included PAA accretion, and the benefit from low interest expense from deposit funding. Other income mostly included net gains on OREO sales and fee revenue. The operating expenses are proportionally higher than other segments, reflecting the branch operations and other items, some of which are described below.

Financing and leasing assets totaled \$7.0 billion at December 31, 2016, slightly down from December 31, 2015, due to run-off of the LCM portfolios and lower new business volume. The LCM portfolios comprise approximately \$4.9 billion of the balance with a significant portion covered by loss sharing agreements with the FDIC. These agreements begin to expire in 2019, the benefit of which is recorded within the indemnification asset. See *Note 5 — Indemnification Assets in Item 1. Consolidated Financial Statements* for more detailed discussion on the indemnification assets.

Deposits, which include deposits from branches and online channels, were down slightly from the prior year reflecting an increase of \$1.0 billion in money market demand accounts, offset by a \$1.2 billion decrease in brokered CD's.

Highlights included:

- NFR benefited from purchase accounting accretion of \$138 million in 2016, of which \$129 million increased interest income and the remaining decreased interest expense. In 2015, accretion benefited NFR by \$53 million, \$47 million of which increased interest income. Gross yield for the portfolio was 5.59% for 2016 and 5.50% for the period of ownership in 2015.
- Other income included gains on OREO properties, fee revenue, and other miscellaneous income, including pre-acquisition recoveries. Other income in 2016 included gains on OREO properties of \$11 million in 2016, fee revenue of \$10 million and other miscellaneous income. Other income in 2015 included fee revenue of \$5 million and other revenue, partially offset by losses on OREO properties of \$5 million.
- Non-accrual loans were \$17 million (0.25% of finance receivables) at December 31, 2016, up from \$5 million (0.07%) at December 31, 2015. Non-accrual loans were in the LCM portfolio. Net charge off is insignificant in 2016 despite the increase in non-accrual loans.
- Operating expenses were reflective of the full year inclusion of OneWest Bank activity compared to five months in 2015, Operating expenses reflect the inclusion of branch operation expenses, OREO costs and FDIC insurance, which also causes the net efficiency ratio to be higher than other segments. Operating expenses in 2016 were also elevated due to certain larger items, including \$27 million from the resolution of legacy items assumed with the OneWest Transaction (servicing-related contingent reserves and resolution of a pre-acquisition litigation matter) described in *Note 22 — Contingencies in Item 8. Financial Statements and Supplementary Data*. In addition, operating expenses included approximately \$3 million write-off of servicing advances deemed non-recoverable.
- See Note 26 — Goodwill and Intangible Assets in Item 8. Financial Statements and Supplementary Data for discussion of goodwill impairment.

### Non-Strategic Portfolios (NSP)

NSP consists of businesses and portfolios that we no longer consider strategic. These portfolios include equipment financing, secured lending and leasing and advisory services to small and middle-market businesses.

### Non-Strategic Portfolios – Financial Data and Metrics (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
<b>Earnings Summary</b>			
Interest income	\$ 80.8	\$ 184.8	\$ 295.6
Rental income on operating leases	11.6	36.7	53.6
Finance revenue	92.4	221.5	349.2
Interest expense	(47.2)	(121.4)	(218.4)
Depreciation on operating lease equipment	–	(10.9)	(28.8)
Net finance revenue (NFR)	45.2	89.2	102.0

	Years Ended December 31,		
Provision for credit losses	0.1	(6.2)	(30.9)
Other income	52.1	(96.8)	(27.5)
Operating expenses	(42.2)	(123.9)	(180.9)
Income (loss) before provision for income taxes	\$ 55.2	\$ (137.7)	\$ (137.3)
<b>Select Average Balances</b>			
Average finance receivables (AFR)	\$ —	\$ 982.0	\$2,449.0
Average earning assets (AEA)	1,175.6	2,375.7	3,955.4
<b>Statistical Data</b>			
Net finance margin — NFR as a % of AEA	3.84%	3.75%	2.58%
New business volume	\$ 151.1	\$ 768.2	\$1,302.9

## Table of Contents

CIT ANNUAL REPORT 2016 67

The 2016 results reflect activity from businesses in China, the Canadian Equipment Finance and Corporate Finance businesses, which was sold in October 2016, plus the sale of the U.K. Equipment Finance business, which was sold in January 2016. The prior-year periods also include activity from other international and domestic businesses and portfolios, such as Mexico and Brazil that were sold in 2015 and the Small Business Lending (“SBL”) and numerous smaller portfolios in Asia, Europe and Latin America that were sold in 2014.

Pretax income in 2016 was driven by gains on the Canada and U.K. portfolio sales. Pre-tax losses in 2015 were primarily driven by currency translation adjustment losses resulting from the sales of the Brazil and Mexico operations and associated portfolios, along with continued impairment charges on assets held for sale. The year-ago pre-tax loss was also driven by the higher level of operating expenses reflective of the remaining businesses at that time.

Financing and leasing assets at December 31, 2016, totaled \$210 million, essentially all in China, down from \$1.6 billion at December 31, 2015, which also included portfolios in Canada and the U.K. We are pursuing the sale of the Chinese business, which is included in AHFS.

In 2016 we sold the Canadian Equipment Finance and Corporate Finance businesses. The sale closed in October 2016. Financing and leasing assets totaled \$2.4 billion at December 31, 2014. The decline during 2015 reflected primarily the sales of the Mexico and Brazil businesses.

Highlights included:

- Net finance revenue (“NFR”) was down, driven by lower earning assets due to the sales previously noted.
- Other income increased from the prior years, reflecting:
  - Gains of \$22 million on sales in 2016 related to the Canadian Equipment and Corporate Finance businesses (\$0.7 billion of financing and leasing assets). Losses on asset sales in 2015 of \$59 million (of which \$70 million related to CTA losses) on \$400 million of receivable and equipment sales, reflecting sales of the Mexico, Brazil and certain U.K. equipment portfolios. Gains of \$22 million on \$1.2 billion of receivable and equipment sales in 2014 were driven by gains on the sale of the U.K. corporate lending portfolio of \$11 million.

- Impairment charges recorded on international equipment finance portfolios and operating lease equipment held for sale. Impairment charges were \$22 million for 2016, compared to \$52 million and \$81 million for 2015 and 2014, respectively. See “*Non-interest Income*” and “*Expenses*” for discussions on impairment charges and suspended depreciation on operating lease equipment held for sale.
- The remaining balance includes fee revenue, recoveries of amounts previously charged off, fees related to transition service agreements and other revenues. Fee revenue in 2014 included servicing fees related to the SBL portfolio, which totaled \$5 million.
- Non-accrual loans decreased to \$10 million at December 31, 2016, from \$56 million at December 31, 2015, and \$72 million at December 31, 2014, reflecting the previously mentioned sales. The provision for credit losses was down from 2015 and 2014, and reflects the classification of assets as held for sale, which do not require a provision for credit losses, but the assets are reviewed for impairment. There was an insignificant recovery in 2016, compared to net charge-offs of \$41 million in 2015 and \$47 million in 2014. Net charge-offs resulting from assets transferred to held for sale were \$40 million in 2015 and \$24 million in 2014.
- Operating expenses were down, primarily reflecting lower cost due to sales of businesses and run-off of assets.

#### Corporate and Other

Certain items are not allocated to operating segments and are included in Corporate and Other. Some of the more significant and recurring items include interest income on investment securities, a portion of interest expense primarily related to corporate liquidity costs (interest expense), mark-to-market adjustments on non-qualifying derivatives (other income), restructuring charges for severance and facilities exit activities as well as certain unallocated costs (operating expenses), certain intangible assets amortization expenses (other expenses) and loss on debt extinguishments. Corporate and Other may from time to time reflect significant transactions, such as the net charge resulting from the termination of the Canadian TRS noted below. Comparisons to the prior year are impacted by the timing of the OneWest Transaction. Results for 2015 include OneWest Bank for approximately five months.

Item 7: Management’s Discussion and Analysis

#### Table of Contents

68 CIT ANNUAL REPORT 2016

#### Corporate and Other – Financial Data (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
<b>Earnings Summary</b>			
Interest income	\$ 122.0	\$ 55.2	\$ 14.2
Finance revenue	122.0	55.2	14.2
Interest expense	(176.7)	(103.7)	(54.8)
Net finance revenue (NFR)	(54.7)	(48.5)	(40.6)
Provision for credit losses	–	–	(0.2)
Other income	(235.3)	(61.6)	(36.3)
Operating expenses / loss on debt extinguishment and deposit redemption	(111.3)	(112.9)	(80.4)



Years Ended December 31,

Loss before provision for income taxes	\$ (401.3)	\$ (223.0)	\$ (157.5)
--	------------	------------	------------

- Interest income consists of interest and dividend income, primarily from investment securities and deposits held at other depository institutions. The increases in 2016 and 2015 reflect additional income from the investment portfolio as we redeployed cash at CIT Bank into higher-yielding "High Quality Liquid Assets." The 2015 increase reflected the OneWest Transaction that included a MBS portfolio.
- Interest expense in Corporate represents amounts in excess of expenses allocated to segments and amounts related to excess liquidity.

Other income primarily reflects gains and (losses) on derivatives, including the TRS Transactions, and foreign currency exchange.

- Driving the significant 2016 negative amount was a fourth quarter termination charge of approximately \$280 million related to the Canadian TRS, partially offset by a positive mark-to-market gain for the year of \$44 million on the TRS primarily due to the Canadian TRS termination. The TRS Transactions had a negative mark-to-market of \$30 million in 2015 and \$15 million in 2014. We continue to utilize the Dutch TRS, which at December 31, 2016, was over 80% utilized.
- Other income also included gains of \$11 million and losses of \$7 million for 2016 and 2015, respectively, related to the MBS securities portfolio, which is carried at fair value.
- The 2015 balance also included \$9 million related to the write-off of other receivables that was fully offset with a benefit to the tax provision.
- Operating expenses reflects salary and general and administrative expenses in excess of amounts allocated to the business segments and litigation-related costs. Operating expenses were up from 2015 and 2014, due to higher professional fees along with additional costs of being a larger bank, due to the OneWest Bank acquisition. Operating expenses also included \$36 million, \$58 million and \$31 million related to provision for severance and facilities exiting activities during 2016, 2015 and 2014, respectively.

## Table of Contents

CIT ANNUAL REPORT 2016 69

## FINANCING AND LEASING ASSETS

The following table presents our financing and leasing assets by segment.

### Financing and Leasing Asset Composition (dollars in millions)

December 31,			\$ Change 2016 vs 2015	\$ Change 2015 vs 2014
2016	2015	2014		

### **Commercial Banking**

Edgar Filing: CIT GROUP INC - Form 10-K

December 31,

Loans	\$22,562.3	\$23,332.4	\$16,727.8	\$ (770.1)	\$ 6,604.6
Operating lease equipment, net	7,486.1	6,851.7	5,937.1	634.4	914.6
Assets held for sale	357.7	435.1	43.7	(77.4)	391.4
Financing and leasing assets	30,406.1	30,619.2	22,708.6	(213.1)	7,910.6
<b>Commercial Finance</b>					
Loans	9,923.9	11,389.9	8,184.4	(1,466.0)	3,205.5
Assets held for sale	351.4	333.1	42.5	18.3	290.6
Financing and leasing assets	10,275.3	11,723.0	8,226.9	(1,447.7)	3,496.1
<b>Real Estate Finance</b>					
Loans	5,566.6	5,311.5	1,768.5	255.1	3,543.0
Assets held for sale	–	57.0	–	(57.0)	57.0
Financing and leasing assets	5,566.6	5,368.5	1,768.5	198.1	3,600.0
<b>Business Capital</b>					
Loans	6,968.1	6,510.0	6,644.9	458.1	(134.9)
Operating lease equipment, net	369.0	259.0	221.8	110.0	37.2
Assets held for sale	6.0	44.3	–	(38.3)	44.3
Financing and leasing assets	7,343.1	6,813.3	6,866.7	529.8	(53.4)
<b>Rail</b>					
Loans	103.7	121.0	130.0	(17.3)	(9.0)
Operating lease equipment, net	7,117.1	6,592.7	5,715.3	524.4	877.4
Assets held for sale	0.3	0.7	1.2	(0.4)	(0.5)
Financing and leasing assets	7,221.1	6,714.4	5,846.5	506.7	867.9
<b>Consumer Banking</b>					
Loans	6,973.6	7,186.3	–	(212.7)	7,186.3
Assets held for sale	68.2	45.1	–	23.1	45.1
Financing and leasing assets	7,041.8	7,231.4	–	(189.6)	7,231.4
<b>Legacy Consumer Mortgages</b>					
Loans	4,829.9	5,427.2	–	(597.3)	5,427.2
Assets held for sale	32.8	41.2	–	(8.4)	41.2
Financing and leasing assets	4,862.7	5,468.4	–	(605.7)	5,468.4
<b>Other Consumer Banking</b>					
Loans	2,143.7	1,759.1	–	384.6	1,759.1
Assets held for sale	35.4	3.9	–	31.5	3.9
Financing and leasing assets	2,179.1	1,763.0	–	416.1	1,763.0
<b>Non-Strategic Portfolios</b>					
Loans	–	–	1,532.8	–	(1,532.8)
Operating lease equipment, net	–	–	43.8	–	(43.8)
Assets held for sale	210.1	1,577.5	782.8	(1,367.4)	794.7
Financing and leasing assets	210.1	1,577.5	2,359.4	(1,367.4)	(781.9)
Total Loans	29,535.9	30,518.7	18,260.6	(982.8)	12,258.1
Total operating lease equipment, net	7,486.1	6,851.7	5,980.9	634.4	870.8
Total assets held for sale	636.0	2,057.7	826.5	(1,421.7)	1,231.2
<b>Total financing and leasing assets</b>	<b>\$37,658.0</b>	<b>\$39,428.1</b>	<b>\$25,068.0</b>	<b>\$ (1,770.1)</b>	<b>\$ 14,360.1</b>

Item 7: Management's Discussion and Analysis

**Table of Contents****70 CIT ANNUAL REPORT 2016**

Financing and leasing assets were down in 2016, reflecting the following:

Financing and leasing asset levels varied across the divisions within Commercial Banking during 2016. Commercial Finance assets were down, reflecting sales and prepayments as we position the portfolio to focus on a more strategic customer base. In addition, we ceased funding new maritime transactions and that portfolio has declined through 2016. Real Estate Finance was up slightly from year end as strong origination volume outpaced prepayments and the run-off of a legacy non-SFR portfolio. Business Capital was up, reflecting growth in the equipment leasing business. In 2015, Commercial Banking grew significantly, reflecting the OneWest Bank acquisition. Portfolios were added to Commercial Finance and Real Estate Finance, of which there is \$0.8 billion running off at December 31, 2016. Absent the acquisition, new business originations were offset by sales of select assets as we rebalanced our portfolio, portfolio collections and prepayments, and lower factoring receivables in Business Capital. Growth in Commercial Banking in 2014 was led by Business Capital, which included the acquisition of Direct Capital that increased loans by approximately \$540 million at the time of acquisition and growth in Real Estate Finance.

Consumer Banking loans were down as run-off in LCM, which includes SFR and reverse mortgage portfolios, offset purchases and originations in Other Consumer Banking, driven by mortgage loans and SBA lending.

The decline in NSP during 2016 primarily reflected the sale of the U.K. equipment finance business, the sale of our Canadian Equipment Finance and Corporate Finance businesses and net repayments in our China business. In 2015, the decline primarily reflected the sales of the Mexico business and the Brazil business. Financing and leasing assets were also down in 2014, primarily reflected by sales, which included the remaining SBL portfolio.

Financing and leasing asset trends are also discussed in the respective segment descriptions in *"Results by Business Segment"*.

The following table reflects the contractual maturities of our finance receivables, which excludes certain items such as purchase accounting adjustments discounts.

**Contractual Maturities of Loans at December 31, 2016** (dollars in millions)

	Commercial		Consumer	
	U.S.	Foreign	U.S.	Total
<b>Fixed-rate</b>				
1 year or less	\$ 4,188.1	\$ 126.3	\$ 58.5	\$ 4,372.9
Year 2	1,963.0	13.0	62.0	2,038.0
Year 3	1,604.1	61.1	54.5	1,719.7
Year 4	644.6	11.2	56.3	712.1
Year 5	351.1	30.6	58.4	440.1
2-5 years	4,562.8	115.9	231.2	4,909.9
After 5 years	405.4	92.8	2,437.6	2,935.8
Total fixed-rate	9,156.3	335.0	2,727.3	12,218.6
<b>Adjustable-rate</b>				
1 year or less	1,844.3	190.4	87.9	2,122.6
Year 2	1,895.9	368.9	97.6	2,362.4
Year 3	1,888.4	422.8	104.5	2,415.7
Year 4	1,872.0	219.0	108.7	2,199.7
Year 5	2,464.4	305.7	113.3	2,883.4
2-5 years	8,120.7	1,316.4	424.1	9,861.2

Edgar Filing: CIT GROUP INC - Form 10-K

	Commercial		Consumer	
After 5 years	1,815.9	209.5	4,730.7	6,756.1
Total adjustable-rate	11,780.9	1,716.3	5,242.7	18,739.9
Total	\$20,937.2	\$2,051.3	\$7,970.0	\$30,958.5

**Table of Contents**

CIT ANNUAL REPORT 2016 71

The following table presents the changes to our financing and leasing assets:

**Financing and Leasing Assets Rollforward** (dollars in millions)

	Commercial Banking	Consumer Banking	Non- Strategic Portfolios	Total
<b>Balance at December 31, 2013</b>	\$ 19,315.3	\$ —	\$ 4,050.4	\$23,365.7
New business volume	7,522.0	—	1,302.9	8,824.9
Portfolio / business purchases	1,185.8	—	—	1,185.8
Loan and portfolio sales	(433.6)	—	(955.3)	(1,388.9)
Equipment sales	(242.9)	—	(200.5)	(443.4)
Depreciation	(201.0)	—	(28.8)	(229.8)
Gross charge-offs	(69.3)	—	(57.5)	(126.8)
Collections and other	(4,367.7)	—	(1,751.8)	(6,119.5)
<b>Balance at December 31, 2014</b>	22,708.6	—	2,359.4	25,068.0
New business volume	9,005.1	249.9	768.2	10,023.2
Portfolio / business purchases	6,308.5	7,372.3	—	13,680.8
Loan and portfolio sales	(844.7)	(17.1)	(274.8)	(1,136.6)
Equipment sales	(217.2)	—	(125.1)	(342.3)
Depreciation	(218.3)	—	(10.9)	(229.2)
Gross charge-offs	(113.0)	(1.3)	(50.8)	(165.1)
Collections and other	(6,009.8)	(372.4)	(1,088.5)	(7,470.7)
<b>Balance at December 31, 2015</b>	30,619.2	7,231.4	1,577.5	39,428.1
New business volume	8,216.2	960.5	151.1	9,327.8
Portfolio / business purchases	64.1	—	—	64.1
Loan and portfolio sales	(484.2)	(87.7)	(717.3)	(1,289.2)
Equipment sales	(258.5)	—	(85.6)	(344.1)
Depreciation	(261.1)	—	—	(261.1)
Gross charge-offs	(133.8)	(2.8)	—	(136.6)
Collections and other	(7,355.8)	(1,059.6)	(715.6)	(9,131.0)
<b>Balance at December 31, 2016</b>	\$30,406.1	\$ 7,041.8	\$ 210.1	\$37,658.0

## Edgar Filing: CIT GROUP INC - Form 10-K

Financing and leasing assets acquired in the OneWest Transaction are reflected in the 2015 'Portfolio/business purchases' line for Commercial Banking and Consumer Banking as of the acquisition date.

*New business volume* in 2016 decreased in Commercial Banking as we limited originations to existing commitments in the maritime portfolio within Commercial Finance, which was partially offset by increases in Real Estate Finance and Business Capital. In addition, in Commercial Finance we are positioning the portfolio to emphasize opportunities that build upon our specialty lending expertise by providing credit as well as other bank products and services. Volume in Consumer Banking increased in 2016 as activity in the prior year was limited due to the OneWest Transaction. The increase in 2015 Commercial Banking new business volumes compared to 2014 were driven by Business Capital (which included a full year of Direct Capital), Real Estate Finance, due to the OneWest Transaction, Commercial Finance, due to the growth of the maritime portfolio, and Rail, reflecting additional railcar deliveries. New business volume in 2014 reflected solid demand for Commercial Banking products and services.

*Portfolio/business purchases* reflected a small portfolio of railcars in 2016. 2015 included the OneWest Bank acquisition in Commercial Banking and Consumer Banking and Rail portfolios purchased by Nacco. 2014 activity included the acquisition of Nacco in Rail and Direct Capital in Business Capital within Commercial Banking.

*Loan and portfolio sales* in 2016 within NSP reflected the sale of our Canadian Equipment and Corporate Finance businesses and the sale of the U.K. equipment finance business. Commercial Banking activity mostly reflected sales to manage risk and position the Commercial Finance portfolio, which began in 2015, as we rebalanced assets post the OneWest Transaction. NSP sales in 2015 reflect the sale of the Mexico and Brazil businesses. Loan and portfolio sales in NSP during 2014 reflect international portfolios and the small business loan portfolio, while Commercial Banking had various loan sales throughout the year.

*Equipment sales* in 2016, 2015 and 2014 generally reflect sales of small-ticket equipment and rail equipment in Commercial Banking. Equipment sales in NSP included operating lease equipment in the various international platforms sold over the years.

Portfolio activities are discussed in the respective segment descriptions in "*Results by Business Segment*".

Item 7: Management's Discussion and Analysis

### **Table of Contents**

72 CIT ANNUAL REPORT 2016

## CONCENTRATIONS

### **Geographic Concentrations**

The following table represents CIT's combined commercial and consumer financing and leasing assets by geographical regions:

#### **Total Financing and Leasing Assets by Obligor – Geographic Region** (dollars in millions)

	December 31, 2016		December 31, 2015		December 31, 2014	
West	\$ 11,858.7	31.5%	\$ 11,972.1	30.4%	\$ 3,027.4	12.1%
Northeast	9,766.0	25.9%	9,436.1	23.9%	6,536.0	26.1%
Midwest	4,241.9	11.3%	4,269.9	10.8%	3,635.6	14.5%
Southwest	4,112.8	10.9%	4,166.8	10.6%	3,253.4	13.0%
Southeast	3,299.5	8.8%	3,728.9	9.5%	2,875.7	11.5%
Total U.S.	33,278.9	88.4%	33,573.8	85.2%	19,328.1	77.2%
Canada	1,199.8	3.2%	1,964.9	5.0%	2,032.2	8.1%
Europe	1,154.5	3.1%	1,363.6	3.4%	1,409.7	5.6%
Asia / Pacific	1,100.1	2.9%	1,656.7	4.2%	1,386.3	5.5%

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2016		December 31, 2015		December 31, 2014	
All other countries	924.7	2.4%	869.1	2.2%	911.7	3.6%
Total	\$37,658.0	100.0%	\$39,428.1	100.0%	\$25,068.0	100.0%

**Ten Largest Accounts**

Our ten largest financing and leasing asset accounts, the vast majority of which are lessors of rail assets, in the aggregate represented 4.2% of our total financing and leasing assets at December 31, 2016 (the largest account was less than 1.0%).

The ten largest financing and leasing asset accounts were 3.9% at December 31, 2015 and 6.5% at December 31, 2014.

COMMERCIAL CONCENTRATIONS

**Geographic Concentrations**

The following table represents the commercial financing and leasing assets by obligor geography:

**Commercial Financing and Leasing Assets by Obligor — Geographic Region** (dollars in millions)

	December 31, 2016		December 31, 2015		December 31, 2014	
Northeast	\$ 8,643.0	27.9%	\$ 8,136.1	25.0%	\$ 6,536.0	26.1%
West	7,168.7	23.1%	7,270.9	22.4%	3,027.4	12.1%
Midwest	4,027.8	13.0%	4,024.3	12.4%	3,635.6	14.5%
Southwest	4,016.7	12.9%	4,100.6	12.6%	3,253.4	13.0%
Southeast	2,789.3	9.0%	3,136.6	9.6%	2,875.7	11.5%
Total U.S.	26,645.5	85.9%	26,668.5	82.0%	19,328.1	77.2%
Asia / Pacific	1,100.1	3.5%	1,656.7	5.1%	1,386.3	5.5%
Europe	1,154.5	3.7%	1,363.6	4.2%	1,409.7	5.6%
Canada	1,199.8	3.9%	1,964.9	6.0%	2,032.2	8.1%
All other countries	924.7	3.0%	869.1	2.7%	911.7	3.6%
Total	\$31,024.6	100.0%	\$32,522.8	100.0%	\$25,068.0	100.0%

**Table of Contents**

CIT ANNUAL REPORT 2016 73

The following table summarizes both state concentrations greater than 5.0% and international country concentrations in excess of 1.0% of our financing and leasing assets:

**Commercial Financing and Leasing Assets by Obligor – State and Country** (dollars in millions)

	December 31, 2016	December 31, 2015	December 31, 2014
--	-------------------	-------------------	-------------------

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2016		December 31, 2015		December 31, 2014	
<b>State</b>						
California	\$ 5,220.8	16.8%	\$ 5,301.0	16.3%	\$ 1,488.0	5.9%
Texas	3,296.3	10.6%	3,444.6	10.6%	2,687.3	10.7%
New York	3,084.0	10.0%	2,841.8	8.7%	2,492.9	10.0%
Delaware	1,573.8	5.1%	1,230.6	3.8%	504.8	2.0%
All other states	13,470.6	43.4%	13,850.5	42.6%	12,155.1	48.5%
Total U.S.	\$26,645.5	85.9%	\$26,668.5	82.0%	\$19,328.1	77.2%
<b>Country</b>						
Canada	\$ 1,199.8	3.9%	\$ 1,964.9	6.0%	\$ 2,032.2	8.1%
Marshall Islands	632.2	2.0%	882.0	2.7%	682.2	2.7%
All other countries	2,547.1	8.2%	3,007.4	9.3%	3,025.5	12.0%
Total International	\$ 4,379.1	14.1%	\$ 5,854.3	18.0%	\$ 5,739.9	22.8%

Cross-Border Transactions

Cross-border transactions reflect monetary claims on borrowers domiciled in foreign countries and primarily include cash deposited with foreign banks and receivables from residents of a foreign country, reduced by amounts funded in the same currency and recorded in the same jurisdiction. The following table includes all countries that we have cross-border claims of 0.75% or greater of total consolidated assets:

Cross-border Outstandings as of December 31 (dollars in millions)

Country	2016					2015		2014		
	Bank	Government	Other	Net Local Country Claims	Total Exposure	Exposure as a Percentage of Total Assets	Total Exposure	Exposure as a Percentage of Total Assets	Total Exposure	Exposure as a Percentage of Total Assets
Canada	\$ -	\$ -	\$ -	\$ -	\$ -	(*)	\$970.0	1.44%	\$1,397.0	2.93%
United Kingdom	-	-	-	-	-	(*)	904.0	1.34%	1,129.0	2.36%
Marshall Islands	-	-	667.0	-	667.0	1.04%	812.0	1.20%	687.0	1.44%
China	-	-	-	-	-	(*)	678.0	1.01%	853.0	1.79%
France	456.0	-	580.0	31.0	1,067.0	1.66%	-	(*)	426.0	0.89%

(\*) Cross-border outstandings were less than 0.75% of total consolidated assets

(\*\*) Claims from Bank counterparties include claims outstanding from derivative products.

Item 7: Management's Discussion and Analysis

**Table of Contents**

**Industry Concentrations**

The following table represents financing and leasing assets by industry of obligor:

**Commercial Financing and Leasing Assets by Obligor – Industry** (dollars in millions)

	December 31, 2016		December 31, 2015		December 31, 2014	
Real Estate	\$ 4,988.5	16.1%	\$ 4,895.4	15.0%	\$ 1,590.5	6.3%
Manufacturing <sup>(1)</sup>	4,478.7	14.4%	4,889.1	15.0%	4,603.5	18.4%
Retail <sup>(2)</sup>	2,296.3	7.4%	2,470.7	7.6%	3,175.9	12.7%
Energy and utilities	2,224.4	7.2%	2,084.1	6.4%	1,505.0	6.0%
Wholesale	2,178.2	7.0%	2,181.5	6.7%	1,541.8	6.1%
Rail	2,088.5	6.7%	1,742.2	5.4%	1,385.8	5.5%
Maritime	1,660.2	5.4%	1,832.5	5.6%	618.0	2.5%
Service industries	1,533.7	4.9%	1,609.0	5.0%	1,266.6	5.0%
Oil and gas extraction / services	1,516.7	4.9%	1,825.9	5.6%	1,426.0	5.7%
Business Services	1,424.0	4.6%	1,794.0	5.5%	1,399.1	5.6%
Healthcare	1,325.3	4.3%	1,219.2	3.8%	1,154.2	4.6%
Transportation	809.5	2.6%	982.6	3.0%	1,324.5	5.3%
Finance and insurance	698.6	2.3%	926.6	2.9%	551.5	2.2%
Other (no industry greater than 2%)	3,802.0	12.2%	4,070.0	12.5%	3,525.6	14.1%
Total	\$31,024.6	100.0%	\$32,522.8	100.0%	\$25,068.0	100.0%

<sup>(1)</sup> At December 31, 2016, manufacturers of chemicals, including pharmaceuticals (3.7%), petroleum and coal, including refining (2.3%), food (1.5%) and stone, clay, glass and concrete (1.3%).

<sup>(2)</sup> At December 31, 2016 includes retailers of general merchandise (2.6%), food and beverage (1.4%) and miscellaneous (1.3%).

**Energy**

CIT's direct lending to the oil and gas industry totaled \$0.6 billion or approximately 2% of total loans at December 31, 2016. The year over year decline of \$0.1 billion in oil and gas loans was driven by loan sales and paydowns. We have approximately \$2.2 billion of railcars leased directly to railroads and other diversified shippers in support of the transportation and production of crude oil. We discuss our loan portfolio exposure to certain energy sectors in *Credit Metrics* and our rail operating lease portfolio below.

**Operating Lease Equipment — Rail**

As detailed in the following table, at December 31, 2016, our operating lease rail portfolio consisted of over 131,000 railcars and approximately 400 locomotives. The weighted average remaining lease term on the operating lease fleet is approximately 3 years, with approximately 26,200 and 21,000 leased rail assets scheduled to expire in 2017 and 2018, respectively. We also have commitments to purchase approximately 2,400 railcars, primarily freight cars, as disclosed in *Item 8. Financial Statements and Supplementary Data, Note 21 — Commitments*.

<u>Railcar Type</u>	<u>Owned Fleet</u>
Covered Hoppers	49,247
Tank Cars	37,285
Mill/Coil Gondolas	13,746
Coal	10,911
Boxcars	8,661
Flatcars	5,183



Railcar Type	Owned Fleet
Locomotives	383
Other	6,047
<b>Total</b>	<b>131,463</b>

The Rail division included approximately 37,000 tank cars. The North American fleet has approximately 24,000 tank cars used in the transport of crude oil, ethanol and other flammable liquids (collectively, "Flammable Liquids"). Of the 24,000 flammable liquids tank cars, approximately 16,000 tank cars are leased directly to railroads and other diversified shippers for the transportation of crude by rail. The North America fleet also contains approximately 9,000 sand cars (covered hoppers) leased to customers to support crude oil and natural gas production.

On May 1, 2015, the U.S. Pipeline and Hazardous Materials Safety Administration ("PHMSA") and Transport Canada ("TC") each released their final rules (the "Final Rules"), which were generally aligned in recognition that many railcars are used in both countries. The Final U.S. Rules applied to all High Hazard Flammable Trains ("HHFT"), which is defined as trains with a continuous block of 20 or more tank cars loaded with a flammable liquid or 35 or more tank cars loaded with a flammable liquid dispersed through a train. The Final U.S. Rules (i) established enhanced DOT Specification 117 design and performance criteria applicable to tank cars constructed after October 1, 2015, for use in an HHFT and (ii) required retrofitting existing tank cars in accordance with DOT-prescribed retrofit design or performance standard for use in a HHFT. The retrofit timeline was based on two risk factors, the packing group of the flammable liquid and the differing types of DOT-111 and CPC-1232 tank cars. The Final U.S. Rules also established new braking standards, requiring HHFTs to have in place a functioning two-way end-of-train device or a distributive power braking system. In addition, the Final U.S. Rules established speed restrictions for HHFTs, established standards for rail routing analysis, required improved information sharing with state and local officials, and required more accurate classification of unrefined petroleum-based products, including developing and carrying out sampling and testing programs.

## **Table of Contents**

CIT ANNUAL REPORT 2016 75

On December 4, 2015, President Obama signed into law the Fixing America's Surface Transportation Act ("FAST Act"), which, among other things, modified certain aspects of the Final U.S. Rules for transportation of flammable liquids. The FAST Act requires certain new tank cars to be equipped with "thermal blankets", mandates all legacy DOT-111 tank cars in flammable liquids service, not only those used in an HHFT, to be upgraded to the new retrofit standard, and sets minimum requirements for the protection of certain valves. Further, it requires reporting on the industry-wide progress and capacity to modify DOT-111 tank cars. Finally, the FAST Act requires an independent evaluation to investigate braking technology requirements for the movement of trains carrying certain hazardous materials, and it requires the Secretary of Transportation to determine whether electronically-controlled pneumatic ("ECP") braking system requirements, as imposed by the Final U.S. Rules, are justified. The FAST Act provides clarity on retrofit requirements but will not have a material impact on our original plans to retrofit our fleet.

As noted above, CIT has approximately 24,000 tank cars in its North American fleet used in the transport of Flammable Liquids. Based on our analysis of the Final U.S. Rules, as modified by the FAST Act, our current flammable liquids tank car fleet will require modification with the vast majority due by 2020 or later. Current tank cars on order are being configured to meet the Final U.S. Rules, as modified by the Fast Act, except for the installation of ECP braking systems. CIT is currently evaluating how the Final U.S. Rules, as modified by the Fast Act will impact its business and customers. We continue to believe that we will retrofit most of our impacted cars, depending on future industry and market conditions, and we will amortize the cost over the remaining asset life of the cars.

## **CONSUMER CONCENTRATIONS**

The following table presents our total outstanding consumer financing and leasing assets, including PCI loans as of December 31, 2016 and December 31, 2015. All of the consumer loans were acquired in the OneWest Transaction. The consumer PCI loans are

## Edgar Filing: CIT GROUP INC - Form 10-K

included in the total outstanding and displayed separately, net of purchase accounting adjustments. PCI loans are discussed in more detail in *Note 3 — Loans* in *Item 8. Financial Statements and Supplementary Data*.

### Consumer Financing and Leasing Assets (dollars in millions)

	December 31, 2016		December 31, 2015	
	Net Investment	% of Total	Net Investment	% of Total
Single family residential	\$5,501.6	82.9%	\$5,654.4	81.9%
Reverse mortgage	891.8	13.5%	917.4	13.3%
Home Equity Lines of Credit	237.1	3.6%	325.7	4.7%
Other consumer	2.9	—	7.8	0.1%
<b>Total loans</b>	<b>\$6,633.4</b>	<b>100.0%</b>	<b>\$6,905.3</b>	<b>100.0%</b>

For consumer and residential loans, the Company monitors credit risk based on indicators such as delinquencies and LTV. We monitor trending of delinquency/delinquency rates as well as non-performing trends for home equity loans and residential real estate loans.

LTV refers to the ratio comparing the loan's unpaid principal balance to the property's collateral value. We update the property values of real estate collateral if events require current information and calculate current LTV ratios. We examine LTV migration and stratify LTV into categories to monitor the risk in the loan classes.

See *Note 3 — Loans* in *Item 8. Financial Statements and Supplementary Data* for information on LTV ratios.

Loan concentrations may exist when borrowers could be similarly impacted by economic or other conditions. The following table summarizes the carrying value of consumer financing and leasing assets, with concentrations in the top five states based upon property address by geographical regions as of December 31, 2016 and December 31, 2015:

### Consumer Financing and Leasing Assets Geographic Concentrations (dollars in millions)

	December 31, 2016		December 31, 2015	
	Net Investment	% of Total	Net Investment	% of Total
California	\$ 4,217.0	63.6%	\$ 4,264.7	61.8%
New York	524.0	7.9%	565.9	8.2%
Florida	282.7	4.3%	318.9	4.6%
New Jersey	159.4	2.4%	171.4	2.5%
Maryland	137.7	2.1%	149.0	2.2%
Other States and Territories <sup>(1)</sup>	1,312.6	19.7%	1,435.4	20.7%
	<b>\$ 6,633.4</b>	<b>100.0%</b>	<b>\$ 6,905.3</b>	<b>100.0%</b>

<sup>(1)</sup> No state or territories have total carrying value in excess of 2%.

**Table of Contents**

76 CIT ANNUAL REPORT 2016

**FUNDING AND LIQUIDITY**

CIT actively manages and monitors its funding and liquidity sources against relevant limits and targets. These sources satisfy funding and other operating obligations, while also providing protection against unforeseen stress events including unanticipated funding obligations, such as customer line draws, or disruptions to our access to capital markets or other funding sources. Primary liquidity sources include cash, investment securities and credit facilities as discussed below.

*Cash*

Cash totaled \$6.4 billion at December 31, 2016, compared to \$7.7 billion and \$6.2 billion at December 31, 2015 and 2014, respectively. The decline in 2016 compared to 2015 reflects our 2016 business strategy, as we redeployed cash at CIT Bank into higher-yielding "High Quality Liquid Assets." The increase in 2015 compared to 2014 was primarily due to cash acquired in the OneWest Transaction. Cash at December 31, 2016 consisted of \$4.6 billion at CIT Bank and \$1.8 billion related to the bank holding company and other operating subsidiaries. Of the total cash at December 31, 2016, \$0.4 billion was held by foreign subsidiaries.

As of December 31, 2016, CIT does not intend to indefinitely reinvest foreign earnings.

*Investment Securities***Investment Securities** (dollars in millions)

	December 31, 2016	December 31, 2015	December 31, 2014
<b>Available-for-sale securities</b>			
Debt securities	\$3,674.1	\$2,007.8	\$1,116.5
Equity securities	34.1	14.3	14.0
<b>Held-to-maturity securities</b>			
Debt securities	243.0	300.1	352.3
<b>Securities carried at fair value with changes recorded in net income</b>			
Debt securities	283.5	339.7	—
<b>Non-marketable investments</b>	256.4	291.8	67.5
<b>Total investment securities</b>	<b>\$4,491.1</b>	<b>\$2,953.7</b>	<b>\$1,550.3</b>

In 2016, we redeployed cash at CIT Bank into higher-yielding "High Quality Liquid Assets" thus increasing debt securities compared to 2015. The increase in investment securities in 2015 primarily reflects \$1.3 billion of investments acquired in the OneWest Transaction, mostly MBS securities. In addition, the acquisition also drove the increase in the non-marketable equity investments, which represents the additional investment in FHLB and FRB securities. See *Note 1 — Business and Summary of Significant Accounting Policies in Item 8. Financial Statements and Supplementary Data* for policies covering classification and reviewing for OTTI.

Interest and dividend income (a component of NFR), totaled \$132 million, \$71 million and \$36 million for the years ended December 31, 2016, 2015 and 2014, respectively, with the increases over 2014 mostly reflecting the higher investment balances on the mortgage-backed security portfolio. We also recognized net gains in other income of \$35 million, \$1 million and \$38 million for the years ended December 31, 2016, 2015 and 2014, respectively. The revenue streams are discussed in *Net Finance Revenue and Non-interest Income*.

*Credit Facilities*

## Edgar Filing: CIT GROUP INC - Form 10-K

As of December 31, 2016, we maintained additional liquidity sources in the form of:

- A multi-year committed revolving credit facility that has a total commitment of \$1.5 billion, of which \$1.4 billion was unused. The facility was amended in February 2017 to, among other things, extend the maturity date of the facility, reduce total commitments thereunder to \$1.4 billion and to further reduce total commitments thereunder to \$750 million upon consummation of the sale of our Commercial Air business (see Note 31 — Subsequent Events in *Item 8. Financial Statements and Supplementary Data*); and
- Committed securitization facilities and secured bank lines totaled \$3.1 billion, of which \$1.9 billion was unused, provided that eligible assets are available that can be funded through these facilities.

Liquidity is further enhanced by our ability to sell or syndicate portfolio assets in secondary markets, which also enables us to manage credit exposure, and to pledge assets to access secured borrowing facilities through the FHLB and FRB.

---

### Table of Contents

CIT ANNUAL REPORT 2016 77

#### Funding Sources

Funding sources include deposits and borrowings. As we execute on our strategic initiatives, we plan to continue to increase the proportion of deposits in our funding mix. The following table reflects our funding mix:

#### Funding Mix

	December 31, 2016	December 31, 2015	December 31, 2014
Deposits	68%	67%	50%
Unsecured	23%	22%	37%
Secured Borrowings:			
Structured financings	4%	5%	12%
FHLB Advances	5%	6%	1%

The percentage of funding for each period excludes the debt related to discontinued operations (see *Note 2 — Acquisition and Discontinued Operations* in *Item 8. Financial Statements and Supplementary Data*), and is based on disclosed amounts, inclusive of purchase accounting adjustments. The increase in the percentage mix of deposits in 2016 represents the Company's decision to expand and utilize deposits, which are a less expensive funding source. The decline in the percentage mix of structured financings was due to repayments. The changes in funding mix in 2015 compared to 2014 were mainly due to the OneWest Bank acquisition.

The following sections on deposits and borrowings provide further detail on the acquired amounts and the effect on existing balances.

#### Deposits

CIT offers its deposits through various channels. At December 31, 2016, our branch deposits totaled \$11.8 billion, online deposits totaled \$11.0 billion, brokered deposits were \$5.1 billion and commercial deposits were \$4.4 billion. The following table details our ending deposit balances by type:

## Edgar Filing: CIT GROUP INC - Form 10-K

### Deposits at December 31 (dollars in millions)

	2016		2015		2014	
	Total	Percent of Total	Total	Percent of Total	Total	Percent of Total
Checking and Savings:						
Non-interest bearing checking	\$ 1,255.6	3.9%	\$ 862.9	2.6%	\$ —	—
Interest bearing checking	3,251.8	10.1%	3,123.7	9.5%	—	—
Money market	6,593.3	20.4%	5,560.5	17.0%	1,873.8	11.8%
Savings	4,303.0	13.3%	4,840.5	14.8%	3,941.6	24.9%
Certificates of Deposits	16,729.0	51.8%	18,201.8	55.6%	9,942.2	62.8%
Other	171.6	0.5%	172.0	0.5%	81.1	0.5%
<b>Total</b>	<b>\$32,304.3</b>	<b>100.0%</b>	<b>\$32,761.4</b>	<b>100.0%</b>	<b>\$15,838.7</b>	<b>100.0%</b>

CIT Bank offers a full suite of deposit offerings to its commercial and consumer customers through a network of 70 branches in Southern California and online. Increasing the proportion of deposit funding and lowering costs is a key area of focus for CIT. The weighted average coupon rate of total deposits was 1.19% at December 31, 2016, down from 1.26% at December 31, 2015, and 1.68% at December 31, 2014. At December 31, 2016, our CDs had a weighted average remaining life of approximately 1.8 years. The decline at December 31, 2016, reflected our decision to deemphasize and exercise call options on certain brokered CDs, which had higher coupon rates, while the 2015 decline reflected rates on the deposits received in the OneWest Transaction that were lower than existing deposits. During 2016, we incurred charges of \$10.6 million on the early redemption of \$1.1 billion of brokered CDs. Brokered CDs now represent 11.5% of total deposits at December 31, 2016, a 25% reduction from December 31, 2015. See *Net Finance Revenue* section for further discussion on average balances and rates.

See *Net Finance Revenue* section for further discussion on average balances and rates.

### Borrowings

Borrowings consist of senior unsecured notes and secured borrowings (structured financings and FHLB advances), which totaled \$14.9 billion in aggregate at December 31, 2016, down from \$16.4 billion at December 31, 2015 and \$16.0 billion at December 31, 2014. This decline primarily relates to payments on and redemptions of structured financings and a reduction in FHLB Advances from 2015 year end. The weighted average coupon rate of borrowings at December 31, 2016 was 4.20%, compared to 3.93% and 4.42% at December 31, 2015 and 2014, respectively. The increase in the weighted average coupon rate in 2016 reflected the repayment of lower cost secured borrowings, while the declines from 2014 reflected the increase in FHLB advances, which have lower rates.

Item 7: Management's Discussion and Analysis

### Table of Contents

78 CIT ANNUAL REPORT 2016

Included in liabilities of discontinued operations at December 31, 2016 is \$1.6 billion of secured debt, mostly related to the Commercial Air business. See *Note 2 — Acquisitions and Discontinued Operations* in *Item 8. Financial Statements and Supplementary Data*.

In conjunction with the pending sale of our Commercial Air business, we expect to repay or repurchase certain of our secured and unsecured debt, which could result in significant debt-related costs. Debt balances that we expect to repay and/or transfer in connection with the sale of the Commercial Air business totaled approximately \$7.0 billion as of December 31, 2016, comprised of

## Edgar Filing: CIT GROUP INC - Form 10-K

approximately \$5.8 billion of unsecured debt and \$1.2 billion of secured debt of which approximately \$1 billion was repaid in February of 2017.

See *Note 10 — Borrowings* in *Item 8. Financial Statements and Supplementary Data* for further detail on borrowings.

### Unsecured Borrowings

#### Second Amended and Restated Revolving Credit Facility

As discussed above, in February 2017, the Revolving Credit Facility was amended. See *Note 31 — Subsequent Events* in *Item 8. Financial Statements and Supplementary Data* for further discussion.

The following was in effect as of December 31, 2016:

There were no borrowings outstanding under the Revolving Credit Facility at December 31, 2016, and the amount available to draw upon was approximately \$1.4 billion, with the remaining amount of approximately \$0.1 billion utilized for issuance of letters of credit.

At December 31, 2016, the Revolving Credit Facility had a \$1.5 billion total commitment that consisted of a \$1.15 billion revolving loan tranche and a \$350 million revolving loan tranche that can also be utilized for issuance of letters of credit. The applicable margin charged under the facility is based on our debt ratings. Currently, the applicable margin is 2.25% for LIBOR Rate loans and 1.25% for Base Rate loans. Improvement in CIT's long-term senior unsecured debt ratings to Ba2 by Moody's would result in a reduction in the applicable margin to 2.00% for LIBOR Rate loans and to 1.00% for Base Rate loans. A downgrade in CIT's long-term senior unsecured debt ratings to B+ by S&P or Fitch would result in an increase in the applicable margin for LIBOR Rate and Base Rate loans. In the event of a one notch downgrade by only one of the agencies, no change to the margin charged under the facility would occur.

The Revolving Credit Facility is unsecured and is guaranteed by nine of the Company's domestic operating subsidiaries. The facility contains a covenant requiring a minimum guarantor asset coverage ratio, including the criteria for calculating the ratio. The required minimum guarantor asset coverage ratio ranges from 1.0:1.0 to 1.50:1.0 depending on the Company's long-term senior unsecured debt rating. The requirement at December 31, 2016, was 1.375:1.0. As of December 31, 2016, the last reported asset coverage ratio was 3.03x.

#### Senior Unsecured Borrowings

At December 31, 2016, unsecured borrowings outstanding totaled \$10.6 billion, essentially unchanged from December 31, 2015 and down from \$11.9 billion at December 31, 2014. The weighted average coupon rate of unsecured borrowings at December 31, 2016, was 5.03%, unchanged from December 31, 2015 and up slightly from 5.00% at December 31, 2014. The decline in the 2015 outstanding balance and slight increase in rate reflect the repayment of \$1.2 billion of maturing 4.75% notes and modest debt repurchases during 2015.

In December 2016, nearly \$956 million of the aggregate principal amount of outstanding 5.00% Notes due May 2017 ("Old Notes"), were exchanged to new 5.00% Senior Unsecured Notes due May 2018 (the "New Notes"). The New Notes mature on May 15, 2018, which is one year later than the maturity of the Old Notes. The New Notes have the same interest rate, ranking and covenants as the Old Notes. Commencing on May 15, 2017, the New Notes will be redeemable at the Company's option at 100.50% of the principal amount of the New Notes. While we target the sale of Commercial Air to be completed by the end of the first quarter of 2017, extending the maturity of the notes due in May 2017 provided financial flexibility and enables CIT to better manage its liquidity profile in the event of an unexpected delay in the sale.

As detailed in "Contractual Commitments and Payments" below, there are scheduled maturities of approximately \$2.0 billion in 2017, reflecting \$1.7 billion due in August 2017 and the remaining Old Notes.

#### Secured Borrowings

As part of our funding strategy, we may pledge assets for secured financing transactions (which include structured financings), to borrow from the FHLB, or for other purposes as required or permitted by law. Our secured financing transactions do not meet accounting requirements for sale treatment and are recorded as secured borrowings, with the assets remaining on-balance sheet pursuant to GAAP. The debt issued in conjunction with these transactions is collateralized by certain discrete receivables, loans, leases and/or underlying equipment. Certain related cash balances are restricted.

*FHLB Advances*

FHLB advances have become a larger source of funding since the OneWest Transaction. CIT Bank is a member of the FHLB of San Francisco and may borrow under a line of credit that is secured by pledged collateral. The Bank makes decisions regarding utilization of advances based upon a number of factors including liquidity needs, cost of funds and alternative sources of funding. CIT Bank, N.A. had \$2.4 billion and \$3.1 billion outstanding under the line and \$6.4 billion and \$6.8 billion of assets pledged as collateral, at December 31, 2016 and 2015, respectively. The decrease in advances during 2016 was the result of management's decision to utilize excess cash balances to reduce these borrowings.

Prior to the OneWest Transaction, at December 31, 2014, CIT Bank was a member of the FHLB of Seattle (before its merger into FHLB Des Moines on June 1, 2015) and had \$125 million outstanding under a line of credit and \$168 million of commercial real estate assets were pledged as collateral. At December 31,

**Table of Contents**

CIT ANNUAL REPORT 2016 79

2014, a subsidiary of CIT Bank was a member of FHLB Des Moines and had \$130 million of advances outstanding and \$142 million of collateral pledged.

*Structured Financings*

Structured Financings totaled approximately \$1.9 billion at December 31, 2016, compared to \$2.6 billion and \$3.9 billion at December 31, 2015 and 2014, respectively. The decreases in secured borrowings during 2016 and 2015 reflect net repayments. The weighted average coupon rate of structured financings at December 31, 2016 was 3.39%, up from 3.11% and 2.88% at December 31, 2015 and 2014, respectively. The increase in the weighted average rate in 2015 mostly reflects the repayments on lower coupon financings.

During the fourth quarter of 2016, CIT completed the following notable transactions:

- Established a \$1 billion, three-year asset-based lending ( ABL ) facility in support of our factoring business in the Business Capital division, and
- Amended our \$1.5 billion Canadian TRS facility as noted in the *TRS Transactions* section below.

Structured financings in CIT Bank totaled \$0.2 billion, \$0.8 billion and \$1.6 billion at December 31, 2016, 2015 and 2014, respectively, which were secured by \$0.3 billion, \$1.1 billion and \$2.1 billion of pledged assets at December 31, 2016, 2015 and 2014, respectively. Non-bank structured financings were \$1.7 billion, \$1.8 billion and \$2.3 billion at December 31, 2016, 2015 and 2014, respectively, and were secured by assets of \$3.8 billion, \$3.5 billion and \$4.2 billion, at December 31, 2016, 2015 and 2014, respectively.

See *Note 10 Borrowings* in *Item 8. Financial Statements and Supplementary Data* for a table displaying our consolidated secured financings and pledged assets.

FRB

The Company has a borrowing facility with the FRB Discount Window that can be used for short-term, typically overnight, borrowings. The borrowing capacity is determined by the FRB based on the collateral pledged.

There were no outstanding borrowings with the FRB Discount Window as of December 31, 2016, 2015 or 2014. See *Note 10 Borrowings* in *Item 8. Financial Statements and Supplementary Data* for balances pledged, including amounts to the FRB.

**TRS Transactions**

## Edgar Filing: CIT GROUP INC - Form 10-K

Two financing facilities between two wholly-owned subsidiaries of CIT, one Canadian ( CFL ) and one Dutch, and Goldman Sachs International ( GSI ), respectively, are structured as total return swaps ( TRS ), under which amounts available for advances (otherwise known as the unused portion) are accounted for as derivatives and recorded at its estimated fair value. The total facility capacity available under the Canadian TRS was \$437 million and the Dutch TRS was \$625 million at December 31, 2016. The utilized portion reflects the borrowing.

On December 7, 2016, CFL entered into a Fourth Amended and Restated Confirmation (the Termination Agreement ) with GSI to terminate the Canadian TRS. Under the Termination Agreement, the Canadian TRS terminates on March 31, 2017, or such earlier date designated by CFL upon five business days prior notice delivered to GSI on or after January 2, 2017. The Termination Agreement required payment by CFL to GSI on December 7, 2016, of the present value of the remaining facility fee in an amount equal to approximately \$280 million.

In order to prepare for the previously announced sale of the Company s commercial aircraft leasing business to Avolon Holdings Limited, CIT redeemed in December 2016 the commercial aircraft securitization transaction utilized as a reference obligation in the Canadian TRS, causing the Canadian TRS to become fully unutilized. As a result, the Company and its Board of Directors decided to terminate the Canadian TRS in order to further simplify the Company s business model and reduce earnings volatility resulting from the mark-to-market of the Canadian TRS derivative. On January 9, 2017, CFL provided notice to GSI designating January 17, 2017, as the termination date for the Canadian TRS.

The aggregate notional amounts of the TRS Transactions of \$587.5 million at December 31, 2016 and \$1,152.8 million at December 31, 2015, represent the aggregate unused portions under the Canadian TRS and Dutch TRS, respectively, and constitute derivative financial instruments. These notional amounts are calculated as the maximum aggregate facility commitment amounts, \$1,062.3 million at December 31, 2016 and \$2,125.0 at December 31, 2015, less the aggregate actual adjusted qualifying borrowing base outstanding of \$474.8 million at December 31, 2016 and \$972.2 million at December 31, 2015, under the Canadian TRS and Dutch TRS. The notional amounts of the derivatives will increase as the adjusted qualifying borrowing base decreases due to repayment of the underlying ABS to investors. If CIT funds additional ABS under the Dutch TRS, the aggregate adjusted qualifying borrowing base of the total return swaps will increase and the notional amount of the derivatives will decrease accordingly.

Based on the Company s valuation, a liability of \$11.3 million and \$54.9 million was recorded at December 31, 2016, and December 31, 2015, respectively on the aggregate unused portion. The decrease in the liability of \$43.6 million and increase in the liability of \$30.4 million for the years ended December 31, 2016, and 2015, respectively, were recognized in Other Income. The termination fee on the financing facility, mentioned above, and the reduction of the liability associated with the TRS Transactions of approximately \$37 million, resulted in a net pretax charge for the Company of approximately \$245 million in the fourth quarter of 2016. As a result of the Termination Agreement, the unsecured counterparty receivable held by GSI under the Canadian TRS was also released.

We continue to utilize the Dutch TRS to fund our rail operations. The terms and conditions of the Dutch TRS allow CIT to terminate all, but not part, of the transaction upon payment of the present value of the facility fee that would accrue through the termination date of the facility. As of December 31, 2016 that amount was approximately \$120 million. At December 31, 2016, a total of \$838 million of pledged assets backed \$529 million of debt issued to investors.

See Note 11 *Derivative Financial Instruments* in Item 8. *Financial Statements and Supplementary Data* for further information.

Item 7: Management's Discussion and Analysis

---

### **Table of Contents**

**80** CIT ANNUAL REPORT 2016

### **Debt Ratings**

Debt ratings can influence the cost and availability of short-and long-term funding, the terms and conditions on which such funding may be available, the collateral requirements, if any, for borrowings and certain derivative instruments, the acceptability of our letters of credit, and the number of investors and counterparties willing to lend to the Company. A decrease, or potential decrease,



## Edgar Filing: CIT GROUP INC - Form 10-K

in credit ratings could impact access to the capital markets and/or increase the cost of debt, and thereby adversely affect the Company's liquidity and financial condition.

CIT and CIT Bank debt ratings at December 31, 2016, as rated by Standard & Poor's Ratings Services (S&P), Fitch Ratings, Inc. (Fitch), Moody's Investors Service (Moody's) and DBRS Inc. (DBRS) are presented in the following table.

### Debt Ratings as of December 31, 2016

	S&P	Fitch	Moody's	DBRS
<b>CIT Group Inc.</b>				
Issuer / Counterparty Credit Rating	BB+	BB+	Ba3	BB (High)
Revolving Credit Facility Rating	BB+	BB+	Ba3	BBB (Low)
Series C Notes / Senior Unsecured Debt Rating	BB+	BB+	Ba3	BB (High)
Outlook	Stable	Stable	Review Positive	Stable
<b>CIT Bank, N.A.</b>				
Deposit Rating (LT/ST)	NR	BBB-/F3	Baa3/Prime 3	BB (High)/R-4
Long-term Senior Unsecured Debt Rating	BBB-	BB+	Ba3	BB (High)
Outlook	Stable	Stable	Review Positive	Positive
<i>NR Not Rated</i>				

In October 2016, Moody's placed the ratings of CIT Group Inc. and CIT Bank, N.A. on review for possible upgrade. In June 2016, Moody's assigned an issuer rating to CIT Group Inc. of Ba3, upgraded the Revolving Credit Facility and unsecured debt ratings to Ba3 and changed its outlook to stable from positive. Moody's also issued ratings for CIT Bank, NA, which they previously did not rate. In January 2016, S&P assigned a long-term issuer credit rating of BBB- to CIT Bank, N.A.

Rating agencies indicate that they base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and quality of earnings, and the current operating, legislative and regulatory environment, including implied government support. In addition, rating agencies themselves have been subject to scrutiny arising from the financial crisis and could make or be required to make substantial changes to their ratings policies and practices, particularly in response to legislative and regulatory changes, including as a result of provisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). Potential changes in rating methodology as well as in the legislative and regulatory environment and the timing of those changes could impact our ratings, which as noted above could impact our liquidity and financial condition.

A debt rating is not a recommendation to buy, sell or hold securities, and the ratings are subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

### Contractual Payments and Commitments

#### Payments for the Twelve Months Ended December 31<sup>(1)</sup> (dollars in millions)

	Total	2017	2018	2019	2020	2021+
Structured financings <sup>(2)</sup>	\$ 1,938.4	\$ 328.1	\$ 281.4	\$ 787.2	\$ 68.8	\$ 472.9
FHLB advances	2,410.6	15.0	1,150.0	1,245.6		
Senior unsecured	10,645.9	1,978.6	3,115.9	2,750.0	750.0	2,051.4
<b>Total Long-term borrowings</b>	14,994.9	2,321.7	4,547.3	4,782.8	818.8	2,524.3
Deposits	32,294.8	24,225.4	2,673.2	2,072.3	1,555.8	1,768.1
Credit balances of factoring clients	1,292.0	1,292.0				
Lease rental expense	283.8	49.3	46.6	44.8	38.7	104.4
	\$ 48,865.5	\$ 27,888.4	\$ 7,267.1	\$ 6,899.9	\$ 2,413.3	\$ 4,396.8

Edgar Filing: CIT GROUP INC - Form 10-K

Total	2017	2018	2019	2020	2021+
-------	------	------	------	------	-------

**Total contractual payments**

(1) Projected payments of debt interest expense and obligations relating to postretirement programs are excluded.

(2) Includes non-recourse secured borrowings, which are generally repaid in conjunction with the pledged receivable maturities.

**Table of Contents**

CIT ANNUAL REPORT 2016 81

**Commitment Expiration by Years Ended December 31** (dollars in millions)

	Total	2017	2018	2019	2020	2021+
Financing commitments	\$ 6,008.1	\$ 1,003.6	902.2	1,490.9	1,213.4	1,398.0
Aerospace purchase commitments <sup>(1)</sup>	8,683.5	607.9	2,009.2	3,274.5	2,791.9	—
Rail and other purchase commitments	300.7	272.9	27.8	—	—	—
Letters of credit	246.2	51.2	36.3	53.4	32.2	73.1
Deferred purchase agreements	2,060.5	2,060.5	—	—	—	—
Guarantees, acceptances and other recourse obligations	1.6	1.6	—	—	—	—
Liabilities for unrecognized tax obligations <sup>(2)</sup>	36.4	5.0	31.4	—	—	—
Total contractual commitments	\$ 17,337.0	\$ 4,002.7	\$ 3,006.9	\$ 4,818.8	\$ 4,037.5	\$ 1,471.1

(1) Aerospace purchase commitments are associated with Aerospace discontinued operations. These commitments are net of amounts on deposit with manufacturers.

(2) The balance cannot be estimated past 2018; therefore the remaining balance is reflected in 2018.

Financing commitments decreased from \$7.4 billion at December 31, 2015, to \$6.0 billion at December 31, 2016. Financing commitments include commitments that have been extended to and accepted by customers or agents, but on which the criteria for funding have not been completed of \$572 million at December 31, 2016. Also included are Business Capital credit line agreements, with an amount available of \$335 million, net of the amount of receivables assigned to us. These are cancellable by CIT only after a notice period.

At December 31, 2016, substantially all our undrawn financing commitments were senior facilities, with approximately 80% secured by equipment or other assets and the remainder comprised of cash flow or enterprise value facilities. Most of our undrawn and available financing commitments are in the Commercial Finance division of Commercial Banking. The top ten undrawn commitments totaled \$352 million at December 31, 2016. The table above includes approximately \$1.7 billion of undrawn financing commitments at December 31, 2016, that were not in compliance with contractual obligations, and therefore CIT does not have the contractual obligation to lend.

See Note 21 — Commitments in Item 8. Financial Statements and Supplementary Data for further detail.

## Discontinued operations

The Aerospace purchase commitments in the table above are associated with Aerospace discontinued operations. Financing Commitments include HECM reverse mortgage loan commitments associated with Financial Freedom discontinued operations of \$42 million at December 31, 2016. Financing Commitments also include a commitment associated with the TC-CIT Aviation joint venture in Aerospace discontinued operations of \$3 million at December 31, 2016.

---

## CAPITAL

### Capital Management

CIT manages its capital position to ensure that it is sufficient to: (i) support the risks of its businesses, (ii) maintain a “well-capitalized” status under regulatory requirements, and (iii) provide flexibility to take advantage of future investment opportunities. Capital in excess of these requirements is available to distribute to shareholders, subject to a “non-objection” to our capital plan from the FRB.

CIT uses a complement of capital metrics and related thresholds to measure capital adequacy and takes into account the existing regulatory capital framework. CIT further evaluates capital adequacy through the enterprise stress testing and economic capital (“ECAP”) approaches, which constitutes our capital adequacy process.

As a BHC in excess of \$50 billion of assets, CIT is subject to enhanced prudential regulation under the Dodd-Frank Act. Among other requirements, CIT is subject to capital planning and stress testing requirements under the FRB’s Comprehensive Capital Analysis and Review (“CCAR”) process, which requires CIT to submit an annual capital plan and demonstrate that it can meet required capital levels over a nine quarter planning horizon, after taking into account the impact of stresses based on both supervisory and company-specific scenarios.

CIT submitted its first CCAR capital plan to the FRB in April 2016. As this filing was a private submission, the FRB did not publish its findings but informed CIT that we received a qualitative objection to the plan. We are actively remediating the gaps identified by the FRB. Notwithstanding the qualitative objection, the Federal Reserve did approve the continuation of our dividend and share repurchases at an amount consistent with 2015. In July 2016, CIT submitted its Amended Capital Plan to the FRB to include the expected capital impacts resulting from the pending Commercial Air sale, and revised our requested capital actions accordingly. CIT received a “non-objection” from the Federal Reserve Bank of New York for its Amended Capital Plan, subject to the closing of the transaction. See *Capital Returns* section below for details on permissible capital returns.

The Basel III Final Rule requires banks and BHCs to measure their liquidity against specific liquidity tests. One test, referred to as the liquidity coverage ratio (“LCR”), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity’s expected net cash outflow for a 30-day time horizon under an acute liquidity stress scenario. Implementation for Modified LCR banking organizations, which CIT is considered, began on January 1, 2016, with a minimum requirement of 90% coverage. Beginning January 1, 2017, the minimum requirement increased to 100%. At December 31, 2016, our modified LCR was above 100% at both the Bank and on a consolidated basis.

Item 7: Management’s Discussion and Analysis

---

## Table of Contents

82 CIT ANNUAL REPORT 2016

CIT’s capital management is discussed further in the “Regulation” section of *Item 1. Business Overview* with respect to capital and regulatory matters, including “*Capital Requirements*” and “*Stress Test and Capital Plan Requirements*”.

### Capital Issuance

In connection with the OneWest Transaction, on August 3, 2015, CIT paid approximately \$3.4 billion as consideration, which included 30.9 million shares of CIT Group common stock that was valued at approximately \$1.5 billion at the time of closing. There were no other stock issuances in 2016 and 2015, other than related to compensation plans.

**Capital Returns**

Capital returned during the year ended December 31, 2016 totaled \$123 million, reflecting dividend payments. Capital returned during 2015 totaled \$647 million, including repurchases of approximately \$532 million of our common stock and \$115 million in dividends.

CIT received a “non-objection” from the FRB for its Amended Capital Plan, subject to the closing of the Commercial Air sale. The Amended Capital Plan authorizes CIT to return \$2.975 billion of common equity to shareholders from the net proceeds of the Commercial Air sale; return up to an additional \$0.325 billion of common equity contingent upon the issuance of a similar amount of Tier 1 qualifying preferred stock; and pay common dividends totaling \$64 million per year after the transaction is completed, subject to quarterly approval by the CIT Board of Directors.

Our 2016 common stock dividends were as follows:

**2016 Dividends**

<b>Declaration Date</b>	<b>Payment Date</b>	<b>Per Share Dividend</b>
January	February 26, 2016	\$ 0.15
April	May 27, 2016	\$ 0.15
July	August 26, 2016	\$ 0.15
October	November 25, 2016	\$ 0.15

**Capital Composition and Ratios**

The Company is subject to various regulatory capital requirements. We compute capital ratios in accordance with Federal Reserve capital guidelines for assessing adequacy of capital.

At December 31, 2016 and 2015, the regulatory capital guidelines applicable to the Company were based on the Basel III Final Rule.

**Tier 1 Capital and Total Capital Components** (dollars in millions)

	<b>December 31, 2016</b>		<b>December 31, 2015</b>	
	<b>Transition Basis</b>	<b>Fully Phased-in Basis</b>	<b>Transition Basis</b>	<b>Fully Phased-in Basis</b>
<b>Tier 1 Capital</b>				
Total common stockholders' equity	\$10,002.7	\$10,002.7	\$10,944.7	\$10,944.7
Effect of certain items in accumulated other comprehensive loss excluded from Tier 1 Capital and qualifying noncontrolling interests	79.1	79.1	76.9	76.9
Adjusted total equity	10,081.8	10,081.8	11,021.6	11,021.6
Less: Goodwill <sup>(1)(2)</sup>	(733.1)	(733.1)	(1,130.8)	(1,130.8)
Disallowed deferred tax assets	(213.7)	(213.7)	(908.3)	(908.3)
Disallowed intangible assets <sup>(1)(2)</sup>	(68.3)	(113.8)	(53.6)	(134.0)
Other Tier 1 components	(7.8)	(17.5)	(0.1)	(0.1)
CET 1 Capital	9,058.9	9,003.7	8,928.8	8,848.4
Tier 1 Capital	9,058.9	9,003.7	8,928.8	8,848.4
<b>Tier 2 Capital</b>				
Qualifying reserve for credit losses and other reserves <sup>(3)</sup>	476.3	476.3	403.3	403.3

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2016		December 31, 2015	
Total qualifying capital	\$ 9,535.2	\$ 9,480.0	\$ 9,332.1	\$ 9,251.7
Risk-weighted assets	\$64,586.3	\$65,068.2	\$69,552.3	\$70,238.0
<b>BHC Ratios</b>				
CET 1 Capital Ratio	14.0%	13.8%	12.8%	12.6%
Tier 1 Capital Ratio	14.0%	13.8%	12.8%	12.6%
Total Capital Ratio	14.8%	14.6%	13.4%	13.2%
Tier 1 Leverage Ratio	13.9%	13.9%	13.4%	13.3%
<b>CIT Bank, N.A. Ratios</b>				
CET 1 Capital Ratio	13.4%	13.2%	12.8%	12.6%
Tier 1 Capital Ratio	13.4%	13.2%	12.8%	12.6%
Total Capital Ratio	14.7%	14.4%	13.8%	13.6%
Tier 1 Leverage Ratio	10.9%	10.8%	10.9%	10.7%

(1) Goodwill and disallowed intangible assets adjustments include the respective portion of deferred tax liability in accordance with guidelines under Basel III.

(2) Goodwill and intangible assets adjustments also reflect the portion included within assets of discontinued operations.

(3) "Other reserves" represents additional credit loss reserves for unfunded lending commitments, letters of credit, and deferred purchase agreements, all of which are recorded in Other Liabilities.

**Table of Contents**

CIT ANNUAL REPORT 2016 **83**

Driving the increase in capital ratios in 2016 was the lower risk-weighted assets, as well as higher capital. RWA includes assets of discontinued operations, along with the related off-balance sheet items. RWA is discussed in a following table.

During 2016, the total common stockholders' equity was reduced by several significant transactions previously noted, including the recording of a deferred tax liability related to the Commercial Air sale transaction (see *Income Taxes* section), goodwill impairment charges (see *Note 26 — Goodwill and Intangible Assets in Item 8. Financial Statements and Supplementary Data and Critical Accounting Estimates*), a net charge related to the termination of the Canadian total return swap, a charge related to an increase in the interest curtailment reserve related to Financial Freedom (see *Discontinued Operations* section), and various charges associated with strategic initiatives. While the deferred tax liability adjustment and the goodwill impairment charges negatively impacted stockholders' equity, they had a minimal impact on regulatory capital ratios as the majority of the deferred tax liability adjustment was disallowed for regulatory capital purposes and the goodwill impairment is excluded from the calculations.

During 2015, our capital was impacted by the acquisition of OneWest Bank and the reversal of our Federal deferred tax asset valuation allowance. The acquisition increased equity, primarily reflected by the issuance of common shares out of treasury. CET 1 and Tier 1 Capital increased by approximately \$900 million, while Total Capital increased slightly higher, both net of an increase in goodwill, intangible assets and disallowed deferred tax deductions of \$1.1 billion. While the deferred tax asset valuation allowance reversal benefited stockholders' equity, it had minimal impact on regulatory capital ratios as the majority of the deferred tax asset balance was disallowed for regulatory capital purposes.

The Leverage ratio increased in 2016, reflecting the impact of the lower average assets, along with the noted impacts to capital. The 2015 Leverage ratio was affected by the acquisition, as the impact of the increase to average assets was not offset by the

impact of the increase to capital.

The reconciliation of balance sheet assets to risk-weighted assets is presented below:

**Risk-Weighted Assets** (dollars in millions)

	December 31,		
	2016	2015	2014
Balance sheet assets	\$ 64,170.2	\$ 67,391.9	\$47,755.5
Risk weighting adjustments to balance sheet assets	(13,241.6)	(13,724.7)	(8,523.3)
Off balance sheet items	13,657.7	15,885.1	16,248.7
Risk-weighted assets	\$ 64,586.3	\$ 69,552.3	\$55,480.9

The risk weighting adjustments at December 31, 2016 and 2015 reflect Basel III guidelines, whereas the December 31, 2014 risk weighting adjustments followed Basel I guidelines. The Basel III Final Rule prescribed new approaches for risk weightings. Of these, CIT will calculate risk weightings using the Standardized Approach. This approach expands the risk-weighting categories from the former four Basel I-derived categories to a larger and more risk-sensitive number of categories, depending on the nature of the exposure, ranging from 0% for U.S. government and agency securities to as high as 1,250% for such exposures as MBS.

The 2016 off balance sheet items primarily reflect unused lines of credit (\$2.3 billion credit equivalent, largely related to the Commercial Finance division), deferred purchase agreements (\$2.1 billion related to the Business Capital division) and \$8.9 billion of commitments to purchase aircraft and railcars. Included in the balances in the preceding table are assets of discontinued operations, along with the impact of risk weighting and the related off balance sheet items. Discontinued operations items in risk weighted assets related to Commercial Air include approximately \$13 billion of on balance sheet assets and \$8.7 billion of off balance sheet items related to commitments to purchase aircraft.

The increased balances in 2015 were primarily the result of acquiring OneWest Bank.

See *Note 21 — Commitments* in *Item 8. Financial Statements and Supplementary Data* for further detail on commitments.

Item 7: Management's Discussion and Analysis

**Table of Contents**

**84** CIT ANNUAL REPORT 2016

Tangible Book Value and Tangible Book Value per Share<sup>(1)</sup>

Tangible book value represents common equity less goodwill and other intangible assets. A reconciliation of CIT's total common stockholders' equity to tangible book value, a non-GAAP measure, follows:

**Tangible Book Value and per Share Amounts** (dollars in millions, except per share amounts)

	December 31,		
	2016	2015	2014
Total common stockholders' equity	\$ 10,002.7	\$ 10,944.7	\$ 9,057.9
Less: Goodwill	(685.4)	(1,063.2)	(432.3)

December 31,

Intangible assets	(140.7)	(166.1)	(16.3)
Tangible book value	\$ 9,176.6	\$ 9,715.4	\$8,609.3
Book value per share	\$ 49.50	\$ 54.45	\$ 50.07
Tangible book value per share	\$ 45.41	\$ 48.33	\$ 47.59

<sup>(1)</sup> Tangible book value and tangible book value per share are non-GAAP measures.

Book value ("BV") and Tangible book value ("TBV") along with the respective per share amounts decreased from December 31, 2015, reflecting the net noteworthy charges, which included goodwill impairment and loss on discontinued operations and other items.

2015 BV and TBV per share increased from December 31, 2014 reflecting the net income recorded during 2015 and the issuance of approximately 30.9 million shares (\$1.5 billion) related to the OneWest Transaction payment, offset by the impact of additional goodwill and intangible assets recorded related to the OneWest Transaction. BV per share grew during 2015 as the increase in equity, impacted mostly from the issuance of common shares out of treasury for the acquisition and earnings, including the reversal of the federal valuation allowance, outpaced the impact of higher shares outstanding. Tangible book value per share increased modestly from December 31, 2014, as the equity increase was partially offset by the goodwill and intangible assets recorded related to the acquisition, and higher outstanding shares.

## CIT BANK

CIT Bank, N.A. ("CIT Bank" or the "Bank"), a wholly-owned subsidiary, is regulated by the Office of the Comptroller of the Currency, U.S. Department of the Treasury ("OCC") and is also subject to regulation and examination by the FDIC. The Bank originates and provides funding for lending and leasing activity in the U.S., primarily by raising deposits through its 70 branch network, from retail and institutional customers through its commercial channels, as well as its online banking platform, commercial and broker channels. Its existing suite of deposit products includes checking and savings accounts, Individual Retirement Accounts and Certificates of Deposit. The Bank's primary location is in Pasadena, CA.

Total assets for the bank were down compared to December 31, 2015. Financing and leasing assets were down slightly (2.5%), as growth from new business volumes was offset by portfolio runoff, collections and sales. Loans were down 7.2% from December 31, 2015, reflecting transfers to assets held for sale primarily related to Business Air loans (\$723 million) and the sale of aircraft loans to the Bank Holding Company (\$277 million) in support of CIT's plan to sell our commercial aircraft business to Avolon. Operating lease equipment was up 28.7% from December 31, 2015, attributable to leasing volumes in Rail of approximately \$580 million and approximately \$445 million of purchases of Rail operating lease equipment from the BHC partially offset by \$325 million in sales of aircraft to the BHC. The portfolio of operating lease equipment, of \$3.6 billion, is comprised mostly of railcars.

Total cash and investment securities, of \$8.7 billion at December 31, 2016, was comparable to December 31, 2015 amounts however, the mix has shifted with an increase in investments to \$4.0 billion from \$2.6 billion. The investment securities are mostly mortgage-backed and federal agency securities. As part of our 2016 business strategy, CIT Bank is redeploying cash into higher-yielding "High Quality Liquid Assets," some of which qualify for Community Reinvestment Act (CRA) credit.

Goodwill and intangibles decreased during 2016, reflecting an impairment of \$319 million related to the Consumer Banking segment.

CIT Bank deposits at December 31, 2016 were down from December 31, 2015. The weighted average interest rate at December 31, 2016 was 1.19%, down from 1.26% at December 31, 2015 as we continue to shift from brokered deposits to more stable lower cost retail and commercial deposits.

FHLB advances provide a consistent source of funding for the Bank, which is a member of the FHLB of San Francisco. The decrease in the FHLB balance from December 2015 is a result of management's decision to utilize excess cash balances to reduce these borrowings. The Bank can borrow under a line of credit that is secured by collateral pledged from its portfolio to the FHLB San Francisco. Other borrowings, consisting of secured debt instruments, decreased from December 31, 2015 through expected pay-down and run-off activity.

**Table of Contents**

CIT ANNUAL REPORT 2016 85

The 2016 increase in liabilities of discontinued operations reflects additional reserves, including to the Home Equity Conversion Mortgage (HECM) interest curtailment reserve of approximately \$260 million. Total equity was down due to the loss from discontinued operation and dividends paid to the BHC (\$223.0 million for 2016).

The Bank's capital and leverage ratios are included in the tables that follow and remained well above required levels. Although the Bank experienced a net loss, \$319 million was related to the goodwill impairment, which did not result in a reduction to regulatory capital coupled with a decline in Risk Weighted Assets, caused the capital ratios to increase. CIT Bank reports regulatory capital ratios in accordance with the Basel III Final Rule and determines risk weighted assets under the Standardized Approach.

The following presents condensed financial information for CIT Bank, N.A.

**Condensed Balance Sheets** (dollars in millions)

	At December 31,		
	2016	2015	2014
<b>ASSETS:</b>			
Cash and deposits with banks	\$ 4,647.2	\$ 6,073.5	\$ 3,684.9
Investment securities	4,035.6	2,577.4	300.5
Assets held for sale	927.3	444.2	22.8
Loans	27,246.2	29,346.6	14,988.5
Allowance for loan losses	(406.6)	(337.5)	(269.5)
Operating lease equipment, net	3,575.8	2,777.8	2,025.7
Indemnification Assets	341.4	409.1	—
Goodwill	490.9	830.8	167.8
Intangible assets	144.0	163.2	12.1
Other assets	780.6	1,010.4	181.2
Assets of discontinued operations	448.1	500.5	—
<b>Total Assets</b>	<b>\$42,230.5</b>	<b>\$43,796.0</b>	<b>\$21,114.0</b>
<b>LIABILITIES AND EQUITY:</b>			
Deposits	\$32,309.1	\$32,782.2	\$15,785.1
FHLB advances	2,410.8	3,117.6	254.7
Borrowings	241.4	798.3	1,595.8
Other liabilities	1,145.6	819.5	769.3
Liabilities of discontinued operations	935.8	696.2	—
<b>Total Liabilities</b>	<b>37,042.7</b>	<b>38,213.8</b>	<b>18,404.9</b>
<b>Total Equity</b>	<b>5,187.8</b>	<b>5,582.2</b>	<b>2,709.1</b>
<b>Total Liabilities and Equity</b>	<b>\$42,230.5</b>	<b>\$43,796.0</b>	<b>\$21,114.0</b>

Capital Ratios\*

At December 31,



Edgar Filing: CIT GROUP INC - Form 10-K

	At December 31,		
	2016	2015	2014
Common Equity Tier 1 Capital	13.2%	12.6%	NA
Tier 1 Capital Ratio	13.2%	12.6%	12.9%
Total Capital Ratio	14.4%	13.6%	14.2%
Tier 1 Leverage ratio	10.8%	10.7%	12.1%

NA – Not applicable under Basel I guidelines.

\* The capital ratios presented above for December 31, 2016 and 2015 are reflective of the fully-phased in Basel III approach.

Item 7: Management's Discussion and Analysis

**Table of Contents**

86 CIT ANNUAL REPORT 2016

**Financing and Leasing Assets by Segment** (dollars in millions)

	At December 31,		
	2016	2015	2014
<b>Commercial Banking</b>	<b>\$24,707.5</b>	<b>\$25,337.2</b>	<b>\$17,037.0</b>
Commercial Finance	10,753.3	13,067.0	9,498.9
Real Estate Finance	5,566.6	5,368.5	1,766.5
Business Capital	5,146.9	4,692.1	4,198.9
Rail	3,240.7	2,209.6	1,572.7
<b>Consumer Banking</b>	<b>\$ 7,041.8</b>	<b>\$ 7,231.4</b>	<b>\$ –</b>
Legacy Consumer Mortgages	4,862.7	5,468.4	–
Other Consumer Banking	2,179.1	1,763.0	–
<b>Total</b>	<b>\$31,749.3</b>	<b>\$32,568.6</b>	<b>\$17,037.0</b>

**Condensed Statements of Income** (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
Interest income	\$ 1,787.9	\$ 1,214.1	\$ 716.1
Interest expense	(439.3)	(358.7)	(248.5)
Net interest revenue	1,348.6	855.4	467.6
Provision for credit losses	(199.0)	(164.1)	(113.5)

Edgar Filing: CIT GROUP INC - Form 10-K

	Years Ended December 31,		
Net interest revenue, after credit provision	1,149.6	691.3	354.1
Rental income on operating leases	391.9	299.5	227.2
Other income	309.3	125.0	122.8
Total net revenue, net of interest expense and credit provision	1,850.8	1,115.8	704.1
Operating expenses	(1,069.3)	(711.1)	(415.8)
Goodwill impairment	(319.4)	—	—
Depreciation on operating lease equipment	(161.1)	(123.3)	(96.2)
Maintenance and other operating lease expenses	(22.2)	(8.1)	(8.2)
Loss on debt extinguishment and deposit redemption	(10.6)	—	(0.4)
Income before provision for income taxes	268.2	273.3	183.5
Provision for income taxes	(209.3)	(81.5)	(73.3)
Income from continuing operations	58.9	191.8	110.2
Loss from discontinued operations, net of taxes	(210.1)	(10.4)	—
<b>Net (loss) income</b>	<b>\$ (151.2)</b>	<b>\$ 181.4</b>	<b>\$ 110.2</b>
<b>New business volume — funded</b>	<b>\$ 9,065.5</b>	<b>\$ 9,016.0</b>	<b>\$ 7,845.7</b>

The Bank's results for 2016 include a full year of activity related to the acquisition of OneWest Bank compared to only five months for 2015. As a result, line item results have changed significantly year over year, as an increase in operating expenses partially offset higher net revenue. Additional variances are attributable to the gain on the sale of planes to the BHC, purchases of railcars from the BHC contributing to higher net operating lease revenues, and the goodwill impairment recorded in the fourth quarter of 2016 (See Note 26 — Goodwill and Intangible Assets in Item 8. Financial Statements and Supplementary Data. ).

The decrease in income from continuing operations for 2016 was mainly attributed to the goodwill impairment, partially offset by higher net interest revenue and net rental income, and an increase in other income, reflecting a gain of \$51 million related to the sale of aircraft to the BHC. The provision for credit losses for 2016 reflects higher net charge-offs and specific reserves in the energy and maritime portfolios, partially offset by slightly lower general reserves. Net charge-offs as a percentage of average finance receivables were 0.47% and 0.42%, for 2016 and 2015, respectively.

Operating expenses increased from the prior year, reflecting a full year of expenses for the additional OneWest Bank employees, as well as the transition of BHC personnel into the Bank, in line with our strategy to transition more of CIT's business into the Bank. The current year also includes the previously mentioned goodwill impairment associated with the Consumer Banking segment, which was recorded in the fourth quarter of 2016, as well as the resolution of legacy items assumed with the OneWest Transaction (servicing-related contingent reserves and resolution of a pre-acquisition litigation matter). The current year includes slightly lower restructuring charges and resulted in an efficiency ratio of 55.9%.

## Table of Contents

CIT ANNUAL REPORT 2016 87

The current year loss on discontinued operation included a \$19 million impairment charge related to Reverse Mortgage Servicing Rights and the noted HECM interest curtailment reserve. Discontinued Operations is discussed in an earlier section in *Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Note 2 — Acquisitions and Disposition Activities* in *Item 1. Consolidated Financial Statements*.

### **Net Finance Revenue** (dollars in millions)

Edgar Filing: CIT GROUP INC - Form 10-K

Years Ended December 31,

	2016	2015	2014
Interest income	\$ 1,787.9	\$ 1,214.1	\$ 716.1
Rental income on operating leases	391.9	299.5	227.2
Finance revenue	2,179.8	1,513.6	943.3
Interest expense	(439.3)	(358.7)	(248.5)
Depreciation on operating lease equipment	(161.1)	(123.3)	(96.2)
Maintenance and other operating lease expenses	(22.2)	(8.1)	(8.2)
Net finance revenue	\$ 1,557.2	\$ 1,023.5	\$ 590.4
Average Earning Assets ("AEA")	\$41,137.5	\$29,627.3	\$18,383.1
<b>As a % of AEA:</b>			
Interest income	4.35%	4.10%	3.90%
Rental income on operating leases	0.95%	1.01%	1.24%
Finance revenue	5.30%	5.11%	5.14%
Interest expense	(1.07)%	(1.21)%	(1.36)%
Depreciation on operating lease equipment	(0.39)%	(0.42)%	(0.53)%
Maintenance and other operating lease expenses	(0.05)%	(0.03)%	(0.04)%
Net finance revenue	3.79%	3.45%	3.21%

NFR and NFM are key metrics used by management to measure the profitability of our lending and leasing assets. NFR includes interest and fee income on our loans and capital leases, interest and dividend income on cash and investments, rental revenue, depreciation and maintenance and other lease expenses associated with our operating lease portfolio, as well as funding costs. Since our asset composition includes operating lease equipment (8% of AEA as of December 31, 2016), the company believes that NFM is a more appropriate metric for the Bank as opposed to net interest margin ("NIM") (a common metric used by other banks), as NIM does not reflect the net revenue from our portfolio because it includes the impact of debt costs on all our assets but excludes the net revenue (rental income less depreciation and maintenance and other operating lease expenses) from operating leases.

Operating leases contributed \$209 million to NFR during 2016, compared to \$168 million in 2015 and \$123 million in 2014. The increase was driven in rail assets acquired from the BHC.

## 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, reported amounts of income and expense and the disclosure of contingent assets and liabilities. The following 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. We consider the 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 on the financial statements.

Management believes that the judgments and estimates utilized in the following critical accounting estimates are reasonable. We do not believe that different assumptions are more likely than those utilized, although actual events may differ from such assumptions. Consequently, our estimates could prove inaccurate, and we may be exposed to charges to earnings that could be material.

*Allowance for Loan Losses* — The allowance for loan 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, and evaluation of portfolio diversification and concentration, as well as economic conditions to determine the need for a qualitative adjustment. 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 to manufacturers. This information is reviewed on a quarterly basis with senior management, including the Chief Executive Officer, Chief Risk Officer, Chief Credit Officer, Chief Financial Officer and Controller, among others, as well as the Audit and Risk Management Committees, in order to set the reserve for credit losses.

**Table of Contents**

88 CIT ANNUAL REPORT 2016

As of December 31, 2016, the allowance was comprised of non-specific reserves of \$385.3 million, specific reserves of \$33.7 million and reserves related to PCI loans of \$13.6 million. The allowance is sensitive to the risk ratings assigned to loans and leases in our portfolio. Assuming a one level PD downgrade across the 14 grade internal scale for all non-impaired loans and leases, the allowance would have increased by \$253 million to \$686 million at December 31, 2016. Assuming a one level LGD downgrade across the 11 grade internal scale for all non-impaired loans and leases, the allowance would have increased by \$135 million to \$568 million at December 31, 2016. As a percentage of finance receivables, the allowance would be 2.32% under the hypothetical PD stress scenario and 1.92% under the hypothetical LGD stress scenario, compared to the reported 1.46%.

These sensitivity analyses do not represent management's expectations of the deterioration in risk ratings, or the increases in allowance and loss rates, but are provided as hypothetical scenarios to assess the sensitivity of the allowance for loan losses to changes in key inputs. We believe the risk ratings utilized in the allowance calculations are appropriate and that the probability of the sensitivity scenarios above occurring within a short period of time is remote. The process of determining the level of the allowance for loan losses requires a high degree of judgment. Others given the same information could reach different reasonable conclusions.

See *Note 1 — Business and Summary of Significant Accounting Policies* for discussion on policies relating to the allowance for loan losses, and *Note 4 — Allowance for Loan Losses* for segment related data in *Item 8. Financial Statements and Supplementary Data and Credit Metrics* for further information on the allowance for credit losses.

*Loan Impairment* — Loan impairment is measured based upon the difference between the recorded investment in each loan and either the present value of the expected future cash flows discounted at each loan's effective interest rate (the loan's contractual interest rate adjusted for any deferred fees / costs or discount / premium at the date of origination/acquisition) or if a loan is collateral dependent, the collateral's fair value. When foreclosure or impairment is determined to be probable, the measurement will be based on the fair value of the collateral less costs to sell. The determination of impairment involves management's judgment and the use of market and third party estimates regarding collateral values. Valuations of impaired loans and corresponding impairment affect the level of the reserve for credit losses. See *Note 1 — Business and Summary of Significant Accounting Policies* for discussion on policies relating to the allowance for loan losses, and *Note 3 — Loans* for further discussion in *Item 8. Financial Statements and Supplementary Data*.

*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 estimated useful 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 residual 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 reviews the estimated residual value of a leased property at least annually. If the review results in a lower estimate than had been previously established, we determine whether the decline in estimated residual value is other than temporary. If the decline in estimated residual value is other than temporary, the resulting reduction in the net investment is recognized as a loss in the period in which the estimate is changed, as an increase to depreciation expense for operating lease residual impairment, or as an adjustment to yield for value adjustments on finance leases. Data regarding current equipment values, including appraisals, and historical residual realization experience are among the factors considered in evaluating estimated residual values. As of December 31, 2016, our direct financing lease residual balance was \$0.6 billion and our total operating lease equipment balance totaled \$7.5 billion.

*Indemnification Assets and related contingent obligations* — As part of the OneWest Transaction, CIT is party to loss share agreements with the FDIC, which provide for the indemnification of certain losses within the terms of these agreements. These loss share agreements are related to OneWest Bank's previous acquisitions of IndyMac, First Federal and La Jolla. Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., loan modification, charge-off of loan balance or liquidation of collateral). The loss share agreements cover SFR loans acquired from IndyMac, First Federal, and La Jolla. In addition, the IndyMac loss share agreement covers reverse mortgage loans. These agreements are accounted for as indemnification assets using the same assumptions used to measure the indemnified item subject to management's assessment of

the collectability of the indemnification asset and any contractual limitations on the indemnified amount. As of December 31, 2016, the indemnification asset of \$341 million was limited to the IndyMac loss share agreement. No indemnification asset was recognized in connection with the First Federal Transaction and an insignificant indemnification asset balance was associated with the La Jolla Transaction. The First Federal and La Jolla loss share agreements also include certain true-up provisions for amounts due to the FDIC if actual and estimated cumulative losses of the acquired covered assets are projected to be lower than the cumulative losses originally estimated at the time of OneWest Bank's acquisition of the covered loans. As of December 31, 2016, CIT recognized a separate liability for these amounts due to the FDIC associated with the La Jolla loss share agreement at approximately \$62 million.

As a mortgage servicer of residential reverse mortgage loans, the Company is exposed to contingent obligations for breaches of servicer obligations as set forth in industry regulations established by HUD and FHA and in servicing agreements with the applicable counterparties, such as Fannie Mae and other 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 is a party as the servicer of the loans. The Company recorded additional reserves for contingent servicing-related liabilities in discontinued operations of approximately \$260 million in 2016.

Separately, a corresponding indemnification receivable from the FDIC of \$108 million was recognized for the loans covered by indemnification agreements with the FDIC reported in continuing

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 89

operations as of December 31, 2016. The indemnification receivable is measured using the same assumptions used to measure the indemnified item (contingent liability) subject to management's assessment of the collectability of the indemnification asset and any contractual limitations on the indemnified amount.

See *Note 1 — Business and Summary of Significant Accounting Policies*, *Note 2 — Acquisition and Discontinued Operations* and *Note 5 — Indemnification Assets* in *Item 8. Financial Statements and Supplementary Data* for additional information.

*Fair Value Determination* — At December 31, 2016, only selected assets (certain debt and equity securities, trading derivatives and derivative counterparty assets, and select FDIC receivable acquired in the OneWest Transaction) and liabilities (trading derivatives and derivative counterparty liabilities) were measured at fair value. The fair value of assets related to net employee projected benefit obligations was determined largely via a level 2 methodology.

*Liabilities for Uncertain Tax Positions* — The Company has open tax years in the U.S., Canada, and other international jurisdictions that are currently under examination, or may be subject to examination in the future, by the applicable taxing authorities. We evaluate the adequacy of our income tax reserves in accordance with accounting standards on uncertain tax positions, taking into account open tax return positions, tax assessments received, and tax law changes. The process of evaluating liabilities and 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.

*Realizability of Deferred Tax Assets* — The recognition of certain net deferred tax assets of the Company's reporting entities is dependent upon, but not limited to, the future profitability of the reporting entity, when the underlying temporary differences will reverse, and tax planning strategies. Further, Management's judgment regarding the use of estimates and projections is required in assessing our ability to realize the deferred tax assets relating to net operating loss carry forwards ("NOLs") as most of these assets are subject to limited carry-forward periods some of which began to expire in 2016. In addition, the domestic NOLs are subject to annual use limitations under the Internal Revenue Code and certain state laws. Management utilizes historical and projected data in evaluating positive and negative evidence regarding recognition of deferred tax assets. See *Note 1 — Business and Summary of Significant Accounting Policies* and *Note 19 — Income Taxes* in *Item 8 Financial Statements and Supplementary Data* for additional information regarding income taxes.

*Goodwill* — The consolidated goodwill balance totaled \$685.4 million at December 31, 2016, or approximately 1.1% of total assets. CIT acquired OneWest Bank on August 3, 2015, which resulted in the recording of \$643 million of goodwill, including the effects of the measurement period adjustments through the end of the measurement period in the third quarter of 2016. The determination of estimated fair values required management to make certain estimates about discount rates, future expected cash flows (that may reflect collateral values), market conditions and other future events that are highly subjective in nature. During 2014, CIT acquired Paris-based Nacco, and Direct Capital, resulting in the addition of \$77 million and approximately \$170 million of goodwill, respectively. The remaining amount of goodwill represented the excess reorganization value over the fair value of tangible and identified intangible assets, net of liabilities, recorded in conjunction with FSA in 2009.

Goodwill is assessed for impairment at least annually, or more often if events or circumstances have changed significantly from the annual test date that would indicate a potential reduction in the fair value of the reporting unit below its carrying value. We performed the goodwill impairment test during the fourth quarter of 2016, utilizing data as of September 30, 2016 to perform the test, at which time CIT's share price was \$36.30 and tangible book value ("TBV") per share was \$49.56.

Impairment exists when the carrying amount of goodwill exceeds its implied fair value. The ASC requires a two-step impairment test to be used to identify potential goodwill impairment and to measure the amount of goodwill impairment. Companies can also choose to perform qualitative assessments to conclude on whether it is more likely or not that a company's carrying amount including goodwill is greater than its fair value, commonly referred to as Step 0, before applying the two-step approach.

Based on our annual assessment, the Company recorded an impairment in the fourth quarter of 2016 of the Consumer Banking and Commercial Services RUs of \$319.4 million and \$34.8 million, respectively. The determination of the impairment charge requires significant judgment and the consideration of past and current performance and overall macroeconomic and regulatory environments. There is risk that if the Company does not meet forecasted financial results, there could be incremental goodwill impairment.

See *Note 26 — Goodwill and Intangible Assets in Item 8 Financial Statements and Supplementary Data* for more detailed information regarding the goodwill impairment test, including details regarding the fair value methodology employed and significant assumptions used.

Item 7: Management's Discussion and Analysis

---

## **Table of Contents**

90 CIT ANNUAL REPORT 2016

---

## **RISK MANAGEMENT**

CIT is subject to a variety of risks that may arise through the Company's business activities, including the following principal forms of risk:

- Strategic risk is the risk of the impact on earnings or capital arising from adverse strategic business decisions, improper implementation of strategic decisions, or lack of responsiveness to changes in the industry, including changes in the financial services industry as well as fundamental changes in the businesses in which our customers and our firm engages.
- Credit risk is the risk of loss and provisioning when a borrower or series of borrowers do not meet their financial obligations to the Company or their performance weakens and reserving is required. Credit risk may arise from lending, leasing, the purchase of accounts receivable in factoring and/or counterparty activities.
- Asset risk is the equipment valuation and residual risk of lease equipment owned by the Company that arises from fluctuations in the supply and demand for the underlying leased equipment. The Company is exposed to the risk that, at the end of the lease term, the value of the asset will be lower than expected, resulting in either reduced future lease income over the remaining life of the asset or a lower sale value.
-

## Edgar Filing: CIT GROUP INC - Form 10-K

Market risk includes interest rate and foreign currency risk. Interest rate risk is the risk that fluctuations in interest rates will have an impact on the Company's net finance revenue and on the market value of the Company's assets, liabilities and derivatives. Foreign exchange risk is the risk that fluctuations in exchange rates between currencies can have an economic impact on the Company's non-dollar denominated assets, liabilities and cash flows.

- Liquidity risk is the risk that the Company has an inability to maintain adequate cash resources and funding capacity to meet its obligations, including under stress scenarios.
- Capital risk is the risk that the Company does not have adequate capital to cover its risks and to support its growth and strategic objectives.
- Operational risk is the risk of financial loss, damage to the Company's reputation, or other adverse impacts resulting from inadequate or failed internal processes and systems, people or external events.
- Information Technology Risk is the risk of financial loss, damage to the Company's reputation or other adverse impacts resulting from unauthorized (malicious or accidental) disclosure, modification, or destruction of information, including cyber-crime, unintentional errors and omissions, IT disruptions due to natural or man-made disasters, or failure to exercise due care and diligence in the implementation and operation of an IT system.
- Legal and Regulatory Risk is the risk that the Company is not in compliance with applicable laws and regulations, which may result in fines, regulatory criticism or business restrictions, or damage to the Company's reputation.
- Reputational Risk is the potential that negative publicity, whether true or not, will cause a decline in the value of the Company due to changes in the customer base, costly litigation, or other revenue reductions.

### GOVERNANCE AND SUPERVISION

CIT's Risk Management Group ("RMG") has established a Risk Governance Framework that is designed to promote appropriate risk identification, measurement, monitoring, management and control. The Risk Governance Framework is focused on:

- the major risks inherent to CIT's business activities, as defined above;
- the Enterprise Risk Framework, which includes the policies, procedures, practices and resources used to manage and assess these risks, and the decision-making governance structure that supports it;
- the Risk Appetite and Risk Tolerance Framework, which defines the level and type of risk CIT is willing to assume in its exposures and business activities, given its business objectives, and sets limits, credit authorities, target performance metrics, underwriting standards and risk acceptance criteria used to define and guide the decision-making processes; and
- management information systems, including data, models, analytics and risk reporting, to enable adequate identification, monitoring and reporting of risks for proactive management.

The Risk Management Committee ("RMC") of the Board oversees the risk management functions that address the major risks inherent in CIT's business activities and the control processes with respect to such risks. The Chief Risk Officer ("CRO") supervises CIT's risk management functions through the RMG, chairs the Enterprise Risk Committee ("ERC"), and reports regularly to the RMC of the Board on the status of CIT's risk management program. The ERC provides a forum for structured, cross-functional review, assessment and management of CIT's enterprise-wide risks. Within the RMG, officers with reporting lines to the CRO supervise and manage groups and departments with specific risk management responsibilities.

The Credit Risk Management group manages and approves all credit risk throughout CIT. This group is led by the Chief Credit Officer ("CCO"), and includes the heads of credit for each business, the head of Problem Loan Management, and Credit Administration. The CCO chairs several key governance committees, including the Corporate Credit Committee ("CCC").

The Enterprise Risk Management ("ERM") group is responsible for oversight of asset risk, market risk, liquidity risk, capital risk, operational risk, model development, analytics, risk data and reporting.

## Edgar Filing: CIT GROUP INC - Form 10-K

The Chief Model Risk Officer reports directly to the CRO, and is responsible for model governance, validation and monitoring.

The Chief Information Security Officer reports to the CRO and is responsible for IT Risk, Business Continuity Planning and Disaster Recovery.

---

### **Table of Contents**

CIT ANNUAL REPORT 2016 91

The Risk Framework, Risk Policy & Governance are also managed through the CRO.

Credit Review is an independent oversight function that is responsible for performing internal credit-related reviews for the Company as well as the ongoing monitoring, testing, and measurement of credit quality and credit process risk in enterprise-wide lending and leasing activities. Credit Review reports to the RMC of the Board and administratively to the CRO.

The Compliance function reports to the Audit Committee of the Board and administratively to the CRO.

Regulatory Relations reports to the Chief Compliance Officer. The Audit Committee and the Regulatory Compliance Committee of the Board oversee financial, legal, compliance, regulatory and audit risk management practices.

### **STRATEGIC RISK**

Strategic risk management starts with analyzing the short and medium term business and strategic plans established by the Company. This includes the evaluation of the industry, opportunities and risks, market factors and the competitive environment, as well as internal constraints, such as CIT's risk appetite and control environment. The business plan and strategic plan are linked to the Risk Appetite and Risk Tolerance Frameworks, including the limit structure. RMG is responsible for the New Product and Strategic Initiative process. This process is intended to enable new activities that are consistent with CIT's expertise and risk appetite, and ensure that appropriate due diligence is completed on new opportunities before approval and implementation. Changes in the business environment and in the industry are evaluated periodically through scenario development and analytics, and discussed with the business leaders, CEO and RMC.

Strategic risk management includes the effective implementation of new products and strategic initiatives. The New Product and Strategic Initiative process requires tracking and review of all approved new initiatives. In the case of acquisitions, such as Direct Capital and OneWest Bank, integration planning and management covers the implementation process across affected businesses and functions. As a result of the OneWest Transaction, CIT became a SIFI. SIFI planning and implementation is a cross functional effort, led by RMG and coordinated with the integration planning processes.

Oversight of strategic risk management is provided by the RMC, the ERC and the Risk Control Committee, a sub-committee of the ERC.

### **CREDIT RISK**

#### **Lending and Leasing Risk**

The extension of credit through our lending and leasing activities is core to our businesses. As such, CIT's credit risk management process is centralized in the RMG, reporting into the CRO through the CCO. This group approves the Company's underwriting standards, new business, extensions of credit and material amendments to existing credits, and is responsible to ensure the portfolio credit grading, and regulatory ratings are correct. Additionally, problem loan management reports into the CCO. RMG reviews and monitors credit exposures with the goal of identifying, as early as possible, customers and industries that are experiencing declining creditworthiness or financial difficulty. The CCO and CRO evaluate reserves through our ALLL process for performing and non-performing loans, as well as establishing qualitative reserves to cover potential losses, which may be inherent in the portfolio. Once a loan or lease is deemed to be Non-Accrual, we evaluate our collateral and test for asset impairment based



upon collateral value and projected cash flows and relevant market data with any impairment in value charged to earnings, via a specific reserve or charge off.

CIT's portfolio is governed by Risk Tolerance Limits based on individual loan amounts by borrower as well as product, industry and geography. RMG sets or modifies the Underwriting standards as conditions warrant, based on borrower risk, collateral, industry risk, portfolio size and concentrations, credit concentrations and risk of substantial credit loss. Using our underwriting policies, procedures and practices, combined with credit judgment and quantitative tools, we evaluate financing and leasing assets for credit and collateral risk during the credit decision-making process and after the advancement of funds. We set forth our underwriting parameters based on: (1) Target Market Definitions, which delineate risk by market, industry, geography and product, (2) Credit Standards, which detail acceptable structures, credit profiles and risk-adjusted returns, and (3) through our corporate credit policies and procedures. We capture and analyze credit risk based on the probability of obligor default ("PD") and loss given default ("LGD"). PD is determined by evaluating borrower creditworthiness, including analyzing credit history, financial condition, cash flow adequacy, financial performance and management quality. LGD ratings, which estimate loss if an account goes into default, are predicated on transaction structure, collateral valuation and related guarantees. The PD and LGD of our borrowers is the framework for our ALLL process.

We execute derivative transactions with our customers in order to help them mitigate their interest rate and currency risks. We typically enter into offsetting derivative transactions with third parties in order to neutralize CIT's interest rate and currency exposure to these customer related derivative transactions. The counterparty credit exposure related to these transactions is monitored and evaluated as part of our credit risk management process.

*Commercial Lending and Leasing.* Commercial credit management 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 normal collection, evaluation of the performance, recovery of past due balances and liquidating underlying collateral.

Prior to extending an initial loan or lease, credit personnel review potential borrowers' financial condition, results of operations, management, industry, business model, customer base, operations, collateral and other data, such as third party credit reports, to evaluate the potential customer's borrowing and repayment ability. Transactions are graded by PD and LGD ratings, as described above. Credit facilities are subject to our overall credit approval process and underwriting guidelines and are issued commensurate with the credit evaluation performed on each prospective borrower, as well as portfolio concentrations. Credit personnel continue to review the PD and LGD ratings periodically. Decisions on continued creditworthiness or impairment of borrowers are determined through these periodic reviews.

Item 7: Management's Discussion and Analysis

---

## **Table of Contents**

92 CIT ANNUAL REPORT 2016

*Small-Ticket Lending and Leasing.* For small-ticket lending and leasing transactions, largely in Business Capital, we employ automated credit scoring models for origination (scorecards) and re-grading (auto re-grade algorithms). These are supplemented by business rules and expert judgment. The models evaluate, among other things, financial performance metrics, length of time in business, industry category and geography, and are used to assess a potential borrower's credit standing and repayment ability, including the value of collateral. We utilize external credit bureau scoring, when available, and behavioral models, as well as judgment in the credit adjudication, evaluation and collection processes.

We evaluate the small-ticket leasing portfolio using delinquency vintage curves and other tools to analyze trends and credit performance by transaction type, including analysis of specific credit characteristics and selected subsets of the portfolios. Adjustments to credit scorecards, auto re-grading algorithms, business rules and lending programs are made periodically based on these evaluations. Individual underwriters are assigned credit authority based upon experience, performance and understanding of underwriting policies of small-ticket leasing operations. A credit approval hierarchy is enforced to ensure that an underwriter with the appropriate level of authority reviews applications.

*Consumer Lending.* Consumer lending begins with an evaluation of a consumer's credit profile against published standards. Loans could be originated HFI or HFS. A loan that is originated as HFS must meet both the credit criteria of the Bank and the investor. At

## Edgar Filing: CIT GROUP INC - Form 10-K

this time, agency eligible loans are originated for sale (Fannie Mae and Freddie Mac). Jumbo loans are considered a HFI product. All loan requests are reviewed by underwriters. Credit decisions are made after reviewing qualitative factors and considering the transaction from a judgmental perspective.

Single family residential mortgage loans are originated through retail originations and closed loan purchases.

Consumer products use traditional and measurable standards to document and assess the creditworthiness of a loan applicant. Concentration limits are established by the Board and credit standards follow industry standard documentation requirements. Performance is largely based on an acceptable pay history along with a quarterly assessment, which incorporates an assessment using current market conditions. Non-traditional loans are also monitored by way of a quarterly review of the borrower's refreshed credit score. When warranted an additional review of the underlying collateral may be conducted.

### **Counterparty Risk**

We enter into interest rate and currency swaps and foreign exchange forward contracts as part of our overall risk management practices. We establish limits and evaluate and manage the counterparty risk associated with these derivative instruments through our RMG.

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

The CCC, in conjunction with ERM, approves each counterparty and establishes exposure limits based on credit analysis of each counterparty. Derivative agreements entered into for our own risk management purposes are generally entered into with major financial institutions or clearing exchanges rated investment grade by nationally recognized rating agencies.

We also monitor and manage counterparty credit risk, for example, through the use of exposure limits, related to our cash and investment portfolio.

### **ASSET RISK**

Asset risk in our leasing business is evaluated and managed in the business units and overseen by RMG. Our business process consists of: (1) setting residual values at transaction inception, (2) systematic residual value reviews, and (3) monitoring levels of residual realizations. Residual realizations, by business and product, are reviewed as part of our quarterly financial and asset quality review. Reviews for impairment are performed at least annually.

The RMG teams review the air and rail markets, monitor traffic flows, measure supply and demand trends, and evaluate the impact of new technology or regulatory requirements on supply and demand for different types of equipment. Commercial air is more global, while the rail market is regional, mainly North America and Europe. Demand for both passenger and freight equipment is correlated with GDP growth trends for the markets the equipment serves as well as the more immediate conditions of those markets. Cyclicalities in the economy and shifts in travel and trade flows due to specific events (e.g., natural disasters, conflicts, political upheaval, disease, and terrorism) represent risks to the earnings that can be realized by these businesses. CIT seeks to mitigate these risks by maintaining relatively young fleets of assets with wide operator bases, which can facilitate attractive lease and utilization rates.

### **MARKET RISK**

CIT is exposed to interest rate and currency risk as a result of its business activities. CIT does not pro-actively assume these risks as a way to make a return, as it does with credit and asset risk. RMG measures, monitors and sets limits on these exposures, by analyzing the impact of potential interest rate and foreign exchange rate changes on financial performance. We consider factors such as customer prepayment trends, maturity, and repricing characteristics of assets and liabilities. Our asset-liability management system provides analytical capabilities to assess and measure the effects of various market rate scenarios upon the Company's financial performance.

### **Interest rate risk**

Interest rate risk arises from lending, leasing, investments, deposit taking and funding, as assets and liabilities reprice at different times and by different amounts as interest rates change. We evaluate and monitor interest rate risk primarily through two metrics.

- *Net Interest Income Sensitivity* (“NII Sensitivity”), which measures the net impact of hypothetical changes in interest rates on forecasted net interest revenue and rental income assuming a static balance sheet over a twelve month period; and
- *Economic Value of Equity* (“EVE”), which measures the net impact of these hypothetical changes on the value of equity by assessing the economic value of assets, liabilities and derivatives.

## Table of Contents

CIT ANNUAL REPORT 2016 93

Interest rate risk and sensitivity is influenced primarily by the composition of the balance sheet, driven by the type of products offered (fixed/floating rate loans and deposits), investments, funding and hedging activities. Our assets are primarily comprised of commercial loans, consumer loans, leased equipment, cash and investments. Our leasing products are level/fixed payment transactions, whereas the interest rate on the majority of our commercial loan portfolio is based on a floating rate index such as short-term Libor or Prime. Our commercial portfolio includes approximately \$22.7 billion of fixed-rate and \$15.4 billion of floating rate assets, including assets of discontinued operations. Our consumer loan portfolio is based on both floating rate and level/fixed payment transactions. Our interest bearing deposits (cash) have generally short durations and reprice frequently. We use a variety of funding sources, including certificates of deposit (CDs), money market, savings and checking accounts and secured and unsecured debt. With respect to liabilities, CDs and unsecured debt are fixed-rate, secured debt is a mix of fixed and floating rate, and the rates on savings accounts vary based on the market environment and competition. The composition of our assets and liabilities generally results in a net asset-sensitive position at the shorter end of the yield curve, mostly related to moves in LIBOR, whereby our assets will reprice faster than our liabilities.

Deposits continued to grow as a percent of total funding. CIT Bank, N.A. sources deposits primarily through a retail branch network in Southern California, direct-to-consumer (via the Internet) and brokered channels. At December 31, 2016, the Bank had over \$32 billion in deposits. Certificates of deposit represented approximately \$17 billion, 52% of the total, most of which were sourced through direct channels. The deposit rates we offer can be influenced by market conditions and competitive factors. We model a rate sensitivity to market price changes on our non-maturity deposits of approximately 60% for a +100 bps rate increase over the next 12 months. Changes in interest rates can affect our pricing and potentially impact our ability to gather and retain deposits. Rates offered by competitors also can influence our rates and our ability to attract and hold deposits. In a rising rate environment, the Bank may need to increase rates to renew maturing deposits and attract new deposits. Rates on our savings account deposits may fluctuate due to pricing competition and may also move with short-term interest rates. In general, retail deposits represent a low-cost source of funds and are less sensitive to interest rate changes than many non-deposit funding sources. We regularly stress test the effect of deposit rate changes on our margins and seek to achieve optimal alignment between assets and liabilities from an interest rate risk management perspective.

The table below summarizes the results of simulation modeling produced by our asset/liability management system. The results reflect the percentage change in the EVE and NII Sensitivity over the next twelve months assuming an immediate 100 basis point (1.0)% parallel increase or decrease in interest rates from the market-based forward curve. NII sensitivity is based on a static balance sheet projection.

### Change to NII Sensitivity and EVE

	December 31, 2016		December 31, 2015		December 31, 2014	
	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
NII Sensitivity	3.2%	(2.4)%	3.5%	(2.1)%	6.4%	(0.8)%
EVE	(2.1)%	2.3%	0.5%	(0.5)%	1.9%	(1.6)%

## Edgar Filing: CIT GROUP INC - Form 10-K

As of December 31, 2016, we ran a range of scenarios, including a 200 basis point (2.0)% parallel increase scenario, which resulted in an NII Sensitivity of 6.0% and an EVE of (4.0)%, while a 200 basis point (2.0)% decline scenario was not run as the current low rate environment makes the scenario less relevant. Regarding the negative scenarios, we have an assumed rate floor. Overall lower sensitivity on income is primarily driven by the move from cash to securities and secondarily from lower loan balances and passage of time on fixed rate liabilities.

Year to date, +100bps EVE sensitivity went from 0.5% in Dec 2015 to -2.1% in Dec 2016. This is primarily driven by lengthening of asset duration due to continued purchases of fixed rate mortgage-backed securities, shortening of liability duration due to reduction in callable brokered CDs, and pay down of debt.

As of December 31, 2015, the NII sensitivity and EVE declined from 2014 due to several factors, including the OneWest Transaction in the measurement assessment, the reduction of CIT's cash balance relative to the overall balance sheet and refinement in the calculations.

As of December 31, 2016, the estimated pro forma sensitivity ratios assuming the sale of Commercial Air and the associated liability management and capital actions for a +/-100 bps scenarios for NII and EVE were as follows:

	<b>NII post sale estimate</b>	<b>EVE post sale estimate</b>
+100 = 4.4%		+100 = 0.8%
-100 = (3.3)%		-100 = (0.8)%

As detailed above, NII sensitivity is positive with respect to an increase in interest rates. This is primarily driven by our floating rate loan portfolio, which reprice frequently, and cash and investment securities. Our floating rate loan portfolio includes approximately \$8.5 billion of loans (\$5.2 billion of commercial loans and \$3.3 billion of consumer loans) that are subject to interest rate floors, of which approximately \$2.7 billion are still below their floors. On a net basis, we generally have more floating/repricing assets than liabilities in the near term. As a result, our current portfolio is more sensitive to moves in short-term interest rates in the near term. Therefore, our net interest income may increase if short-term interest rates rise, or decrease if short-term

Item 7: Management's Discussion and Analysis

### **Table of Contents**

94 CIT ANNUAL REPORT 2016

interest rates decline. Market-implied forward rates over the future twelve months are used to determine a base interest rate scenario for the net interest income projection for the base case. This base projection is compared with those calculated under varying interest rate scenarios such as a 100 basis point (1.0)% parallel rate shift to arrive at NII Sensitivity.

EVE complements net interest income simulation and sensitivity analysis as it estimates risk exposures beyond a twelve month horizon. EVE modeling measures the extent to which the economic value of assets, liabilities and off-balance sheet instruments may change in response to a fluctuation in interest rates. EVE is calculated by subjecting the balance sheet to different rate shocks, measuring the net value of assets, liabilities and off-balance sheet instruments, and comparing those amounts with the EVE sensitivity base case calculated using a market-based forward interest rate curve. The methodology with which the operating lease assets are assessed in the results table above reflects the existing contractual rental cash flows and the expected residual value at the end of the existing contract term.

The simulation modeling for both NII Sensitivity and EVE assumes we take no action in response to the changes in interest rates, while NII Sensitivity generally assumes cash flow from portfolio run-off is reinvested in similar products.

A wide variety of potential interest rate scenarios are simulated within our asset/liability management system. All interest sensitive assets and liabilities are evaluated using discounted cash flow analysis. Rates are shocked up and down via a set of scenarios that include both parallel and non-parallel interest rate movements. Scenarios are also run to capture our sensitivity to changes in the

shape of the yield curve. Furthermore, we evaluate the sensitivity of these results to a number of key assumptions, such as credit quality, spreads, and prepayments.

Various holding periods of the operating lease assets are also considered. These range from the current existing lease term to longer terms which assume lease renewals consistent with management's expected holding period of a particular asset. NII Sensitivity and EVE limits have been set and are monitored for certain of the key scenarios. We manage the exposure to changes in NII Sensitivity and EVE in accordance with our risk appetite and within Board approved limits.

We use results of our various interest rate risk analyses to formulate asset and liability management ("ALM") strategies, in coordination with the Asset Liability Committee, in order to achieve the desired risk profile, while managing our objectives for capital adequacy and liquidity risk exposures. Specifically, we may manage our interest rate risk position through certain pricing strategies for loans and deposits, our investment strategy, issuing term debt with floating or fixed interest rates, and using derivatives such as interest rate swaps, which modify the interest rate characteristics of certain assets or liabilities.

These measurements provide an estimate of our interest rate sensitivity; however, they do not account for potential changes in credit quality, size, and prepayment characteristics of our balance sheet. They also do not account for other business developments that could affect income, or for management actions that could affect income or that could be taken to change our risk profile. Accordingly, we can give no assurance that actual results would not differ materially from the estimated outcomes of our simulations. Further, the range of such simulations does not represent our current view of the expected range of future interest rate movements.

### **Foreign Currency Risk**

We seek to hedge transactional exposure of our non-dollar denominated activities, which are comprised of foreign currency loans and leases in foreign entities, through local currency borrowings. To the extent such borrowings were unavailable, we have utilized derivative instruments (foreign currency exchange forward contracts) to hedge our non-dollar denominated activities. Additionally, we have utilized derivative instruments to hedge the translation exposure of our net investments in foreign operations.

Currently, a portion of our non-dollar denominated loans and leases are funded with U.S. dollar denominated debt and equity which, if unhedged, would cause foreign currency transactional and translational exposures. For the most part, we hedge these exposures through derivative instruments. RMG sets limits and monitors usage to ensure that currency positions are appropriately hedged, as unhedged exposures may cause changes in earnings or the equity account.

### **LIQUIDITY RISK**

Our liquidity risk management and monitoring process is designed to ensure the availability of adequate cash resources and funding capacity to meet our obligations. Our overall liquidity management strategy is intended to ensure ample liquidity to meet expected and contingent funding needs under both normal and stress environments. Consistent with this strategy, we maintain large pools of cash and highly liquid investments. Additional sources of liquidity include the Second Amended and Restated Revolving Credit and Guaranty Agreement (the "Revolving Credit Facility"), other committed financing facilities and cash collections generated by portfolio assets originated in the normal course of business.

We utilize a series of measurement tools to assess and monitor the level and adequacy of our liquidity position, liquidity conditions and trends. The primary tool is a cash forecast designed to identify movements in cash flows. Stress scenarios are applied to measure the resiliency of the liquidity position and to identify stress points requiring remedial action. Also included among our liquidity measurement tools is an early warning system (summarized on an Early Warning Indicator report) that monitors key macro-environmental and company specific metrics that serve as early warning signals of potential impending liquidity stress events. Event triggers are categorized by severity into a three-level stress monitoring system: Moderately Enhanced Crisis, Heightened Crisis, and Maximum Crisis. Assessments outside defined thresholds trigger contingency funding actions, which are detailed in the Company's Contingency Funding Plan ("CFP").

Integral to our liquidity management practices is our CFP, which outlines actions and protocols under liquidity stress conditions, whether they are idiosyncratic or systemic in nature and defines the thresholds that trigger contingency funding actions. The objective of the CFP is to ensure an adequately sustained level of liquidity under certain stress conditions.

**Table of Contents****CAPITAL RISK**

Capital risk is the risk that the Company does not have adequate capital to cover its risks and to support its growth and strategic objectives. CIT establishes internal capital risk limits and warning thresholds, using both Economic and Risk-Based Capital calculations, as well as the FRB's Comprehensive Capital Analysis and Review ("CCAR") process and the Dodd-Frank Act Stress Testing ("DFAST"), to evaluate the Company's capital adequacy for multiple types of risk in both normal and stressed environments. Economic capital includes credit risk, asset risk, market risk, operational risk and model risk. CCAR and DFAST are a forward-looking methodologies that look at FRB adverse and severely adverse scenarios as well as internally generated scenarios. The capital risk framework requires contingency plans for stress results that would breach the established capital thresholds.

**OPERATIONAL RISK**

Operational risk is the risk of financial loss or other adverse impacts resulting from inadequate or failed internal processes and systems, people or external events. Operational risk may result from fraud by employees or persons outside the Company, transaction processing errors, employment practices and workplace safety issues, unintentional or negligent failure to meet professional obligations to clients, business interruption due to system failures, or other external events.

Operational risk is managed within individual business units. The head of each business and functional area is responsible for maintaining an effective system of internal controls to mitigate operational risks. The business segment chief operating officers designate operational risk managers responsible for implementation of the operational risk framework programs. The enterprise operational risk function provides oversight in managing operational risk, designs and supports the enterprise-wide operational risk framework programs, and promotes awareness by providing training to employees and operational risk managers within business units and functional areas. Additionally, enterprise operational risk maintains the loss data collection and risk assessment programs. Oversight of the operational risk management function is provided by the RMG, the RMC, the ERC and the Risk Control Committee, a sub-committee of the ERC.

**INFORMATION TECHNOLOGY RISK**

Information Technology ("IT") risks are risks around information security, cyber-security, and business disruption from systems implementation or downtime, that could adversely impact the organization's business or business processes, including loss or legal liability due to unauthorized (malicious or accidental) disclosure, modification, or destruction of information, unintentional errors and omissions, IT disruptions due to natural or man-made disasters, or failure to exercise due care and diligence in the implementation and operation of an IT system.

The Information Risk function provides oversight of the Information Security and Business Continuity Management ("BCM") programs. Information Security provides oversight and guidance across the organization intended to preserve and protect the confidentiality, integrity, and availability of CIT information and information systems. BCM provides oversight and guidance of global business continuity and disaster recovery procedures through planning and implementation of proactive, preventive, and corrective actions intended to enable continuous business operations in the event of a disaster, including technology recovery. Information Risk is also responsible for crisis management and incident response and performs ongoing IT risk assessments of applications, infrastructure systems and third party vendors, as well as information security and BCM training and awareness for employees, contingent workers and consultants.

Oversight of the Information Risk function is provided by the RMG, the RMC, the ERC and the Risk Control Committee, a sub-committee of the ERC.

**LEGAL AND REGULATORY RISK**

CIT is subject to a number of laws, regulations, regulatory standards, and guidance, both in the U.S. and in other countries in which it does business, some of which are applicable primarily to financial services and others of which are generally applicable to all businesses. Any failure to comply with applicable laws, regulations, standards, and guidance in the conduct of our business, including but not limited to funding our business, originating new business, purchasing and selling assets, and servicing our portfolios or the portfolios of third parties may result in governmental investigations and inquiries, legal proceedings, including both

private and governmental plaintiffs, significant monetary damages, fines, or penalties, restrictions on the way in which we conduct our business, or reputational harm. To reduce these risks, the Company consults regularly with legal counsel, both internal and external, on significant legal and regulatory issues and has established a compliance function to facilitate maintaining compliance with applicable laws and regulations.

Corporate Compliance is an independent function responsible for maintaining an enterprise-wide compliance risk management program commensurate with the size, scope and complexity of our businesses, operations, and the countries in which we operate. The Compliance function (1) oversees programs and processes to evaluate and monitor compliance with laws and regulations pertaining to our business, (2) tests the adequacy of the compliance control environment in each business, and (3) monitors and promotes compliance with the Company's ethical standards as set forth in our Code of Business Conduct and compliance policies. Corporate Compliance, led by the Chief Ethics and Compliance Officer, is responsible for setting the overall global compliance framework and standards, using a risk based approach to identify and manage key compliance obligations and risks. The head of each business and staff function is responsible for ensuring compliance within their respective areas of authority. Corporate Compliance, through the Chief Ethics and Compliance Officer, reports administratively and to the CRO and to the Chairperson of the Audit Committee of the Board of Directors.

The global compliance risk management program includes training (in collaboration with a centralized Learning and Development team within Human Resources), testing, monitoring, risk assessment, and other disciplines necessary to effectively manage compliance and regulatory risks. The Company consults with subject matter experts in the areas of privacy, sanctions, anti-money laundering, anti-corruption compliance and other areas.

Corporate Compliance has implemented comprehensive compliance policies and procedures and employs Business Unit

Item 7: Management's Discussion and Analysis

---

## **Table of Contents**

**96** CIT ANNUAL REPORT 2016

Compliance Officers (each, a "BUCO") and Regional Compliance Officers (each, an "RCO") who work with each business to advise business staff and leadership in the prudent conduct of business within a regulated environment and within the requirements of law, rule, regulation and the control environment we maintain to reduce the risk of violations or other adverse outcomes. They advise business leadership and staff with respect to the implementation of procedures to operationalize compliance policies and other requirements.

Oversight of legal and regulatory risk is provided by the Audit and Regulatory Compliance Committees of the Board of Directors, the ERC and the Risk Control Committee, a sub-committee of the ERC.

### **REPUTATIONAL RISK**

Reputational risk is the potential that negative publicity, whether true or not, will cause a decline in the value of the Company due to changes in the customer base, costly litigation, or other revenue reductions. Protecting CIT, its shareholders, employees and brand against reputational risk is of paramount importance to the Company. To address this priority, CIT has established corporate governance standards relating to its Code of Business Conduct and ethics. The Chief Compliance Officer's responsibilities also include the role of Chief Ethics Officer. In this combined role, his responsibilities also extend to encompass compliance not only with laws and regulations, but also with CIT's values and its Code of Business Conduct.

The Company has adopted, and our Board of Directors has approved, a Code of Business Conduct applicable to all directors, officers and employees, which details acceptable behaviors in conducting the Company's business and acting on the Company's behalf. The Code of Business Conduct covers conflicts of interest, corporate opportunities, confidentiality, fair dealing (with respect to customers, suppliers, competitors and employees), protection and proper use of Company assets, compliance with laws, and encourages reporting of unethical or illegal behavior, including through a Company hotline. Annually, each employee is trained on the Code of Business Conduct's requirements, and provides an attestation as to their understanding of the requirements and their responsibility to comply.

CIT's Executive Management Committee ("EMC") has established, and approved, the charter of a Global Ethics Committee. The Global Ethics Committee is chaired by CIT's General Counsel and Corporate Secretary. Its members include the Chief Ethics and Compliance Officer, Chief Auditor, Head of Human Resources and the Head of Communications, Marketing & Government Relations. The Global Ethics Committee is charged with (a) oversight of the Code of Business Conduct and Company Values, (b) seeing that CIT's ethical standards are communicated, upheld and enforced in a consistent manner, and (c) periodic reporting to the EMC and Audit Committee of the Board of Directors of employee misconduct and related disciplinary action.

Oversight of reputational risk management is provided by the Audit Committee of the Board of Directors, the RMC, the ERC, Compliance Committee and the Risk Control Committee, a sub-committee of the ERC. In addition, CIT's IAS monitors and tests the overall effectiveness of internal control and operational systems on an ongoing basis and reports results to senior management and to the Audit Committee of the Board.

---

## INTERNAL CONTROLS WORKING GROUP

The Internal Controls Working Group ("ICWG"), which reports to the Disclosure Committee, is responsible for monitoring and improving internal controls over external financial reporting. The ICWG is chaired by our Controller and is comprised of executives in Finance, Risk, Operations, Human Resources, Information Technology and Internal Audit. See *Item 9A. Controls and Procedures* for more information.

---

## 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. A non-GAAP financial measure is a numerical measure of a company's historical or future financial performance or financial position that may either exclude or include amounts, or is adjusted in some way to the effect of including or excluding, as compared to the most directly comparable measure calculated and presented in accordance with GAAP financial statements.

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. We intend our non-GAAP financial measures to provide additional information and insight regarding 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.

---

### Table of Contents

CIT ANNUAL REPORT 2016 97

**These non-GAAP 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.**

1. Total Net Revenue, Net Finance Revenue, and Net Operating Lease Revenue

Total net revenues is a non-GAAP measure that represents the combination of net finance revenue and other income and is an aggregation of all sources of revenue for the Company. The source of the data is various statement of income line items, arranged in a different order, and with different subtotals than included in the statement of income, therefore considered non-GAAP. Total net revenue is used by management to monitor business performance.

Net finance revenue is a non-GAAP measure that represents the level of revenue earned on our financing and leasing assets. NFR is another key performance measure used by management to monitor portfolio performance. NFR is also used to calculate a performance margin, NFM.

Due to the nature of our financing and leasing assets, which include a higher proportion of operating lease equipment than most BHCs, certain financial measures commonly used by other BHCs are not as meaningful for our Company. As such, given our asset



## Edgar Filing: CIT GROUP INC - Form 10-K

composition includes a high level of operating lease equipment, net finance margin as calculated below is used by management, compared to net interest margin (“NIM”) (a common metric used by other bank holding companies), which does not fully reflect the earnings of our portfolio because it includes the impact of debt costs of all our assets but excludes the net operating lease revenue.

Net operating lease revenue is a non-GAAP measure that represents the combination of rental income on operating leases less depreciation on operating lease equipment and maintenance and other operating lease expenses. The net operating lease revenues measurement is used by management to monitor portfolio performance and returns on its purchased equipment.

### Total Net Revenue and Net Operating Lease Revenue (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
<b>Total Net Revenue</b>			
Interest income <sup>(1)</sup>	\$ 1,911.5	\$ 1,445.2	\$ 1,155.6
Rental income on operating leases <sup>(1)</sup>	1,031.6	1,018.1	949.6
Finance revenue	2,943.1	2,463.3	2,105.2
Interest expense <sup>(1)</sup>	(753.2)	(731.4)	(715.1)
Depreciation on operating lease equipment <sup>(1)</sup>	(261.1)	(229.2)	(229.8)
Maintenance and other operating lease expenses <sup>(1)</sup>	(213.6)	(185.1)	(171.7)
Net finance revenue	1,715.2	1,317.6	988.6
Other income <sup>(1)</sup>	150.6	149.6	263.9
<b>Total net revenue</b>	<b>\$ 1,865.8</b>	<b>\$ 1,467.2</b>	<b>\$ 1,252.5</b>
<b>Net Finance Margin (NFR as a % of AEA)</b>	<b>3.60%</b>	<b>3.47%</b>	<b>3.30%</b>
<b>Net Operating Lease Revenue</b>			
Rental income on operating leases <sup>(1)</sup>	\$ 1,031.6	\$ 1,018.1	\$ 949.6
Depreciation on operating lease equipment <sup>(1)</sup>	(261.1)	(229.2)	(229.8)
Maintenance and other operating lease expenses <sup>(1)</sup>	(213.6)	(185.1)	(171.7)
<b>Net operating lease revenue</b>	<b>\$ 556.9</b>	<b>\$ 603.8</b>	<b>\$ 548.1</b>

<sup>(1)</sup> Balances agree directly to the statement of income in Item 8 Financial Statements.

### 2. Operating Expenses and Net Efficiency Ratio Excluding Certain Costs

One key performance metric the company uses to gauge the level of expenses is in comparison to the average earning assets. A decline in this metric could show improvement, i.e. expenses not going up at the same rate of asset growth, or decreasing at a rate in excess of asset decline. Operating expenses excluding restructuring costs and intangible asset amortization is a non-GAAP measure used by management to compare period over period expenses. Another key performance metric gauges our expense usage via our net efficiency calculation. This calculation compares the level of expenses to the level of net revenues. A lower result reflects a more efficient use of our expenses to generate revenue. Net efficiency ratio is a non-GAAP measurement used by management to measure operating expenses (before restructuring costs and intangible amortization) to total net revenues. Due to the exclusions of the noted items, these are considered non-GAAP measures, as presented in the reconciliation below. We exclude these recurring items from these calculations as they are charges resulting from our strategic initiatives and not our operating activity.

Item 7: Management’s Discussion and Analysis

### Table of Contents

**Operating Expenses Excluding Certain Costs** (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
Operating expenses <sup>(1)</sup>	\$ 1,283.5	\$ 1,121.1	\$ 900.1
Provision for severance and facilities exiting activities	(36.2)	(58.3)	(31.4)
Intangible asset amortization	(25.6)	(13.3)	(1.4)
Operating expenses excluding restructuring costs and intangible asset amortization	\$ 1,221.7	\$ 1,049.5	\$ 867.3
Operating expenses excluding restructuring costs as a % of AEA	2.69%	2.95%	3.00%
Operating expenses exclusive of restructuring costs and intangible amortization	2.56%	2.76%	2.89%
<b>Total Net Revenue</b>	<b>\$ 1,865.8</b>	<b>\$ 1,467.2</b>	<b>\$ 1,252.5</b>
Net Efficiency Ratio	65.5%	71.5%	69.2%

<sup>(1)</sup> Balances agree directly to the statement of income in Item 8 Financial Statements.

**3. Earning Assets and Average Earning Assets ("AEA")**

Earning asset balances displayed in the table below are directly derived from the respective line items in the balance sheet. These represent revenue generating assets, and the average of which (AEA) provides a basis for management performance calculations such as NFM and operating expenses as a % of AEA. The average is derived using month end balances for the respective period. Because the balances are used in aggregate, as well the average, there are no direct comparative balances on the balance sheet, therefore these are considered non-GAAP measures.

**Earning Assets** (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
Loans <sup>(1)</sup>	\$ 29,535.9	\$ 30,518.7	\$ 18,260.6
Operating lease equipment, net <sup>(1)</sup>	7,486.1	6,851.7	5,980.9
Interest bearing cash <sup>(1)</sup>	5,608.5	6,652.0	5,542.1
Investment securities <sup>(1)</sup>	4,491.1	2,953.7	1,550.3
Assets held for sale <sup>(1)</sup>	636.0	2,057.7	826.5
Indemnification assets <sup>(1)</sup>	341.4	409.1	—
Securities purchased under agreements to resell <sup>(1)</sup>	—	—	650.0
Credit balances of factoring clients <sup>(1)</sup>	(1,292.0)	(1,344.0)	(1,622.1)
Total earning assets	\$ 46,807.0	\$ 48,098.9	\$ 31,188.3
<b>Average Earning Assets (for the respective years)</b>	<b>\$ 47,664.2</b>	<b>\$ 38,019.8</b>	<b>\$ 29,959.3</b>

<sup>(1)</sup> Balances agree directly to the balance sheet for 2016 and 2015 in Item 8 Financial Statements.

**4. Tangible Book Value, ROTCE and Tangible Book Value per Share**

Tangible book value (TBV, also referred to as tangible common equity), return on tangible common equity (ROTCE), and TBV per share are considered key financial performance measures by management, and are used by other financial institutions. TBV, as calculated and used by management, represents CIT's common stockholders' equity, less goodwill and intangible assets. ROTCE

measures CIT's net income applicable to common shareholders as a percentage of average tangible common equity. This measure is useful for evaluating the performance of CIT as it calculates the return available to common shareholders without the impact of intangible assets and deferred tax assets. The average adjusted tangible common equity is derived using averages of balances presented, based on month end balances for the period. TBV per share is calculated dividing TBV by the outstanding number of common shares. TBV, ROTCE and TBV per share are measurements used by management and users of CIT's financial data in assessing CIT's use of equity. We believe the use of ratios that utilize tangible equity provides additional useful information because they present measures of those assets that can generate income.

## Table of Contents

CIT ANNUAL REPORT 2016 99

CIT management believes TBV, ROTCE and TBV per share are important measures for comparative purposes with other institutions, but are not defined under U.S. GAAP, and therefore considered non-GAAP financial measures.

### **Tangible Book Value** (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
Total common stockholders' equity <sup>(1)</sup>	\$ 10,002.7	\$ 10,944.7	\$ 9,057.9
Less: Goodwill <sup>(1)</sup>	(685.4)	(1,063.2)	(432.3)
Intangible assets <sup>(1)</sup>	(140.7)	(166.1)	(16.3)
Tangible book value	9,176.6	9,715.4	8,609.3
Less: Disallowed deferred tax asset for regulatory capital	(213.7)	(908.3)	(375.0)
Adjusted tangible common equity	\$ 8,962.9	\$ 8,807.1	\$ 8,234.3
Average adjusted tangible common equity	\$ 9,172.3	\$ 8,318.7	\$ 8,313.5
Non-GAAP net income (reconciled below)	\$ 709.9	\$ 606.4	\$ 703.9
Intangible asset amortization, after tax	15.7	9.8	1.3
Non-GAAP net income for ROTCE calculation	\$ 725.6	\$ 616.2	\$ 705.2
Return on average tangible common equity, after noteworthy items	7.91%	7.41%	8.48%

<sup>(1)</sup> Balances agree directly to the balance sheet for 2016 and 2015 in Item 8 Financial Statements.

### **5. Net income excluding noteworthy items and income from continuing operations excluding noteworthy items**

Net income excluding noteworthy items and income from continuing operations excluding noteworthy items are non-GAAP measures used by management as each excludes items from the respective line item in the GAAP statement of income. Due to volume and size of noteworthy items in 2016, the Company believes that adjusting for these items provides the user of CIT's financial information a measure of the underlying performance of the Company and of continuing operations specific. The non-GAAP noteworthy items are summarized in the following categories: significant due to the magnitude of the transaction; transactions pertaining to items no longer considered core to CIT's on-going operations (i.e. sales of Non-Strategic Portfolios); legacy OneWest Bank issues prior to CIT's ownership; and recurring items consistently noted in other non-GAAP measures, even though balance may not have been significant.

Item 7: Management's Discussion and Analysis

**Table of Contents**

100 CIT ANNUAL REPORT 2016

	Description	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2014	Year Ended December 31, 2014	Year Ended December 31, 2014
<b>Net (loss)</b>							
<b>income</b>		<b>\$(848)</b>	<b>\$(4.20)</b>	<b>\$1,034</b>	<b>\$ 5.55</b>	<b>\$1,119</b>	<b>\$ 5.91</b>
	Gain on Sale — UK Business	(15)	(0.07)	—	—	—	—
	Discrete Tax Benefit	(13)	(0.06)	71	0.38	(30)	(0.16)
	Impairments on AHFS and Other	8	0.04	23	0.12	55	0.29
	Liquidating Europe CTA	3	0.01	—	—	—	—
	China Tax Valuation Allowance	16	0.08	—	—	—	—
	Canadian TRS Termination Charge	146	0.72	—	—	—	—
	Consumer Goodwill Impairment	319	1.58	—	—	—	—
	Commercial Services Goodwill Impairment	28	0.14	—	—	—	—
Continuing Operations	Canadian Tax Assertion Change	54	0.27	—	—	—	—
	Gain on Sale Canadian Businesses	(16)	(0.08)	—	—	—	—
	OneWest Bank Legacy Matters	17	0.08	—	—	—	—
	Gain Related to	(3)	(0.01)	—	—	—	—

Edgar Filing: CIT GROUP INC - Form 10-K

Description	Year Ended December 31, 2016		Year Ended December 31, 2015		Year Ended December 31, 2014	
IndyMac Venture Partial Tax Valuation Allowance Reversal	-	-	(647)	(3.47)	(375)	(1.98)
International Tax Valuation Allowance Reversal	-	-	-	-	(44)	(0.23)
Currency Translation Adjustments on Portfolio Sales	-	-	74	0.40	-	-
Transaction Costs	-	-	15	0.08	-	-
Restructuring Provision	23	0.11	36	0.19	31	0.17
Freedom Interest Curtailment Reserve	179	0.89	-	-	-	-
Business Air Impairments	18	0.09	-	-	-	-
Reverse Mortgage Servicing Rights Impairment	12	0.06	-	-	-	-
Commercial Air Tax Provision	847	4.20	-	-	-	-
Commercial Air Suspended Depreciation	(66)	(0.33)	-	-	-	-
Gain on Student Loan Portfolio Sale	-	-	-	-	(53)	(0.28)
Non-GAAP net income, excluding noteworthy items <sup>(1)</sup>	\$ 710	\$ 3.52	\$ 606	\$ 3.25	\$ 704	\$ 3.72
<b>(Loss) income from continuing operations</b>	<b>\$(183)</b>	<b>\$(0.90)</b>	<b>\$ 724</b>	<b>\$ 3.89</b>	<b>\$ 676</b>	<b>\$ 3.57</b>
Gain on Sale — UK Business Discrete Tax Benefit	(15)	(0.07)	-	-	-	-
	(13)	(0.06)	71	0.38	(30)	(0.16)
	8	0.04	23	0.12	55	0.29

Edgar Filing: CIT GROUP INC - Form 10-K

	Year Ended December 31, 2016		Year Ended December 31, 2015		Year Ended December 31, 2014	
Description						
Impairments on AHFS and Other						
Liquidating Europe CTA	3	0.01	—	—	—	—
China Tax Valuation Allowance	16	0.08	—	—	—	—
Canadian TRS Termination Charge	146	0.72	—	—	—	—
Consumer Goodwill Impairment	319	1.58	—	—	—	—
Commercial Services Goodwill Impairment	28	0.14	—	—	—	—
Continuing Operations						
Canadian Tax Assertion Change Gain on Sale	54	0.27	—	—	—	—
Canadian Businesses	(16)	(0.08)	—	—	—	—
OneWest Bank Legacy Matters	17	0.08	—	—	—	—
Gain Related to IndyMac Venture	(3)	(0.01)	—	—	—	—
Partial Tax Valuation Allowance Reversal	—	—	(647)	(3.47)	(375)	(1.98)
International Tax Valuation Allowance Reversal	—	—	—	—	(44)	(0.23)
Currency Translation Adjustments on Portfolio Sales	—	—	74	0.40	—	—
Transaction Costs	—	—	15	0.08	—	—

Edgar Filing: CIT GROUP INC - Form 10-K

Description	Year Ended December 31, 2016		Year Ended December 31, 2015		Year Ended December 31, 2014	
Non-GAAP income from continuing operations, excluding noteworthy items <sup>(1)</sup>	23	0.11	36	0.19	31	0.17
	\$ 385	\$ 1.91	\$ 296	\$ 1.59	\$ 313	\$ 1.65

<sup>(1)</sup> Balances may not sum due to rounding .

**Table of Contents**

CIT ANNUAL REPORT 2016 101

6. Continuing Operations Total Assets

Continuing operations total assets is a non-GAAP measure due to the exclusion of assets of discontinued operations. Management uses this total for analytical purposes to compare balance sheet assets on an ongoing basis.

**Continuing Operations Total Assets** (dollars in millions)

	December 31,		
	2016	2015	2014
Total assets <sup>(1)</sup>	\$ 64,170.2	\$ 67,391.9	\$ 47,755.5
Assets of discontinued operation <sup>(1)</sup>	(13,220.7)	(13,059.6)	(12,493.7)
Continuing operations total assets	\$ 50,949.5	\$ 54,332.3	\$ 35,261.8

<sup>(1)</sup> Balances agree directly to the balance sheet for 2016 and 2015 in Item 8 Financial Statements.

7. Effective Tax Rate Reconciliation

The provision for income before discrete items and the respective effective tax rate are non-GAAP measures, which management uses for analytical purposes to understand the Company's underlying tax rate. Discrete items are discussed in the Income Tax section.

**Effective Tax Rate Reconciliation** (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
Provision (benefit) for income taxes	\$203.5	(538.0)	\$(432.4)
Less: Discrete tax items	(60.0)	617.5	451.9
Provision for income taxes, before discrete tax items	\$143.5	\$ 79.5	\$ 19.5
Income from continuing operations, before provision for income taxes	\$ 20.9	\$ 186.0	\$ 244.5

Years Ended December 31,

Effective tax rate	978.0%	(289.2)%	(176.8)%
Effective tax rate, before discrete items	689.4%	42.8%	8.0%

## 8. Regulatory

Included within this Form 10-K are risk-weighted assets (RWA), risk-based capital and leverage ratios as calculated under Basel III capital guidelines. For banking industry regulatory reporting purposes, we report our capital in accordance with Transitional Requirements, but also monitor our capital based on a fully phased-in methodology. Such measures are considered key regulatory capital measures used by banking regulators, investors and analysts to assess the CIT (as a BHC) regulatory capital position and to compare that to other financial institutions. For information on our capital ratios and requirements, see *Note 15 — Regulatory Capital* in *Item 8. Financial Statements*, the *Capital* section in *Item 7. Management's Discussion and Analysis* and the Regulatory section in *Item 1 Business*.

## 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, as amended. All statements contained herein that are not clearly historical in nature are forward-looking and the words "anticipate," "believe," "could," "expect," "estimate," "forecast," "intend," "plan," "potential," "project," "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 and capital management, including our capital plan, leverage, capital ratios, and credit ratings, our liquidity plan, and our plans and the potential transactions designed to enhance our liquidity and capital, to repay secured and unsecured debt, to issue qualifying capital instruments, including Tier 1 qualifying preferred stock, and for a return of capital,
- our plans to change our funding mix and to access new sources of funding to broaden our use of deposit taking capabilities,
- our pending or potential acquisition and disposition plans, and the integration and restructuring risks inherent in such acquisitions, including our previous acquisition of OneWest Bank in August 2015, our pending sale of the Commercial Air business, and our proposed sale of our Financial Freedom reverse mortgage business and our Business Air loan portfolio,
- our credit risk management and credit quality,
- our asset/liability risk management,

Item 7: Management's Discussion and Analysis

## Table of Contents

102 CIT ANNUAL REPORT 2016

- our funding, borrowing costs and net finance revenue,



## Edgar Filing: CIT GROUP INC - Form 10-K

- our operational risks, including risk of operational errors, failure of operational controls, success of systems enhancements and expansion of risk management and control functions,
- our mix of portfolio asset classes, including changes resulting from growth initiatives, new business initiatives, new products, acquisitions and divestitures, new business and customer retention,
- legal risks, including related to the enforceability of our agreements and to changes in laws and regulations,
- 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:

- capital markets liquidity,
- risks inherent in a return of capital, including risks related to obtaining regulatory approval, the nature and allocation among different methods of returning capital, and the amount and timing of any capital return,
- risks of and/or actual economic slowdown, downturn or recession,
- industry cycles and trends,
- uncertainties associated with risk management, including credit, prepayment, asset/liability, interest rate and currency risks,
- adequacy of reserves for credit losses,
- risks inherent in changes in market interest rates and quality spreads,
- funding opportunities, deposit taking capabilities and borrowing costs,
- conditions and/or changes in funding markets and our access to such markets, including the secured and unsecured debt and asset-backed securitization markets,
- risks of implementing new processes, procedures, and systems, including any new processes, procedures, and systems required to comply with the additional laws and regulations applicable to systematically important financial institutions,
- risks associated with the value and recoverability of leased equipment and related lease residual values,
- risks of failing to achieve the projected revenue growth from new business initiatives or the projected expense reductions from efficiency improvements,
- application of fair value accounting in volatile markets,
- application of goodwill accounting in a recessionary economy,

- changes in laws or regulations governing our business and operations, or affecting our assets, including our operating lease equipment,
- changes in competitive factors,
- demographic trends,
- customer retention rates,
- risks associated with dispositions of businesses or asset portfolios, including how to replace the income associated with such businesses or asset portfolios and the risk of residual liabilities from such businesses or portfolios,
- risks associated with acquisitions of businesses or asset portfolios and the risks of integrating such acquisitions, including the integration of OneWest Bank, and
- regulatory changes and/or developments.

Any or all of our forward-looking statements here or in other publications may turn out to be wrong, and there are no guarantees regarding our performance. We do not assume any obligation to update any forward-looking statement for any reason.

---

**Table of Contents**

CIT ANNUAL REPORT 2016 103

---

**Item 8. Financial Statements and Supplementary Data**

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income (loss), stockholders' equity and cash flows present fairly, in all material respects, the financial position of CIT Group Inc. and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because material weaknesses in internal control over financial reporting related to the Home Equity Conversion Mortgage ("HECM") Interest Curtailment Reserve and Information Technology General Controls ("ITGCs") for information systems that are relevant to the preparation of the Company's financial statements existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses referred to above are described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied

in our audit of the 2016 consolidated financial statements and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide 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  
 New York, New York  
 March 15, 2017

**Item 8: Financial Statements and Supplementary Data**

**Table of Contents**

**104** CIT ANNUAL REPORT 2016

---

**CIT GROUP INC. AND SUBSIDIARIES**

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

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
	<hr/>	<hr/>
<b>Assets</b>		

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2016	December 31, 2015
Cash and due from banks, including restricted balances of \$176.1 and \$150.2 at December 31, 2016 and 2015 <sup>(1)</sup> , respectively (see Note 10 for amounts pledged)	\$ 822.1	\$ 1,000.4
Interest bearing deposits, including restricted balances of \$102.8 and \$182.5 at December 31, 2016 and 2015 <sup>(1)</sup> , respectively (see Note 10 for amounts pledged)	5,608.5	6,652.0
Investment securities, including \$283.5 and \$339.7 at December 31, 2016 and December 31, 2015 of securities carried at fair value with changes recorded in net income (see Note 10 for amounts pledged)	4,491.1	2,953.7
Assets held for sale <sup>(1)</sup>	636.0	2,057.7
Loans (see Note 10 for amounts pledged)	29,535.9	30,518.7
Allowance for loan losses	(432.6)	(347.0)
Total loans, net of allowance for loan losses <sup>(1)</sup>	29,103.3	30,171.7
Operating lease equipment, net (see Note 10 for amounts pledged) <sup>(1)</sup>	7,486.1	6,851.7
Indemnification assets	341.4	409.1
Unsecured counterparty receivable	394.5	537.8
Goodwill	685.4	1,063.2
Intangible assets	140.7	166.1
Other assets, including \$111.6 and \$195.9 at December 31, 2016 and 2015, respectively, at fair value	1,240.4	2,468.9
Assets of discontinued operations	13,220.7	13,059.6
<b>Total Assets</b>	<b>\$64,170.2</b>	<b>\$67,391.9</b>
<b>Liabilities</b>		
Deposits	\$32,304.3	\$32,761.4
Credit balances of factoring clients	1,292.0	1,344.0
Other liabilities, including \$177.9 and \$220.3 at December 31, 2016 and 2015, respectively, at fair value	1,897.6	1,689.0
Borrowings, including \$2,321.7 and \$3,091.3 contractually due within twelve months at December 31, 2016 and December 31, 2015, respectively	14,935.5	16,350.3
Liabilities of discontinued operations	3,737.7	4,302.0
<b>Total Liabilities</b>	<b>54,167.1</b>	<b>56,446.7</b>
<b>Stockholders' Equity</b>		
Common stock: \$0.01 par value, 600,000,000 authorized Issued: 206,182,213 and 204,447,769 at December 31, 2016 and December 31, 2015, respectively	2.1	2.0
Outstanding: 202,087,672 and 201,021,508 at December 31, 2016 and December 31, 2015, respectively		
Paid-in capital	8,765.8	8,718.1
Retained earnings	1,553.0	2,524.0
Accumulated other comprehensive loss	(140.1)	(142.1)
Treasury stock: 4,094,541 and 3,426,261 shares at December 31, 2016 and December 31, 2015 at cost, respectively	(178.1)	(157.3)
<b>Total Common Stockholders' Equity</b>	<b>10,002.7</b>	<b>10,944.7</b>
Noncontrolling minority interests	0.4	0.5
<b>Total Equity</b>	<b>10,003.1</b>	<b>10,945.2</b>
<b>Total Liabilities and Equity</b>	<b>\$64,170.2</b>	<b>\$67,391.9</b>

(1)

## Edgar Filing: CIT GROUP INC - Form 10-K

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.

<b>Assets</b>		
Cash and interest bearing deposits, restricted	\$ 99.9	\$ 276.9
Assets held for sale	–	279.7
Total loans, net of allowance for loan losses	300.5	2,217.5
Operating lease equipment, net	775.8	797.2
Other	–	11.2
Assets of discontinued operations	2,321.7	3,402.4
<b>Total Assets</b>	<b>\$3,497.9</b>	<b>\$6,984.9</b>
<b>Liabilities</b>		
Beneficial interests issued by consolidated VIEs (classified as long-term borrowings)	\$ 770.0	\$ 1,948.7
Liabilities of discontinued operations	1,204.6	2,082.1
<b>Total Liabilities</b>	<b>\$1,974.6</b>	<b>\$4,030.8</b>

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

### Table of Contents

CIT ANNUAL REPORT 2016 105

## CIT GROUP INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME (dollars in millions – except per share data)

	Years Ended December 31,		
	2016	2015	2014
<i>Interest income</i>			
Interest and fees on loans	\$ 1,779.6	\$ 1,374.0	\$ 1,120.1
Other interest and dividends	131.9	71.2	35.5
Interest income	1,911.5	1,445.2	1,155.6
<i>Interest expense</i>			
Interest on borrowings	(358.4)	(401.3)	(484.1)
Interest on deposits	(394.8)	(330.1)	(231.0)
Interest expense	(753.2)	(731.4)	(715.1)
Net interest revenue	1,158.3	713.8	440.5
Provision for credit losses	(194.7)	(158.6)	(104.4)
Net interest revenue, after credit provision	963.6	555.2	336.1
<i>Non-interest income</i>			
Rental income on operating leases	1,031.6	1,018.1	949.6

## Edgar Filing: CIT GROUP INC - Form 10-K

Years Ended December 31,

	Years Ended December 31,		
Other income	150.6	149.6	263.9
Total non-interest income	1,182.2	1,167.7	1,213.5
<b>Total revenue, net of interest expense and credit provision</b>	<b>2,145.8</b>	<b>1,722.9</b>	<b>1,549.6</b>
<i>Non-interest expenses</i>			
Depreciation on operating lease equipment	(261.1)	(229.2)	(229.8)
Maintenance and other operating lease expenses	(213.6)	(185.1)	(171.7)
Operating expenses	(1,283.5)	(1,121.1)	(900.1)
Goodwill impairment	(354.2)	—	—
Loss on debt extinguishment and deposit redemption	(12.5)	(1.5)	(3.5)
Total other expenses	(2,124.9)	(1,536.9)	(1,305.1)
Income from continuing operations before (provision) benefit for income taxes	20.9	186.0	244.5
(Provision) benefit for income taxes	(203.5)	538.0	432.4
(Loss) income from continuing operations before attribution of noncontrolling interests	(182.6)	724.0	676.9
Loss (income) attributable to noncontrolling interests, after tax	—	0.1	(1.2)
<b>(Loss) income from continuing operations</b>	<b>(182.6)</b>	<b>724.1</b>	<b>675.7</b>
<i>Discontinued operations</i>			
(Loss) income from discontinued operations, net of taxes	(665.4)	310.0	160.6
Gain on sale of discontinued operations, net of taxes	—	—	282.8
Total (loss) income from discontinued operations, net of taxes	(665.4)	310.0	443.4
<b>Net (loss) income</b>	<b>\$ (848.0)</b>	<b>\$ 1,034.1</b>	<b>\$ 1,119.1</b>
<b>Basic income per common share</b>			
(Loss) income from continuing operations	\$ (0.90)	\$ 3.90	\$ 3.59
(Loss) income from discontinued operations, net of taxes	(3.30)	1.67	2.35
<b>Basic (loss) income per common share</b>	<b>\$ (4.20)</b>	<b>\$ 5.57</b>	<b>\$ 5.94</b>
<b>Diluted income per common share</b>			
(Loss) income from continuing operations	\$ (0.90)	\$ 3.89	\$ 3.57
(Loss) income from discontinued operations, net of taxes	(3.30)	1.66	2.34
<b>Diluted (loss) income per common share</b>	<b>\$ (4.20)</b>	<b>\$ 5.55</b>	<b>\$ 5.91</b>
<b>Average number of common shares — (thousands)</b>			
Basic	201,850	185,500	188,491
Diluted	201,850	186,388	189,463
<b>Dividends declared per common share</b>	<b>\$ 0.60</b>	<b>\$ 0.60</b>	<b>\$ 0.50</b>

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

**Item 8:** Financial Statements and Supplementary Data

**Table of Contents**

106 CIT ANNUAL REPORT 2016

CIT GROUP INC. AND SUBSIDIARIES

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

Edgar Filing: CIT GROUP INC - Form 10-K

	Years Ended December 31,		
	2016	2015	2014
<b>Net (Loss) income before attribution of noncontrolling interests</b>	\$(848.0)	\$1,034.0	\$1,120.3
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	4.3	9.7	(26.0)
Changes in fair values of derivatives qualifying as cash flow hedges	-	-	0.2
Net unrealized gains (losses) on available for sale securities	(6.3)	(7.1)	(0.1)
Changes in benefit plans net gain (loss) and prior service (cost)/credit	4.0	(10.8)	(34.4)
Other comprehensive income (loss), net of tax	2.0	(8.2)	(60.3)
<b>Comprehensive (loss) income before noncontrolling interests</b>	(846.0)	1,025.8	1,060.0
Comprehensive loss (income) attributable to noncontrolling interests	-	0.1	(1.2)
<b>Comprehensive (loss) income</b>	\$(846.0)	\$1,025.9	\$1,058.8

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

**Table of Contents**

CIT ANNUAL REPORT 2016 107

CIT GROUP INC. AND SUBSIDIARIES

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

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Minority Interests	Total Equity
<b>December 31, 2013</b>	\$2.0	\$8,555.4	\$ 581.0	\$ (73.6)	\$ (226.0)	\$ 11.2	\$ 8,850.0
Net income			1,119.1			1.2	1,120.3
Other comprehensive income, net of tax				(60.3)			(60.3)
Dividends paid			(95.3)				(95.3)
Amortization of restricted stock, stock option, and performance share expenses		47.1			(17.0)		30.1
Repurchase of common stock					(775.5)		(775.5)
Employee stock purchase plan		1.1					1.1

Edgar Filing: CIT GROUP INC - Form 10-K

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Minority Interests	Total Equity
Distribution of earnings and capital						(17.8)	(17.8)
<b>December 31, 2014</b>	\$2.0	\$8,603.6	\$1,604.8	\$(133.9)	\$(1,018.5)	\$ (5.4)	\$ 9,052.6
Net income			1,034.1			(0.1)	1,034.0
Other comprehensive income, net of tax				(8.2)			(8.2)
Dividends paid			(114.9)				(114.9)
Amortization of restricted stock, stock option, and performance share expenses		93.4			(23.4)		70.0
Repurchase of common stock					(531.8)		(531.8)
Issuance of common stock — acquisition		45.6			1,416.4		1,462.0
Employee stock purchase plan		2.0					2.0
Distribution of earnings and capital		(26.5)				6.0	(20.5)
<b>December 31, 2015</b>	\$2.0	\$8,718.1	\$2,524.0	\$(142.1)	\$ (157.3)	\$ 0.5	\$10,945.2
Net loss			(848.0)			—	(848.0)
Other comprehensive income, net of tax				2.0			2.0
Dividends paid			(123.0)				(123.0)
Amortization of restricted stock, stock option, and performance shares and other expenses	0.1	45.4			(20.8)		24.7
Employee stock purchase plan		2.3				—	2.3
Other						(0.1)	(0.1)
<b>December 31, 2016</b>	\$2.1	\$8,765.8	\$1,553.0	\$(140.1)	\$ (178.1)	\$ 0.4	\$10,003.1

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

**Item 8: Financial Statements and Supplementary Data**

**Table of Contents**

108 CIT ANNUAL REPORT 2016

CIT GROUP INC. AND SUBSIDIARIES

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



## Edgar Filing: CIT GROUP INC - Form 10-K

Years Ended December 31,

	2016	2015	2014
<b>Cash Flows From Operations</b>			
Net (loss) income	\$ (848.0)	\$ 1,034.1	\$ 1,119.1
Adjustments to reconcile net (loss) income to net cash flows from operations:			
Provision for credit losses	210.3	160.5	100.1
Net depreciation, amortization and (accretion)	700.0	783.9	973.2
Net losses (gains) on asset sales and other	158.8	5.1	(338.4)
Provision (benefit) for deferred income taxes	983.5	(572.9)	(433.5)
(Increase) decrease in finance receivables held for sale	336.7	(251.3)	(161.9)
Goodwill impairment	358.4	15.0	–
Reimbursement of OREO expenses from FDIC	1.8	7.2	–
Decrease (increase) in other assets	1,165.1	53.3	(179.2)
(Decrease) increase in other liabilities	(699.7)	(67.3)	299.0
Net cash flows provided by operations	2,366.9	1,167.6	1,378.4
<b>Cash Flows From Investing Activities</b>			
Change in loans, net	824.0	(1,759.2)	(1,862.9)
Purchases of investment securities	(4,939.2)	(8,316.3)	(10,024.3)
Proceeds from maturities of investment securities	3,585.5	9,226.6	10,461.2
Proceeds from sales	1,753.9	2,252.4	3,688.1
Purchases of assets to be leased and other equipment	(1,866.8)	(3,088.7)	(3,058.3)
Net (increase) decrease in short-term factoring receivables	(170.6)	124.7	(8.0)
Purchases of restricted stock	(1.7)	(128.9)	(5.9)
Proceeds from redemption of restricted stock	25.5	20.3	2.4
Payments to the FDIC under loss share agreements	(2.9)	(18.1)	–
Proceeds from FDIC under loss share agreements and participation agreements	147.8	33.7	–
Proceeds from the sale of OREO, net of repurchases	129.2	60.8	–
Acquisition, net of cash received	–	2,521.2	(448.6)
Net change in restricted cash	16.4	156.7	93.8
Net cash flows provided by (used in) investing activities	(498.9)	1,085.2	(1,162.5)
<b>Cash Flows From Financing Activities</b>			
Proceeds from the issuance of term debt	786.1	1,626.9	3,875.2
Repayments of term debt	(2,620.5)	(4,325.3)	(5,762.9)
Proceeds from FHLB advances	1,645.5	5,964.1	308.6
Repayments of FHLB debt	(2,352.3)	(6,070.2)	(88.6)
Net (decrease) increase in deposits	(448.6)	2,419.2	3,310.6
Collection of security deposits and maintenance funds	341.7	330.9	332.2
Use of security deposits and maintenance funds	(149.3)	(147.5)	(163.0)
Repurchase of common stock	–	(531.8)	(775.5)
Dividends paid	(123.0)	(114.9)	(95.3)
Purchase of noncontrolling interest	–	(20.5)	–
Payments on affordable housing investment credits	(8.4)	(4.8)	–
Net cash flows (used in) provided by financing activities	(2,928.8)	(873.9)	941.3

Edgar Filing: CIT GROUP INC - Form 10-K

Years Ended December 31,

Effect of exchange rate changes on cash and cash equivalents	(34.6 )	(63.8 )	(82.8 )
Increase (decrease) in unrestricted cash and cash equivalents	(1,095.4)	1,315.1	1,074.4
Unrestricted cash and cash equivalents, beginning of period	7,470.6	6,155.5	5,081.1
<b>Unrestricted cash and cash equivalents, end of period</b>	<b>\$ 6,375.2</b>	<b>\$ 7,470.6</b>	<b>\$ 6,155.5</b>
<b>Supplementary Cash Flow Disclosure</b>			
Interest paid	\$(1,149.7)	\$(1,112.0)	\$ (1,075.6)
Federal, foreign, state and local income taxes (paid) collected, net	\$ 61.2	\$ (9.5)	\$ (21.6)
<b>Supplementary Non Cash Flow Disclosure</b>			
Transfer of assets from held for investment to held for sale	\$ 2,093.6	\$ 3,039.4	\$ 2,671.0
Transfer of assets from held for sale to held for investment	\$ 124.4	\$ 208.7	\$ 64.9
Transfers of assets from held for investment to OREO	\$ 90.2	\$ 65.8	\$ —
Deposits on flight equipment purchases applied to acquisition of flight equipment, capitalized interest and buyer furnished equipment	\$ 286.6	\$ 554.2	\$ 589.4
Issuance of common stock as consideration	\$ —	\$ 1,462.0	\$ —

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

**Table of Contents**

CIT ANNUAL REPORT 2016 109

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

CIT Group Inc., together with its subsidiaries (collectively we, our, CIT or the Company), has provided financial solutions to its clients since its formation in 1908. We provide financing, leasing and advisory services principally to middle-market companies, including to the transportation industry, and equipment financing and leasing solutions to a wide variety of industries primarily in North America. CIT is a bank holding company (BHC) and a financial holding company (FHC). CIT also provides a full range of banking and related services to commercial and individual customers through its banking subsidiary, CIT Bank, N.A., which includes 70 branches located in Southern California and its online bank, bankoncit.com. On October 6, 2016 we entered into a definitive agreement to sell our Commercial Air business, except for certain Commercial Air loans and investments in CIT Bank. This business, along with our business air and Financial Freedom businesses, is reported as discontinued operations, with all prior period balances conformed.

Effective as of August 3, 2015, CIT Group Inc. ("CIT") acquired IMB HoldCo LLC ("IMB"), the parent company of OneWest Bank, National Association, a national bank ("OneWest Bank"). CIT Bank, then a Utah-state chartered bank and a wholly-owned subsidiary of CIT, merged with and into OneWest Bank (the "OneWest Transaction"), with OneWest Bank surviving as a wholly-owned subsidiary of CIT with the name CIT Bank, National Association ("CIT Bank, N.A." or "CIT Bank"). See Note 2 — Acquisition and Discontinued Operations for details.

## Edgar Filing: CIT GROUP INC - Form 10-K

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**

The accounting and financial reporting policies of CIT Group Inc. conform to generally accepted accounting principles (“GAAP”) in the United States and the preparation of the consolidated financial statements is in conformity with GAAP which 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. 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 Group Inc. and its majority-owned subsidiaries and those variable interest entities (“VIEs”) where the Company is the primary beneficiary (“PB”).

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

The results for the year ended December 31, 2015 contain activity of OneWest Bank for approximately five months.

#### **Discontinued Operations**

Discontinued Operations as of December 31, 2016 and 2015 included certain assets and liabilities of the commercial air business, the business air business, along with the Financial Freedom business that was acquired as part of the OneWest Transaction. (Loss) income from discontinued operations reflects the activities of the aerospace (commercial air and business air) businesses for the years ended December 31, 2016, 2015, and 2014. (Loss) income from discontinued operations also included the activities of Financial Freedom for the periods since its acquisition date, August 3, 2015, while the year ended December 31, 2014 included activity of the student lending business through its sale date of April 25, 2014. Discontinued Operations are discussed in *Note 2 Acquisition and Discontinued Operations*.

#### **Revisions**

In preparing its quarterly financial statements for the first three quarters of 2016, the Company discovered and corrected immaterial errors that impacted prior periods. Additional out-of-period errors were identified in the fourth quarter of 2016. These additional out-of-period errors were individually and in the aggregate not material to the fourth quarter results or to the full year 2016 results. In reviewing the impact of these immaterial errors on prior periods, management also concluded that the corrections did not, individually or in the aggregate, result in a material misstatement of the Company’s consolidated financial statements for any prior periods. However, Management has decided to record the errors in the applicable prior periods and revised the previously reported balances in the consolidated financial statements and notes to the consolidated financial statements.

See Note 29 — Selected Quarterly Financial Data and Note 30 — Revision of Previously Reported Annual Financial Statements for more information.

### SIGNIFICANT ACCOUNTING POLICIES

#### **Financing and Leasing Assets**

CIT extends credit to commercial customers through a variety of financing arrangements including term loans, revolving credit facilities, capital (direct finance) leases and operating leases. CIT also extends credit through consumer loans, including residential mortgages and home equity loans, and has a portfolio of reverse mortgages. The amounts outstanding on term loans, consumer loans, revolving credit facilities and capital leases, along with past due lease payments on operating lease equipment, are referred to as finance receivables. In certain instances, we use the term “Loans” synonymously, as presented on the balance sheet. These finance receivables, when combined with *Assets held for sale* (“AHFS”) and *Operating lease equipment, net* are referred to as

financing and leasing assets. It is CIT's expectation that the majority of the loans and leases originated will be held for the foreseeable future or until maturity.

**Item 8: Financial Statements and Supplementary Data**

---

**Table of Contents****110** CIT ANNUAL REPORT 2016

---

**CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In certain situations, for example to manage concentrations and/or credit risk or where returns no longer meet specified targets, some or all of certain exposures are sold. Loans for which the Company has the intent and ability to hold for the foreseeable future or until maturity are classified as held for investment ("HFI"). If the Company no longer has the intent or ability to hold loans for the foreseeable future, then the loans are transferred to AHFS. Loans originated with the intent to resell are classified as AHFS.

Loans originated and classified as HFI are recorded at amortized cost. Loan origination fees and certain direct origination costs are deferred and recognized as adjustments to interest income over the contractual lives of the related loans. Unearned income on leases and discounts and premiums on loans purchased are amortized to interest income using the effective interest method. For loans classified as AHFS, the amortization of discounts and premiums on loans purchased and unearned income ceases. Direct financing leases originated and classified as HFI are recorded at the aggregate future minimum lease payments plus estimated residual values less unearned finance income. Management performs periodic reviews of estimated residual values, with other than temporary impairment ("OTTI") recognized in current period earnings.

If it is determined that a loan should be transferred from HFI to AHFS, then the loan is transferred at the lower of cost or fair value. At the time of transfer, a write-down of the loan is recorded as a charge-off when the carrying amount exceeds fair value and the difference relates to credit quality, otherwise the write-down is recorded as a reduction to Other Income, and any allowance for loan loss is reversed. Once classified as AHFS, the amount by which the carrying value exceeds fair value is recorded as a valuation allowance and is reflected as a reduction to Other Income.

If it is determined that a loan should be transferred from AHFS to HFI, the loan is transferred at the lower of cost or fair value on the transfer date, which coincides with the date of change in management's intent. The difference between the carrying value of the loan and the fair value, if lower, is reflected as a loan discount at the transfer date, which reduces its carrying value. Subsequent to the transfer, the discount is accreted into earnings as an increase to interest income over the life of the loan using the effective interest method.

Operating lease equipment is carried at cost less accumulated depreciation. Operating lease equipment is depreciated to its estimated residual value using the straight-line method over the lease term or estimated useful life of the asset. Where management's intention is to sell the operating lease equipment, these are marked to the lower of cost or fair value and classified as AHFS. Depreciation is no longer recognized and the assets are evaluated for impairment, with any further marks to lower of cost or fair value recorded in Other Income. Equipment held for sale in discontinued operations follows the same treatment, with impairment charges reflected in discontinued operations — other income. Equipment received at the end of the lease is marked to the lower of cost or fair value with the adjustment recorded in Other Income.

In the operating lease portfolio in discontinued operations, maintenance costs incurred that exceed maintenance funds collected for commercial aircraft are expensed if they do not provide a future economic benefit and do not extend the useful life of the aircraft. Such costs may include costs of routine aircraft operation and costs of maintenance and spare parts incurred in connection with re-leasing an aircraft and during the transition between leases. For such maintenance costs that are not capitalized, a charge is recorded in expense at the time the costs are incurred. Income recognition related to maintenance funds collected and not used during the life of the lease is deferred to the extent management estimates costs will be incurred by subsequent lessees performing scheduled maintenance. Upon the disposition of an aircraft, any excess maintenance funds that exist are recognized in discontinued operations — Other Income.

Loans acquired in the OneWest Transaction were initially recorded at their fair value on the acquisition date. For loans that were not considered credit impaired at the date of acquisition and for which cash flows were evaluated based on contractual terms, a premium or discount was recorded, representing the difference between the unpaid principal balance and the fair value. The

discount or premium is accreted or amortized to earnings using the effective interest method as a yield adjustment over the remaining contractual terms of the loans and is recorded in Interest Income. If the loan is prepaid, the remaining discount or premium will be recognized in Interest Income. If the loan is sold, the remaining discount will be considered in the resulting gain or loss on sale. If the loan is subsequently classified as non-accrual, or transferred to AHFS, accretion / amortization of the discount (premium) will cease.

For loans that were purchased with evidence of credit quality deterioration since origination, the discount recorded includes accretable and non-accretable components.

For purposes of income recognition, and consistent with valuation models across loan portfolios, the Company has elected to not take a position on the movement of future interest rates in the model. If interest rates rise, the loans will generate higher income. If rates fall, the loans will generate lower income.

#### *Purchased Credit-Impaired Loans*

Loans accounted for as purchased credit-impaired loans ("PCI loans") are accounted for in accordance with ASC 310-30 *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"). PCI loans were determined as of the date of purchase to have evidence of credit quality deterioration, which make it probable that the Company will be unable to collect all contractually required payments (principal and interest). Evidence of credit quality deterioration as of the purchase date may include past due status, recent borrower credit scores, credit rating (probability of obligor default) and recent loan-to-value ratios.

Commercial PCI loans are accounted for as individual loans. Conversely, consumer PCI loans with similar common risk characteristics are pooled together for accounting purposes (i.e., into one unit of account). Common risk characteristics consist of similar credit risk (e.g., delinquency status, loan-to-value, or credit risk rating) and at least one other predominant risk characteristic (e.g., loan type, collateral type, interest rate index, date of origination or term). For pooled loans, each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows for the pool.

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 111

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At acquisition, the PCI loans were initially recorded at estimated fair value, which is determined by discounting each commercial loan's or consumer pool's principal and interest cash flows expected to be collected using a discount rate for similar instruments with adjustments that management believes a market participant would consider. The Company estimated the cash flows expected to be collected at acquisition using internal credit risk and prepayment risk models that incorporate management's best estimate of current key assumptions, such as default rates, loss severity and prepayment speeds of the loan.

For both commercial PCI loans (evaluated individually) and consumer PCI loans (evaluated on a pool basis), an accretable yield is measured as the excess of the cash flows expected to be collected, estimated at the acquisition date, over the recorded investment (estimated fair value at acquisition) and is recognized in interest income over the remaining life of the loan, or pool of loans, on an effective yield basis. The difference between the cash flows contractually required to be paid (principal and interest), measured as of the acquisition date, over the cash flows expected to be collected is referred to as the non-accretable difference.

Subsequent to acquisition, the estimates of the cash flows expected to be collected are evaluated on a quarterly basis for both commercial PCI loans (evaluated individually) and consumer PCI loans (evaluated on a pool basis). During each subsequent reporting period, the cash flows expected to be collected shall be reviewed but will be revised only if it is deemed probable that a significant change has occurred. Probable and significant decreases in expected cash flows as a result of further credit deterioration result in a charge to the provision for credit losses and a corresponding increase to the allowance for loan losses. Probable and significant increases in cash flows expected to be collected due to improved credit quality result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and an increase in the accretable yield applied prospectively for any remaining increase. The accretable yield is affected by revisions to previous expectations that result in an

increase in expected cash flows, changes in interest rate indices for variable rate PCI loans, changes in prepayment assumptions and changes in expected principal and interest payments and collateral values. The Company assumes a flat forward interest curve when analyzing future cash flows for the mortgage loans. Changes in expected cash flows caused by changes in market interest rates are recognized as adjustments to the accretable yield on a prospective basis.

Resolutions of loans may include sales to third parties, receipt of payments in settlement with the borrower, or foreclosure of the collateral. Upon resolution, the Company's policy is to remove an individual consumer PCI loan from the pool at its carrying amount. Any difference between the loans carrying amount and the fair value of the collateral or other assets received does not affect the percentage yield calculation used to recognize accretable yield on the pool. This removal method assumes that the amount received from these resolutions approximates the pool performance expectations of cash flows. The accretable yield percentage is unaffected by the resolution. Modifications or refinancing of loans accounted for within a pool do not result in the removal of those loans from the pool; instead, the revised terms are reflected in the expected cash flows within the pool of loans.

#### *Reverse Mortgages*

Reverse mortgage loans are contracts in which a homeowner borrows against the equity in their home and receives cash in one lump sum payment, a line of credit, fixed monthly payments for either a specific term or for as long as the homeowner lives in the home or a combination of these options. Reverse mortgages feature no recourse to the borrower, no required repayment during the borrower's occupancy of the home (as long as the borrower complies with the terms of the mortgage), and, in the event of foreclosure, a repayment amount that cannot exceed the lesser of either the unpaid principal balance of the loan or the proceeds recovered upon sale of the home. The mortgage balance consists of cash advanced, interest compounded over the life of the loan, capitalized mortgage insurance premiums, and other servicing advances capitalized into the loan.

#### Revenue Recognition

Interest income on 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 AHFS, accretion (amortization) of the discount (premium) will cease. See Purchase Accounting Adjustments in *Note 2 — Acquisition and Discontinued Operations*.

Uninsured reverse mortgages in continuing operations that were determined to be non-PCI are accounted for in accordance with the instructions provided by the staff of the Securities and Exchange Commission ("SEC") entitled "Accounting for Pools of Uninsured Residential Reverse Mortgage Contracts." For these uninsured reverse mortgages, the Company has determined that as a result of the similarities between both the reverse mortgage borrowers' demographics and the terms of the reverse mortgage loan contracts, these reverse mortgages are accounted for at the pool level. To determine the effective yield of the pool, we project the pool's cash inflows and outflows including actuarial projections of the life expectancy of the individual contract holder and changes in the collateral value of the residence are projected. At each reporting date, a new economic forecast is made of the cash inflows and outflows for the population of reverse mortgages. Projections of cash flows assume the use of flat forward rate interest curves. The effective yield of the pool is recomputed and income is adjusted to retrospectively reflect the revised rate of return. Because of this accounting, the recorded value of reverse mortgage loans and interest income can result in significant volatility associated with the estimates. As a result, income recognition can vary significantly from period to period. The pool method of accounting results in the establishment of an Actuarial Valuation Allowance ("AVA") related to the deferral of net gains from loans exiting the pool. The AVA is a component of the net book value of the portfolio and has the ability to absorb potential collectability short-falls.

Insured reverse mortgages included in continuing operations were determined to be PCI, even though these loans are Home Equity Conversion Mortgages ("HECMs") insured by the Federal Housing Administration, based on management's consideration of the loan's

#### **Item 8:** Financial Statements and Supplementary Data

---

#### **Table of Contents**

## Edgar Filing: CIT GROUP INC - Form 10-K

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

loan-to-value (“LTV”) and its relationship to the loan’s Maximum Claim Amount. As such, based on the guidance in ASC 310-30, revenue recognition and income measurement for these loans is based on expected rather than contractual cash flows; and, the fair value adjustment on these loans included both accretable and non-accretable components.

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 were recorded during PAA related to acquisitions completed by the Company and Fresh Start Accounting (“FSA”) adjustments that were applied as of December 31, 2009, (the Convenience Date) to adjust the carrying value of above or below market operating lease contracts to their fair value. The FSA related 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 non-accrual 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 finance receivables in response to borrowers’ financial difficulties. These modifications may include interest rate changes, principal forgiveness or payment deferrals. Finance receivables 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 non-accrual 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.

PCI loans in pools that the Company may modify as TDRs are not within the scope of the accounting guidance for TDRs.

#### Allowance for Loan Losses on Finance Receivables

The allowance for loan losses is intended to provide for credit losses inherent in the HFI loan and lease receivables portfolio and is periodically reviewed for adequacy. The allowance for loan losses is determined based on three key components: (1) specific allowances for loans that are impaired, based upon the value of underlying collateral or projected cash flows, or observable market price, (2) non-specific allowances for estimated losses inherent in the portfolio based upon the expected loss over the loss emergence period, and (3) allowances for estimated losses inherent in the portfolio based upon economic risks, industry and geographic concentrations, and other factors. Changes to the Allowance for Loan Losses are recorded in the Provision for Credit Losses.

Determining an appropriate allowance for loan losses requires significant judgment that may change based on management’s ongoing process in analyzing the credit quality of the Company’s HFI loan portfolio.

Finance receivables are divided into the following portfolio segments, which correspond to the Company’s business segments: Commercial Banking, Consumer Banking and Non-Strategic Portfolios (“NSP”). Within each portfolio segment, credit risk is assessed and monitored in the following classes of loans; within Commercial Banking, Commercial Finance, Real Estate Finance, Business Capital, and Rail, are collectively referred to as Commercial Loans. Within Consumer Banking, classes include LCM and Other Consumer Lending, collectively referred to as Consumer Loans. The allowance is estimated based upon the finance receivables in the respective class.

## Edgar Filing: CIT GROUP INC - Form 10-K

For each portfolio, impairment is generally measured individually for larger non-homogeneous loans (finance receivables of \$500 thousand or greater) and collectively for groups of smaller loans with similar characteristics or for designated pools of PCI loans based on decreases in cash flows expected to be collected subsequent to acquisition.

Loans acquired in the OneWest Transaction were initially recorded at estimated fair value at the time of acquisition. Expected credit losses were included in the determination of estimated fair value, no allowance was established on the acquisition date.

### *Allowance Methodology*

#### *Commercial Loans*

With respect to commercial portfolios, the Company monitors credit quality indicators, including expected and historical losses and levels of, and trends in, past due loans, non-performing assets and impaired loans, collateral values and economic conditions. Commercial loans are graded according to the Company's internal rating system with respect to probability of default and loss given default (severity) based on various risk factors. The non-specific allowance is determined based on the estimated probability of default, which reflects the borrower's financial

---

### **Table of Contents**

CIT ANNUAL REPORT 2016 113

---

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

strength, and the severity of loss in the event of default, considering the quality of the underlying collateral. The probability of default and severity are derived through historical observations of default and subsequent losses within each risk grading.

A specific allowance is also established for impaired commercial loans and commercial loans modified in a TDR. Refer to the *Impairment of Finance Receivables* section of this Note for details.

#### *Consumer Loans*

For residential mortgages, the Company develops a loss reserve factor by deriving the projected lifetime losses then adjusting for losses expected to be specifically identified within the loss emergence period. The key drivers of the projected lifetime losses include the type of loan, type of product, delinquency status of the underlying loans, loan-to-value and/or debt-to-income ratios, geographic location of the collateral, and any guarantees.

For uninsured reverse mortgage loans in continuing operations, an allowance is established if the Company is likely to experience losses on the disposition of the property that are not reflected in the recorded investment, including the AVA, as the source of repayment of the loan is tied to the home's collateral value alone. A reverse mortgage matures when one of the following events occur: 1) the property is sold or transferred, 2) the last remaining borrower dies, 3) the property ceases to be the borrower's principal residence, 4) the borrower fails to occupy the residence for more than 12 consecutive months or 5) the borrower defaults under the terms of the mortgage or note. A maturity event other than death is also referred to as a mobility event. The level of any required allowance for loan losses on reverse mortgage loans is based on the Company's estimate of the fair value of the property at the maturity event based on current conditions and trends. The allowance for loan losses assessment on uninsured reverse mortgage loans is performed on a pool basis and is based on the Company's estimate of the future fair value of the properties at the maturity event based on current conditions and trends.

#### *Other Allowance Factors*

If commercial or consumer loan losses are reimbursable by the Federal Deposit Insurance Corporation ("FDIC") under the loss sharing agreement, the recorded provision is partially offset by any benefit expected to be derived from the related indemnification asset subject to management's assessment of the collectability of the indemnification asset and any contractual limitations on the



indemnified amount. See *Indemnification Assets* later in this section.

With respect to assets transferred from HFI to AHFS, a charge-off is recognized to the extent carrying value exceeds the fair value and the difference relates to credit quality.

An approach similar to the allowance for loan losses is utilized to calculate a reserve for losses related to unfunded loan commitments and deferred purchase commitments. A reserve for unfunded loan commitments is maintained to absorb estimated probable losses related to these facilities. The adequacy of the reserve is determined based on periodic evaluations of the unfunded credit facilities, including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. The reserve for unfunded loan commitments and deferred purchase commitments are recorded as a liability on the Consolidated Balance Sheet. Net adjustments to the reserve for unfunded loan commitments and deferred purchase commitments are included in the provision for credit losses.

The allowance policies described above relate to specific and non-specific allowances, and the impaired finance receivables and charge-off policies that follow are applied across the portfolio segments and loan classes therein. Given the nature of the Company's business, the specific allowance relates to the Commercial Banking segments. The non-specific allowance, which considers the Company's internal system of probability of default and loss severity ratings for commercial loans, among other factors, is applicable to both commercial and consumer loans. Additionally, divisions in Commercial Banking and Consumer Banking segments also utilize methodologies under ASC 310-30 for PCI loans, as discussed below.

#### *PCI Loans*

See *Purchased Credit-Impaired Loans* in Financing and Leasing Assets for description of allowance factors.

#### Past Due and Non-Accrual Loans

A loan is considered past due for financial reporting purposes if default of contractual principal or interest exists for a period of 30 days or more. Past due loans consist of both loans that are still accruing interest as well as loans on non-accrual status.

Loans are placed on non-accrual status when the financial condition of the borrower has deteriorated and payment in full of principal or interest is not expected or the scheduled payment of principal and interest has been delinquent for 90 days or more, unless the loan or finance lease is both well secured and in the process of collection.

PCI loans are written down at acquisition to their fair value using an estimate of cash flows deemed to be probable of collection. Accordingly, such loans are no longer classified as past due or non-accrual even though they may be contractually past due because we expect to fully collect the new carrying values of these loans. Due to the nature of reverse mortgage loans (i.e., these loans do not contain a contractual due date or regularly scheduled payments due from the borrower), they are considered current for purposes of past due reporting and are excluded from reported non-accrual loan balances.

#### Impairment of Finance Receivables

Impairment occurs when, based on current information and events, it is probable that CIT will be unable to collect all amounts due according to contractual terms of the agreement. Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable, with the estimated value determined using fair value of collateral and other cash flows if the finance receivable is collateralized, the present value of expected future cash flows discounted at the contract's effective interest rate, or observable market prices.

Impaired finance receivables of \$500 thousand or greater that are placed on non-accrual status, largely in Commercial Finance, Real

**Item 8:** Financial Statements and Supplementary Data

---

#### **Table of Contents**

114 CIT ANNUAL REPORT 2016

---

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Estate Finance, and Business Capital, are subject to periodic individual review by the Company's problem loan management ("PLM") function. The Company excludes certain loan and lease portfolios from its impaired finance receivables disclosures as charge-offs are typically determined and recorded for such loans beginning at 90-180 days of contractual delinquency. These include small-ticket loan and lease receivables, largely in Business Capital and NSP, and consumer loans, including single family residential mortgages, in Consumer Banking that have not been modified in a TDR, as well as short-term factoring receivables in Business Capital.

#### Charge-off of Finance Receivables

Charge-offs on loans are recorded after considering such factors as the borrower's financial condition, the value of underlying collateral and guarantees (including recourse to dealers and manufacturers), and the status of collection activities. Such charge-offs are deducted from the carrying value of the related finance receivables. This policy is largely applicable in the loan classes within Commercial Banking. In general, charge-offs of large ticket commercial loans (\$500 thousand or greater) are determined based on the facts and circumstances related to the specific loan and the underlying borrower and the use of judgment by the Company. Charge-offs of small ticket commercial finance receivables are recorded beginning at 90-180 days of contractual delinquency. Charge-offs of Consumer loans are recorded beginning at 120 days of delinquency. The value of the underlying collateral will be considered when determining the charge-off amount if repossession is assured and in process.

Charge-offs on loans originated are reflected in the provision for credit losses. Charge-offs are recognized on consumer loans for which losses are reimbursable under loss sharing agreements with the FDIC, with a provision benefit recorded to the extent applicable via an increase to the related indemnification asset. In the event of a partial charge-off on loans with a PAA, the charge-off is first allocated to the respective loan's discount. Then, to the extent the charge-off amount exceeds such discount, a provision for credit losses is recorded. Collections on accounts charged off post-acquisition are recorded as recoveries in the provision for credit losses. Collections on accounts that exceed the balance recorded at the date of acquisition are recorded as recoveries in other income. Collections on accounts previously charged off prior to transfer to AHFS are recorded as recoveries in other income.

#### Impairment of Long-Lived Assets

A review for impairment of long-lived assets, such as operating lease equipment, is performed at least annually or when events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable. Impairment of assets is determined by comparing the carrying amount to future undiscounted net cash flows expected to be generated. If an asset is impaired, the impairment is the amount by which the carrying amount exceeds the fair value of the asset. Fair value is based upon discounted cash flow analysis and available market data. Current lease rentals, as well as relevant and available market information (including third party sales for similar equipment and published appraisal data), are considered both in determining undiscounted future cash flows when testing for the existence of impairment and in determining estimated fair value in measuring impairment. Depreciation expense is adjusted when the projected fair value at the end of the lease term is below the projected book value at the end of the lease term. Assets to be disposed of are included in AHFS in the Consolidated Balance Sheet and are reported at the lower of the cost or fair market value less disposal costs ("LOCOM").

#### Investments

Investments in debt securities and equity securities that have readily determinable fair values not classified as trading securities, investment securities carried at fair value with changes recorded in net income, or as held-to-maturity ("HTM") securities are classified as available-for-sale ("AFS") securities. Debt and equity securities classified as AFS are carried at fair value with changes in fair value reported in accumulated other comprehensive income ("AOCI"), a component of stockholders' equity, net of applicable income taxes. Credit-related declines in fair value that are determined to be OTTI are immediately recorded in earnings. Realized gains and losses on sales are included in *other income* on a specific identification basis, and interest and dividend income on AFS securities is included in other interest and dividends.

Debt securities classified as HTM represent securities that the Company has both the ability and the intent to hold until maturity, and are carried at amortized cost. Interest on such securities is included in *other interest and dividends*.

Debt and marketable equity security purchases and sales are recorded as of the trade date.

Mortgage-backed securities are classified as either AFS or securities carried at fair value with changes recorded in net income. Debt securities classified as AFS that had evidence of credit deterioration as of the acquisition date and for which it was probable that the Company would not collect all contractually required principal and interest payments were classified as PCI debt securities.

Subsequently, the accretible yield (based on the cash flows expected to be collected in excess of the recorded investment or fair value) is accreted to interest income using an effective interest method pursuant to ASC 310-30 for PCI securities and securities carried at fair value with changes recorded in net income. The Company uses a flat interest rate forward curve for purposes of applying the effective interest method to PCI securities. On a quarterly basis, the cash flows expected to be collected are reviewed and updated. The expected cash flow estimates take into account relevant market and economic data as of the end of the reporting period including, for example, for securities issued in a securitization, underlying loan-level data, and structural features of the securitization, such as subordination, excess spread, overcollateralization or other forms of credit enhancement. OTTI with credit-related losses are recognized as permanent write-downs, while other changes in expected cash flows (e.g., significant increases and contractual interest rate changes) are recognized through a revised accretible yield in subsequent periods. The non-accretible discount is recorded as a reduction to the investments and will be reclassified to

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 115

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

accretible discount should expected cash flows improve or used to absorb incurred losses as they occur.

Equity securities without readily determinable fair values are generally carried at cost or the equity method of accounting and periodically assessed for OTTI, with the net asset values reduced when impairment is deemed to be other-than-temporary. Equity method investments are recorded at cost, adjusted to reflect the Company's portion of income, loss or dividend of the investee. All other non-marketable equity investments are carried at cost and periodically assessed for OTTI.

#### *Evaluating Investments for OTTI*

An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in AOCI for AFS securities, while such losses related to HTM securities are not recorded, as these investments are carried at their amortized cost. Unrealized losses on securities carried at fair value would be recorded through earnings as part of the total change in fair value.

The Company conducts and documents periodic reviews of all securities with unrealized losses to evaluate whether the impairment is other than temporary. The Company accounts for investment impairments in accordance with ASC 320-10-35-34, *Investments — Debt and Equity Securities: Recognition of an Other-Than-Temporary Impairment*. Under the guidance for debt securities, OTTI is recognized in earnings for debt securities that the Company has an intent to sell or that the Company believes it is more-likely-than-not that it will be required to sell prior to the recovery of the amortized cost basis. For debt securities classified as HTM that are considered to have OTTI that the Company does not intend to sell and it is more likely than not that the Company will not be required to sell before recovery, the OTTI is separated into an amount representing the credit loss, which is recognized in other income in the Consolidated Statement of Income, and the amount related to all other factors, which is recognized in OCI. OTTI on debt securities and equity securities classified as AFS and non-marketable equity investments are recognized in other income in the Consolidated Statements of Income in the period determined. Impairment is evaluated and to the extent it is credit related amounts are reclassified out of AOCI to other income. If it is not credit related then, the amounts remain in AOCI.

Amortized cost is defined as the original purchase cost, plus or minus any accretion or amortization of a purchase discount or premium. Regardless of the classification of the securities as AFS or HTM, the Company assesses each investment with an unrealized loss for impairment.

Factors considered in determining whether a loss is temporary include:

- the length of time that fair value has been below cost;
- the severity of the impairment or the extent to which fair value has been below cost;

- the cause of the impairment and the financial condition and the near-term prospects of the issuer;
- activity in the market of the issuer that may indicate adverse credit conditions; and
- the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The Company's review for impairment generally includes identification and evaluation of investments that have indications of possible impairment, in addition to:

- analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;
- discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having OTTI and those that would not support OTTI; and
- documentation of the results of these analyses, as required under business policies.

#### *Investments in Restricted Stock*

The Company is a member of, and owns capital stock in, the Federal Home Loan Bank ("FHLB") of San Francisco and the FRB. As a condition of membership, the Company is required to own capital stock in the FHLB based upon outstanding FHLB advances and FRB stock based on a specified ratio relative to the Company's capital. FHLB and FRB stock may only be sold back to the member institutions at its carrying value and cannot be sold to other parties. For FHLB stock, cash dividends are recorded within other interest and dividends when declared by the FHLB. For FRB stock, the Company is legally entitled (without declaration) to a specified dividend paid semi-annually. Dividends are recorded in other interest and dividends in the Consolidated Statements of Income.

Due to the restricted ownership requirements, the Company accounts for its investments in FHLB and FRB stock as a nonmarketable equity stock accounted for under the cost method. Purchases and redemptions of restricted stock are reflected in the investing section of the statement of cash flows. Impairment reviews of the investment are completed at least annually, or when events or circumstances indicate that their carrying amounts may not be recoverable. The Company's impairment evaluation considers the long-term nature of the investment, the liquidity position of the member institutions, its recent dividend declarations and the intent and ability to hold this investment for a period of time sufficient to ultimately recover the Company's recorded investment.

#### Indemnification Assets

Prior to the OneWest Transaction, OneWest Bank was party to certain shared loss agreements with the FDIC related to its acquisitions of IndyMac Federal Bank, FSB ("IndyMac"), First Federal Bank of California, FSB ("First Federal") and La Jolla Bank, FSB ("La Jolla"). As part of CIT's OneWest Transaction, CIT is now party to these loss sharing agreements with the FDIC. The loss sharing agreements generally require CIT Bank, N.A. to obtain FDIC approval prior to transferring or selling loans and related indemnification assets. Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., loan modifications, charge-off of loan balance or liquidation of collateral). Reimbursements approved by the FDIC are usually received within 60 days of submission.

#### **Item 8: Financial Statements and Supplementary Data**

---

#### **Table of Contents**

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The IndyMac transaction encompassed multiple loss sharing agreements that provided protection from certain losses related to purchased SFR loans and reverse mortgage proprietary loans. In addition, CIT is party to the FDIC agreement to indemnify OneWest Bank, subject to certain requirements and limitations, for third party claims from the Government Sponsored Enterprises (“GSEs” or “Agencies”) related to IndyMac selling representations and warranties, as well as liabilities arising from the acts or omissions (including, without limitation, breaches of servicer obligations) of IndyMac as servicer.

The loss sharing arrangements related to the First Federal and La Jolla transactions also provide protection from certain losses related to certain purchased assets, specifically the SFR loans.

All of the loss sharing agreements are accounted for as indemnification assets and were initially recognized at estimated fair value as of the acquisition date based on the discounted present value of expected future cash flows under the respective loss sharing agreements pursuant to ASC 805. As of the acquisition date, the First Federal loss share agreement had a zero fair value given the expiration of the commercial loan portion in December 2014 and management’s expectation not to reach the first stated threshold for the SFR mortgage loan portion, which expires in December 2019. As of the acquisition date, the La Jolla loss share agreement had a negligible indemnification asset value. Under the La Jolla loss share agreement, the FDIC indemnifies the eligible credit losses for SFR and commercial loans. Unlike SFR mortgage loan claim submissions, which do not take place until the loss is incurred through the conclusion of the foreclosure process, commercial loan claims are submitted to and paid by the FDIC at the time of charge-off. Similar to the First Federal agreement, the commercial loan portion expired prior to the acquisition date (expired March 2015).

On a subsequent basis, the indemnification asset is measured on the same basis of accounting as the indemnified loans (e.g., as PCI loans under the effective yield method). A yield is determined based on the expected cash flows to be collected from the FDIC over the recorded investment. The expected cash flows on the indemnification asset are reviewed and updated on a quarterly basis.

Changes in expected cash flows caused by changes in market interest rates or by prepayments of principal are recognized as adjustments to the effective yield on a prospective basis in interest income. In some cases, the cash flows expected to be collected from the indemnified loans may improve so that the related indemnification asset is no longer expected to be fully recovered. For PCI loans with an associated indemnification asset, if the increase in expected cash flows is recognized through a higher yield, a lower and potentially negative yield (*i.e.* due to a decline in expected cash flows in excess of the current carrying value) is applied to the related indemnification asset to mirror an accounting offset for the indemnified loans. Any negative yield is determined based on the remaining term of the indemnification agreement. Both accretion (positive yield) and amortization (negative yield) from the indemnification asset are recognized in interest income on loans over the lesser of the contractual term of the indemnification agreement or the remaining life of the indemnified loans. A decrease in expected cash flows is recorded in the indemnification asset for the portion that previously was expected to be reimbursed from the FDIC resulting in an increase in the Provision for credit losses that was previously recorded in the Allowance for loan losses.

In connection with the IndyMac transaction, the Company has an indemnification receivable for estimated reimbursements due from the FDIC for loss exposure arising from breach in origination and servicing obligations associated with covered reverse mortgage loans prior to March 2009 pursuant to the loss share agreement with the FDIC. The indemnification receivable uses the same assumptions used to measure the indemnified item (contingent liability) subject to management’s assessment of the collectability of the indemnification asset and any contractual limitations on the indemnified amount.

In connection with the La Jolla transaction, the Company recorded a separate FDIC true-up liability for an estimated payment due to the FDIC at the expiry of the loss share agreement, given the estimated cumulative losses of the acquired covered assets are projected to be lower than the cumulative losses originally estimated by the FDIC at inception of the loss share agreement. There is no FDIC true-up liability recorded in connection with the First Federal transaction based on the projected loss estimates at this time. There is also no FDIC true-up liability recorded in connection with the IndyMac transaction as it was not required. This liability represents contingent consideration to the FDIC and is re-measured at estimated fair value on a quarterly basis, with the changes in fair value recognized in noninterest expense.

For further discussion, see *Note 5 — Indemnification Assets*.

#### Goodwill and Intangible Assets

The Company’s goodwill primarily represented the excess of the purchase prices paid for acquired businesses over the respective fair value of net asset values acquired. The goodwill was assigned to reporting units at the date the goodwill was initially recorded. Once the goodwill was assigned to the reporting unit level, it no longer retained its association with a particular transaction, and all

of the activities within the reporting unit, whether acquired or internally generated, are available to support the value of goodwill.

A portion of the Goodwill balance also resulted from the excess of reorganization equity value over the fair value of tangible and identifiable intangible assets, net of liabilities, in connection with the Company's emergence from bankruptcy in December 2009.

Goodwill is not amortized but it is subject to impairment testing at the reporting unit on an annual basis, or more often if events or circumstances indicate there may be impairment. The Company follows guidance in ASC 350, *Intangibles — Goodwill and Other* that includes the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two-step impairment test. Examples of qualitative factors to assess include macroeconomic conditions, industry and market considerations, market changes affecting the Company's products and services, overall financial performance, and company specific events affecting operations.

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 117

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

If the Company does not perform the qualitative assessment or upon performing the qualitative assessment concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, CIT would be required to perform the first step of the two-step goodwill impairment test for that reporting unit. The first step involves comparing the fair value of the reporting unit with its carrying value, including goodwill as measured by allocated equity. If the fair value of the reporting unit exceeds its carrying value, goodwill in that unit is not considered impaired. However, if the carrying value exceeds its fair value, step two must be performed to assess potential impairment. In step two, the implied fair value of the reporting unit's goodwill (the reporting unit's fair value less its carrying amount, excluding goodwill) is compared with the carrying amount of the goodwill. An impairment loss would be recorded in the amount that the carrying amount of goodwill exceeds its implied fair value. Reporting unit fair values are primarily estimated using discounted cash flow models. See *Note 26 — Goodwill and Intangible Assets* for further details.

Intangible assets relate to acquisitions and the remaining amount from FSA adjustments. Intangible assets have finite lives and as detailed in *Note 26 — Goodwill and Intangible Assets*, depending on the component, are amortized on an accelerated or straight line basis over the estimated useful lives. Amortization expense for the intangible assets is recorded in operating expenses.

The Company reviews intangible assets for impairment annually or when events or circumstances indicate that their carrying amounts may not be recoverable. Impairment is recognized by writing down the asset to the extent that the carrying amount exceeds the estimated fair value, with any impairment recorded in operating expense.

#### Other Assets

##### *Tax Credit Investments*

The Company has investments in limited liability entities that were formed to operate qualifying affordable housing projects, and other entities that make equity investments, provide debt financing or support community-based investments in tax-advantaged projects. Certain affordable housing investments qualify for credit under the Community Reinvestment Act ("CRA"), which requires regulated financial institutions to help meet the credit needs of the local communities in which they are chartered, particularly in neighborhoods with low or moderate incomes. These tax credit investments provide tax benefits to investors primarily through the receipt of federal and/or state income tax credits or tax benefits in the form of tax deductible operating losses or expenses.

The Company invests as a limited partner and its ownership amount in each limited liability entity varies. As a limited partner, the Company is not the PB as it does not meet the power criterion, i.e., no power to direct the activities of the VIE that most significantly impact the VIE's economic performance and has no direct ability to unilaterally remove the general partner. Accordingly, the Company is not required to consolidate these entities on its financial statements. For further discussion on VIEs, see *Note 10 — Borrowings*.

## Edgar Filing: CIT GROUP INC - Form 10-K

Tax credit investments that were acquired in the OneWest Bank Transaction, including the commitment to contribute additional capital over the term of the investment, were recorded at fair value at the acquisition date pursuant to ASC 805 — Business Combinations. On a subsequent basis, these investments and new investments are accounted for under the equity method. Under the equity method, the Company's investments are adjusted for the Company's share of the investee's net income or loss for the period. Any dividends or distributions received are recorded as a reduction of the recorded investment. The tax credits generated from investments in affordable housing projects and other tax credit investments are recognized on the consolidated financial statements to the extent they are utilized on the Company's income tax returns through the tax provision.

Tax credit investments are evaluated for potential impairment at least annually, or more frequently, when events or conditions indicate that it is deemed probable that the Company will not recover its investment. Potential indicators of impairment might arise when there is evidence that some or all tax credits previously claimed by the limited liability entities would be recaptured, or that expected remaining credits would no longer be available to the limited liability entities. If an investment is determined to be impaired, it is written down to its estimated fair value and the new cost basis of the investment is not adjusted for subsequent recoveries in value.

These investments are included within other assets and any impairment loss would be recognized in other income.

### *FDIC Receivable*

The Company has a receivable from the FDIC representing a secured interest in certain homebuilder, home construction and lot loans. The secured interest entitles the Company to 40% of the underlying cash flows. The Company elected to measure the FDIC Receivable at estimated fair value under the fair value option. Absent Market data, the fair value is estimated based on cash flows expected to be collected from the Company's participation interest in the underlying collateral. The modeled underlying cash flows include estimated amounts expected to be collected from repayment of loan principal and interest and net proceeds from property liquidations. These cash flows are offset by amounts paid for servicing expenses, management fees, and liquidation expenses. The Company recognizes interest income on the FDIC receivable on an effective yield basis over the expected remaining life under the accretable yield method pursuant to ASC 310-30. The gains and losses from changes in the estimated fair value of the asset or due to sales of the underlying loans are recorded separately in other income. For further discussion, see *Note 13 — Fair Value*.

### *Other Real Estate Owned*

Other real estate owned ("OREO") represents collateral acquired from the foreclosure of secured loans and is being actively marketed for sale. These assets are initially recorded at the lower of cost or market value less disposition costs. Estimated market value is generally based upon independent appraisals or broker price opinions, which are then modified based on assumptions and expectations that are determined by management. Any write-down as a result of differences between carrying and market value on the date of transfer from loan classification is charged to the allowance for credit losses.

## Item 8: Financial Statements and Supplementary Data

---

### **Table of Contents**

118 CIT ANNUAL REPORT 2016

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequently, the assets are recorded at the lower of its carrying value or estimated fair value less disposition costs. If the property or other collateral has lost value subsequent to foreclosure, a valuation allowance (contra asset) is established, and the charge is recorded in other income. OREO values are reviewed on a quarterly basis and subsequent declines in estimated fair value are recognized in earnings in the current period. Holding costs are expensed as incurred and reflected in operating expenses. Upon disposition of the property, any difference between the proceeds received and the carrying value is booked to gain or loss on disposition recorded in other income.

### *Property and Equipment*

## Edgar Filing: CIT GROUP INC - Form 10-K

Property and equipment are included in other assets and are carried at cost less accumulated depreciation and amortization. Depreciation is expensed using the straight-line method over the estimated service lives of the assets. Estimated service lives generally range from 3 to 7 years for furniture, fixtures and equipment and 20 to 40 years for buildings. Leasehold improvements are amortized over the term of the respective lease or the estimated useful life of the improvement, whichever is shorter.

### *Servicing Advances*

The Company is required to make servicing advances in the normal course of servicing mortgage loans. These advances include customary, reasonable and necessary out-of-pocket costs incurred in the performance of its servicing obligation. They include advances related to mortgage insurance premiums, foreclosure activities, funding of principal and interest with respect to mortgage loans held in connection with a securitized transaction and taxes and other assessments which are or may become a lien upon the mortgage property. Servicing advances are generally reimbursed from cash flows collected from the loans.

As the servicer of securitizations of loans or equipment leases, the Company may be required to make servicing advances on behalf of obligors if the Company determines that any scheduled payment was not received prior to the end of the applicable collection period. Such advances may be limited by the Company based on its assessment of recoverability of such amounts in subsequent collection periods. The reimbursement of servicing advances to the Company is generally prioritized over the distribution of any payments to the investors in the securitizations.

A receivable is recognized for the advances that are expected to be reimbursed, while a loss is recognized in operating expenses for advances that are not expected to be reimbursed. Advances not collected are generally due to payments made in excess of the limits established by the investor or as a result of servicing errors. For loans serviced for others, servicing advances are accrued through liquidation regardless of delinquency status. Any accrued amounts that are deemed uncollectible at liquidation are written off against existing reserves. Any amounts outstanding 180 days post liquidation are written off against established reserves. Due to the Company's planned exit of third party servicing operations, the servicing advances for third party serviced reverse mortgage loans are designated as Assets of discontinued operations held for sale.

### Derivative Financial Instruments

The Company manages economic risk and exposure to interest rate and foreign currency risk through derivative transactions in over-the-counter markets with other financial institutions. The Company also offers derivative products to its customers in order for them to manage their interest rate and currency risks. The Company does not enter into derivative financial instruments for speculative purposes.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") includes measures to broaden the scope of derivative instruments subject to regulation by requiring clearing and exchange trading of certain derivatives, and imposing margin, reporting and registration requirements for certain market participants. Since the Company does not meet the definition of a Swap Dealer or Major Swap Participant under the Dodd-Frank Act, the reporting and clearing obligations apply to a limited number of derivative transactions executed with its lending customers in order to manage their interest rate risk.

Derivatives utilized by the Company may include swaps, forward settlement contracts and options contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward settlement contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date, and rate or price. An option contract is an agreement that gives the buyer the right, but not the obligation, to buy or sell an underlying asset from or to another party at a predetermined price or rate over a specific period of time.

The Company documents, at inception, all relationships between hedging instruments and hedged items, as well as the risk management objectives and strategies for undertaking various hedges. Upon executing a derivative contract, the Company designates the derivative as either a qualifying hedge or non-qualifying hedge. The designation may change based upon management's reassessment of circumstances. Upon de-designation or termination of a hedge relationship, changes in fair value of the derivative is reflected in earnings.

The Company utilizes cross-currency swaps and foreign currency forward contracts to hedge net investments in foreign operations. These transactions are classified as foreign currency net investment hedges with resulting gains and losses reflected in AOCI. For hedges of foreign currency net investment positions, the "forward" method is applied whereby effectiveness is assessed and measured based on the amounts and currencies of the individual hedged net investments versus the notional amounts and underlying currencies of the derivative contract. For those hedging relationships where the critical terms of the underlying net investment and the derivative are identical, and the credit-worthiness of the counterparty to the hedging instrument remains sound, there is an expectation of no hedge ineffectiveness so long as those conditions continue to be met.



The Company also enters into foreign currency forward contracts to manage the foreign currency risk associated with its non-U.S. subsidiaries' funding activities and designates these as foreign currency cash flow hedges for which certain components are reflected in AOCI and others recognized in noninterest income when the underlying transaction impacts earnings.

---

## Table of Contents

CIT ANNUAL REPORT 2016 119

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The company uses foreign currency forward contracts, interest rate swaps, cross currency interest rate swaps, and options to hedge interest rate and foreign currency risks arising from its asset and liability mix. These are treated as economic hedges.

The Company also provides interest rate derivative contracts to support the business requirements of its customers ("customer-related positions"). The derivative contracts include interest rate swap agreements and interest rate cap and floor agreements wherein the Company acts as a seller of these derivative contracts to its customers. To mitigate the market risk associated with these customer derivatives, the Company enters into similar offsetting positions with broker-dealers.

All derivative instruments are recorded at their respective fair value. Derivative instruments that qualify for hedge accounting are presented in the balance sheet at their fair values in other assets or other liabilities, with changes in fair value (gains and losses) of cash flow hedges deferred in AOCI, a component of equity. For qualifying derivatives with periodic interest settlements, e.g. interest rate swaps, interest income or interest expense is reported as a separate line item in the statement of income. Derivatives that do not qualify for hedge accounting are also presented in the balance sheet in other assets or other liabilities, but with their resulting gains or losses recognized in other income. For non-qualifying derivatives with periodic interest settlements, the Company reports interest income with other changes in fair value in other income.

Fair value is based on dealer quotes, pricing models, discounted cash flow methodologies, or similar techniques for which the determination of fair value may require significant management judgment or estimation. The fair value of the derivative is reported on a gross-by-counterparty basis. Valuations of derivative assets and liabilities reflect the value of the instrument including the Company's and counterparty's credit risk.

CIT is exposed to credit risk to the extent that the counterparty fails to perform under the terms of a derivative. Losses related to credit risk are reflected in other income. The Company manages this credit risk by requiring that all derivative transactions entered into as hedges be conducted with counterparties rated investment grade at the initial transaction by nationally recognized rating agencies, and by setting limits on the exposure with any individual counterparty. In addition, pursuant to the terms of the Credit Support Annexes between the Company and its counterparties, CIT may be required to post collateral or may be entitled to receive collateral in the form of cash or highly liquid securities depending on the valuation of the derivative instruments as measured on a daily basis.

#### Fair Value

##### *Fair Value Hierarchy*

CIT measures the fair value of its financial assets and liabilities in accordance with ASC 820 *Fair Value Measurements*, which defines fair value, establishes a consistent framework for measuring fair value and requires disclosures about fair value measurements. The Company categorizes its financial instruments, based on the significance of inputs to the valuation techniques, according to the following three-tier fair value hierarchy:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain other securities that are highly liquid and are actively traded in over-the-counter markets;

-

## Edgar Filing: CIT GROUP INC - Form 10-K

Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes derivative contracts and certain loans held-for-sale;

- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using valuation models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes highly structured or long-term derivative contracts and structured finance securities where independent pricing information cannot be obtained for a significant portion of the underlying assets or liabilities.

### *Valuation Process*

The Company has various processes and controls in place to ensure that fair value is reasonably estimated. The Company generally determines the estimated fair value of Level 3 assets and liabilities by using internally developed models and, to a lesser extent, prices obtained from third-party pricing services or broker dealers (collectively, third party vendors).

The Company's internally developed models primarily consist of discounted cash flow techniques, which require the use of relevant observable and unobservable inputs. Unobservable inputs are generally derived from actual historical performance of similar assets or are determined from previous market trades for similar instruments. These unobservable inputs include discount rates, default rates, loss severity and prepayment rates. Internal valuation models are subject to review prescribed by the Company's model validation policy that governs the use and control of valuation models used to estimate fair value. This policy requires review and approval of significant models by the Company's model review group, who are independent of the business units and perform model validation. Model validation assesses the adequacy and appropriateness of the model, including reviewing its processing components, logic and output results and supporting model documentation. These procedures are designed to provide reasonable assurance that the model is appropriate for its intended use and performs as expected. Periodic re-assessments of models are performed to ensure that they are continuing to perform as designed. The Company updates model inputs and methodologies periodically as a result of the monitoring procedures in place.

### **Item 8: Financial Statements and Supplementary Data**

---

### **Table of Contents**

**120** CIT ANNUAL REPORT 2016

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Procedures and controls are in place to ensure new and existing models are subject to periodic validations by the Independent Model Validation Group ("IMV"). Oversight of the IMV is provided by the Model Governance Committee ("MGC"). All internal valuation models are subject to ongoing review by business unit level management. More complex models, such as those involved in the fair value analysis, are subject to additional oversight, at least quarterly, by the Company's Valuation Reserve Working Group ("VRWG"), which consists of senior management, which reviews the Company's valuations for complex instruments.

For valuations involving the use of third party vendors for pricing of the Company's assets and liabilities, or those of potential acquisitions, the Company performs due diligence procedures to ensure information obtained and valuation techniques used are appropriate. The Company monitors and reviews the results (e.g. non-binding broker quotes and prices) from these third party vendors to ensure the estimated fair values are reasonable. Although the inputs used by the third party vendors are generally not available for review, the Company has procedures in place to provide reasonable assurance that the relied upon information is complete and accurate. Such procedures may include, as available and applicable, comparison with other pricing vendors, corroboration of pricing by reference to other independent market data and investigation of prices of individual assets and liabilities.

### *Fair Value Option*

Certain MBS securities are carried at fair value with changes recorded in net income. Unrealized gains and losses are reflected as part of the overall changes in fair value. The Company recognizes interest income on an effective yield basis over the expected remaining life under the accretible yield method pursuant to ASC 310-30. Unrealized and realized gains or losses are reflected in other income. The determination of fair value for these securities is discussed in *Note 13 — Fair Value*.

The Company acquired a receivable from the FDIC representing a secured interest in certain homebuilder, home construction and lot loans. The secured interest entitles the Company to 40% of the underlying cash flows. The Company elected to measure the FDIC Receivable at estimated fair value under the fair value option. The Company recognizes interest income on the FDIC receivable on an effective yield basis over the expected remaining life under the accretible yield method pursuant to ASC 310-30. The gains and losses from changes in the estimated fair value of the asset is recorded separately in other income. For further discussion regarding the determination of fair value, see Note 13 — Fair Value.

### Income Taxes

Deferred tax assets and liabilities are recognized for the expected future taxation of events that have been reflected in the consolidated financial statements. Deferred tax assets and liabilities are determined based on the differences between the book values and the tax basis of particular assets and liabilities, using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to reduce the reported amount of any net deferred tax assets of a reporting entity if, based upon the relevant facts and circumstances, it is more likely than not that some or all of the deferred tax assets will not be realized. Additionally, in certain situations, it may be appropriate to write-off the deferred tax asset against the valuation allowance. This reduces the valuation allowance and the amount of the respective gross deferred tax asset that is disclosed. A write-off might be appropriate if there is only a remote likelihood that the reporting entity will ever utilize its respective deferred tax assets, thereby eliminating the need to disclose the gross amounts.

The Company is subject to the income tax laws of the United States, its states and municipalities and those of the foreign jurisdictions in which the Company operates. These tax laws are complex, and the manner in which they apply to the taxpayer's facts is sometimes open to interpretation. Given these inherent complexities, the Company must make judgments in assessing the likelihood that a beneficial income tax position will be sustained upon examination by the taxing authorities based on the technical merits of the tax position. An income tax benefit is recognized only when, based on management's judgment regarding the application of income tax laws, it is more likely than not that the tax position will be sustained upon examination. The amount of benefit recognized for financial reporting purposes is based on management's best judgment of the most likely outcome resulting from examination given the facts, circumstances and information available at the reporting date. The Company adjusts the level of unrecognized tax benefits when there is new information available to assess the likelihood of the outcome. Liabilities for uncertain income tax positions are included in current taxes payable, which is reflected in accrued liabilities and payables. Accrued interest and penalties for unrecognized tax positions are recorded in income tax expense.

### Other Comprehensive Income/Loss

Other Comprehensive Income/Loss includes unrealized gains and losses, unless other than temporarily impaired, on AFS investments, foreign currency translation adjustments for both net investment in foreign operations and related derivatives designated as hedges of such investments, changes in fair values of derivative instruments designated as hedges of future cash flows and certain pension and postretirement benefit obligations, all net of tax.

### Foreign Currency Translation

In addition to U.S. operations, the Company has operations in Europe and other jurisdictions. The functional currency for foreign operations is generally the local currency, other than in Commercial Air business. In this business, most of which is reported as discontinued operations, the U.S. dollar is typically the functional currency. The value of assets and liabilities of the foreign operations is translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rates during the year. The resulting foreign currency translation gains and losses, as well as offsetting gains and losses on hedges of net investments in foreign operations, are reflected in AOCI. Transaction gains and losses resulting from exchange rate changes on transactions denominated in currencies other than the functional currency are included in Other income.

**Table of Contents**

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Pension and Other Postretirement Benefits

CIT has both funded and unfunded noncontributory defined benefit pension and postretirement plans covering certain U.S. and non-U.S. employees, each of which is designed in accordance with the practices and regulations in the related countries.

Recognition of the funded status of a benefit plan, which is measured as the difference between plan assets at fair value and the benefit obligation, is included in the balance sheet. The Company recognizes as a component of Other Comprehensive Income, net of tax, the net actuarial gains or losses and prior service cost or credit that arise during the period but are not recognized as components of net periodic benefit cost in the Statements of Income.

## Variable Interest Entities

A VIE is a corporation, partnership, limited liability company, or any other legal structure used to conduct activities or hold assets. These entities: lack sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support from other parties; have equity owners who either do not have voting rights or lack the ability to make significant decisions affecting the entity's operations; and/or have equity owners that do not have an obligation to absorb the entity's losses or the right to receive the entity's returns.

The Company accounts for its VIEs in accordance with Accounting Standards Update ("ASU") No. 2009-16, *Transfers and Servicing (Topic 860) — Accounting for Transfers of Financial Assets* and ASU No. 2009-17, *Consolidations (Topic 810) — Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* as updated by ASU 2015-02.

ASC 810 requires qualified special purpose entities to be evaluated for consolidation and also changed the approach to determining a VIE's Primary Beneficiary ("PB") and required companies to more frequently reassess whether they must consolidate VIEs. The PB is the party that has both (1) the power to direct the activities of an entity that most significantly impact the VIE's economic performance; and (2) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

ASU 2015-02 amended the current consolidation guidance to change the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity ("VIE"), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE.

CIT adopted ASU 2015-02, effective January 1, 2016, under the modified retrospective approach along with ASU 2016-17 which was adopted retrospectively to all relevant prior periods beginning with the annual period in which the amendments in Update 2015-02 were initially adopted, as required. The adoption of both these ASUs did not have a significant impact on CIT's financial statements or disclosures.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes, first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE (such as asset managers, collateral managers, servicers, or owners of call options or liquidation rights over the VIE's assets) or have the right to unilaterally remove those decision-makers are deemed to have the power to direct the activities of a VIE.

To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, the Company considers all of its economic interests, including debt and equity investments, servicing fees, and derivative or other arrangements deemed to be variable interests in the VIE. This assessment requires that the Company apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE's capital

structure; and the reasons why the interests are held by the Company.

The Company performs on-going reassessments of: (1) whether any entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain events, and are therefore subject to the VIE consolidation framework; and (2) whether changes in the facts and circumstances regarding the Company's involvement with a VIE cause the Company's consolidation conclusion regarding the VIE to change.

When in the evaluation of its interest in each VIE it is determined that the Company is considered the PB, the VIE's assets, liabilities and non-controlling interests are consolidated and included in the Consolidated Financial Statements. See *Note 10 — Borrowings* for further details.

#### Non-interest Income

Non-interest income is recognized in accordance with relevant authoritative pronouncements and includes rental income on operating leases and other income. Other income includes (1) factoring commissions, (2) gains and losses on sales of leasing equipment, (3) fee revenues, including fees on lines of credit, letters of credit, capital markets related fees, agent and advisory fees, service charges on deposit accounts, and servicing fees on loans CIT services for others, (4) gains and losses on loan and portfolio sales, (5) gains and losses on OREO sales, (6) gains and losses on investments, (7) gains and losses on derivatives and foreign currency exchange, (8) impairment on assets held for sale, and (9) other revenues. Other revenues include items that are more episodic in nature, such as gains on work-out related claims, recoveries on acquired loans or loans charged off prior to transfer to AHFS, proceeds received in excess of carrying value on non-accrual accounts held for sale that were repaid or had another workout resolution, insurance proceeds in excess of carrying value on damaged leased equipment, and also includes income from joint ventures.

### Item 8: Financial Statements and Supplementary Data

---

#### Table of Contents

#### 122 CIT ANNUAL REPORT 2016

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Non-interest Expenses

Non-interest expense is recognized in accordance with relevant authoritative pronouncements and includes depreciation on operating lease equipment, maintenance and other operating lease expenses, loss on debt extinguishments and deposit redemptions and operating expenses.

Operating expenses consists of (1) compensation and benefits, (2) technology costs, (3) professional fees, (4) net occupancy expenses, (5) provision for severance and facilities exiting activities, (6) advertising and marketing, (7) intangible assets amortization, and (8) other expenses.

#### Stock-Based Compensation

Compensation expense associated with equity-based awards is recognized over the vesting period (requisite service period), generally three years, under the "graded vesting" attribution method, whereby each vesting tranche of the award is amortized separately as if each were a separate award. The cost of awards granted to directors in lieu of cash is recognized using the single grant approach with immediate vesting and expense recognition. Expenses related to stock-based compensation are included in operating expenses (compensation and benefits).

#### Earnings per Share ("EPS")

Basic EPS is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income by the weighted-average number of common shares outstanding increased by the weighted-average potential impact of dilutive securities. The Company's potential dilutive instruments primarily include restricted

## Edgar Filing: CIT GROUP INC - Form 10-K

unvested stock grants and performance stock grants. The dilutive effect is computed using the treasury stock method, which assumes the conversion of these instruments. However, in periods when there is a net loss, these shares would not be included in the EPS computation as the result would have an anti-dilutive effect.

### Accounting for Costs Associated with Exit or Disposal Activities

A liability for costs associated with exit or disposal activities, other than in a business combination, is recognized when the liability is incurred. The liability is measured at fair value, with adjustments for changes in estimated cash flows recognized in earnings.

### Consolidated Statements of Cash Flows

Unrestricted cash and cash equivalents includes cash and interest-bearing deposits, which are primarily overnight money market investments and short term investments in mutual funds. The Company maintains cash balances principally at financial institutions located in the U.S. The balances are not insured in all cases. Cash and cash equivalents also include amounts at CIT Bank, which are only available for the bank's funding and investment requirements. Cash inflows and outflows from customer deposits are presented on a net basis. Most factoring receivables are presented on a net basis in the Statements of Cash Flows, as factoring receivables are generally due in less than 90 days.

Cash receipts and cash payments resulting from purchases and sales of loans, securities, and other financing and leasing assets are classified as operating cash flows in accordance with ASC 230-10-45-21 when these assets are originated/acquired and designated specifically for resale.

Activity for loans originated or acquired for investment purposes, including those subsequently transferred to AHFS, is classified in the investing section of the statement of cash flows in accordance with ASC 230-10-45-12 and 230-10-45-13. The vast majority of the Company's loan originations are for investment purposes. Cash receipts resulting from sales of loans, beneficial interests and other financing and leasing assets that were not specifically originated and/or acquired and designated for resale are classified as investing cash inflows regardless of subsequent classification.

The cash flows related to investment securities and finance receivables (excluding loans held for sale) purchased at a premium or discount are as follows:

- CIT classifies the entire cash flow, including the premium, as investing outflow in the period of acquisition and on a subsequent basis, the premium amortization is classified in investing as a positive adjustment under a constructive receipts model. Under the constructive receipts model, similar to the cumulative earnings approach, CIT compares the cash receipts to the investment from inception to date. The Company first allocates cash receipts to operating activities based on earned interest income, with the remaining allocated to Investing activities when received in cash.
- CIT classifies the entire cash flow, net of the discount, as investing outflow in the period of acquisition and on a subsequent basis, the discount accretion is classified in investing as a negative adjustment under a constructive receipts model. The Company first allocates cash receipts to operating activities based on earned interest income, with the remaining allocated to Investing activities when received in cash.

Restricted cash includes cash on deposit with other banks that are legally restricted as to withdrawal and primarily serve as collateral for certain servicer obligations of the Company. Because the restricted cash results from a contractual requirement to invest cash balances as stipulated, CIT's change in restricted cash balances is classified as cash flows from (used for) investing activities. See New Accounting Pronouncements for future presentation changes for restricted cash.

Activity of discontinued operations is included in various line items of the Statements of Cash Flows and summary items are disclosed in *Note 2 — Acquisition and Disposition Activities*.

### Accounting Pronouncements Adopted

During 2016, the Company adopted the following Accounting Standards Updates ("ASU") issued by the Financial Accounting Standards Board ("FASB"):

ASU 2014-12, Compensation — Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period;

---

**Table of Contents**

CIT ANNUAL REPORT 2016 123

---

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ASU 2015-01, Income Statement — Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items;

ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis

ASU 2015-03, Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs

ASU 2015-15, Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting

ASU 2014-15, Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern

Stock Compensation

ASU 2014-12 directs that a performance target that affects vesting and can be achieved after the requisite service period is a performance condition. That is, compensation cost would be recognized over the required service period if it is probable that the performance condition would be achieved. The total amount of compensation cost recognized during and after the requisite service period would reflect the number of awards that are expected to vest and would be adjusted to reflect those awards that ultimately vest. The ASU does not require additional disclosures.

CIT adopted this ASU, effective January 1, 2016, for all awards granted or modified after the effective date. Adoption of this guidance did not impact CIT's financial statements or disclosures.

Extraordinary and Unusual Items

ASU 2015-01 eliminates the concept of extraordinary items and the need for entities to evaluate whether transactions or events are both unusual in nature and infrequently occurring.

The ASU precludes (1) segregating an extraordinary item from the results of ordinary operations; (2) presenting separately an extraordinary item on the income statement, net of tax, after income from continuing operations; and (3) disclosing income taxes and earnings-per-share data applicable to an extraordinary item. However, the ASU does not affect the reporting and disclosure requirements for an event or transaction that is unusual in nature or that occurs infrequently. Consequently, although the Company will no longer need to determine whether a transaction or event is both unusual in nature and infrequently occurring, CIT will still need to assess whether items are unusual in nature or infrequent to determine if the additional presentation and disclosure requirements for these items apply.

CIT adopted this ASU effective January 1, 2016. Adoption of this guidance did not have a significant impact on CIT's financial statements or disclosures.

Consolidation

ASU 2015-02 amended the current consolidation guidance to change the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity ("VIE"), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to

## Edgar Filing: CIT GROUP INC - Form 10-K

variability that applied to certain investment companies and similar entities.

The Board changed the way the voting rights characteristic in the VIE scope determination is evaluated for corporations, which may significantly impact entities for which decision making rights are conveyed through a contractual arrangement.

Under ASU 2015-02:

More limited partnerships and similar entities will be evaluated for consolidation under the revised consolidation requirements that apply to VIEs.

Fees paid to a decision maker or service provider are less likely to be considered a variable interest in a VIE.

Variable interests in a VIE held by related parties of a reporting enterprise are less likely to require the reporting enterprise to consolidate the VIE.

There is a new approach for determining whether equity at-risk holders of entities that are not similar to limited partnerships have power to direct the entity's key activities when the entity has an outsourced manager whose fee is a variable interest.

The deferral of consolidation requirements for certain investment companies and similar entities of the VIE in ASU 2009-17 is eliminated.

The impacts of the update include:

A new consolidation analysis is required for VIEs, including many limited partnerships and similar entities that previously were not considered VIEs.

It is less likely that the general partner or managing member of limited partnerships and similar entities will be required to consolidate the entity when the other investors in the entity lack both participating rights and kick-out rights.

Limited partnerships and similar entities that are not VIEs will not be consolidated by the general partner.

It is less likely that decision makers or service providers involved with a VIE will be required to consolidate the VIE.

Entities for which decision making rights are conveyed through a contractual arrangement are less likely to be considered VIEs.

Reporting enterprises with interests in certain investment companies and similar entities that are considered VIEs will no longer evaluate those entities for consolidation based on majority exposure to variability.

CIT adopted ASU 2015-02, effective January 1, 2016, under the modified retrospective approach. Based on CIT's re-assessment of its VIEs under the amended guidance, the adoption of this ASU did not have a significant impact on CIT's financial statements or disclosures.

### Debt Issuance Costs

ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount.

**Item 8: Financial Statements and Supplementary Data**

---

### **Table of Contents**

124 CIT ANNUAL REPORT 2016

---



CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Debt issuance costs are specific incremental costs, other than those paid to the lender, that are directly attributable to issuing a debt instrument (i.e., third party costs). Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as a deferred charge (i.e., an asset).

ASU 2015-15 clarified ASU 2015-03, which did not address the balance sheet presentation of debt issuance costs that are either (1) incurred before a debt liability is recognized (e.g., before the debt proceeds are received), or (2) associated with revolving debt arrangements. ASU 2015-15 states that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing deferred debt issuance costs ratably over the term of the line of credit (“LOC”) arrangement, regardless of whether there are outstanding borrowings under that LOC arrangement.

In accordance with the new guidance, CIT reclassified deferred debt costs previously included in other assets to borrowings in the first quarter of 2016 and conformed prior periods. The adoption of this guidance did not have a significant impact on CIT’s financial statements or disclosures.

**Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern**

ASU 2014-15 — Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern, describes how entities should assess their ability to meet their obligations and sets disclosure requirements about how this information should be communicated. The standard will be used along with existing auditing standards, and provides the following key guidance:

1. Entities must perform a going concern assessment by evaluating their ability to meet their obligations for a look-forward period of one year from the financial statement issuance date (or date the financial statements are available to be issued).
2. Disclosures are required if it is probable an entity will be unable to meet its obligations within the look-forward period. Incremental substantial doubt disclosure is required if the probability is not mitigated by management’s plans.
3. Pursuant to the ASU, substantial doubt about an entity’s ability to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations as they become due within one year after the date the annual or interim financial statements are issued or available to be issued (assessment date).

The new standard applies to all entities for the first annual period ending after December 15, 2016. Company management is responsible for assessing going concern uncertainties at each annual and interim reporting period thereafter.

CIT has considered relevant events and conditions up to and within one year from the issuance date of the financial statements, to determine if conditions exist, or will exist, that would give rise to “substantial doubt” about the Company’s ability to meet its obligations and ability to continue as a going concern, a summary of our conclusions is outlined in *Note 10 — Borrowings*.

**RECENT ACCOUNTING PRONOUNCEMENTS**

The following accounting pronouncements have been issued by the FASB but are not yet effective:

- ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*
- ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date;*
- ASU 2016-02, *Leases (Topic 842);*
- ASU 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships;*
- ASU 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments;*
- ASU 2016-07, *Investments — Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting;*

- ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*;
- ASU 2016-09, *Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*;
- ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*;
- ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC guidance because of ASU 2014-09 and ASU 2014-16 pursuant to staff announcements at the March 3, 2016 EITF meeting*;
- ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*;
- ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*;
- ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*.
- ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*
- ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*
- ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*

#### Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance establishes the principles to apply to determine the amount and timing of revenue recognition, specifying the accounting for certain costs related to revenue, and requiring additional disclosures about the nature, amount, timing and uncertainty of revenues and related cash flows.

---

#### **Table of Contents**

CIT ANNUAL REPORT 2016 **125**

---

#### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The core principle of the five-step model is that a company will recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. In doing so, many companies will have to make more estimates and use more judgment than they do under current GAAP. The five-step analysis of transactions, to determine when and how revenue is recognized, includes:

1. Identify the contract with the customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.

## Edgar Filing: CIT GROUP INC - Form 10-K

4. Allocate the transaction price to the performance obligations.
5. Recognize revenue when or as each performance obligation is satisfied.

In 2016, the FASB issued several amendments and clarifications to the new revenue standard:

- *ASU 2015-14 defers the effective date of the new revenue standard for public and nonpublic entities reporting under U.S. GAAP for one year to effective for fiscal years beginning after December 15, 2017.*
- *ASU 2016-08 Revenue from Contracts with Customers: Principal versus Agent Considerations,*
- *ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing,*
- *ASC 2016-11, Rescission of Certain SEC Staff Observer Comments upon Adoption of Topic 606, Revenue from Contracts with Customers,*
- *ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow Scope Improvements and Practical Expedients,*
- *ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*

These were primarily as a result of issues raised by stakeholders and deliberations by the transition resource group (TRG). Amendments were made to the guidance related to the principal versus agent assessment, identifying performance obligations, accounting for licenses of intellectual property, and other matters (such as the definition of completed contracts at transition and the addition of new practical expedients).

Companies can choose to apply the standard using either the full retrospective approach or a modified retrospective approach. Under the modified approach, financial statements will be prepared for the year of adoption using the new standard, but prior periods will not be adjusted. Instead, companies will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the company and disclose all line items in the year of adoption as if they were prepared under today's revenue guidance.

The effective date and transition of ASU 2014-09, ASU 2016-08, 2016-10, 2016-11 and 2016-12 aligns with adoption date of the Revenue recognition standard, as amended by ASU 2015-14, effective for fiscal years beginning after December 15, 2017.

The review and analysis of CIT's individual revenue streams is currently underway. "Interest Income" and "Rental Income on Operating Leases", CIT's two largest revenue items, are scoped out of the new guidance; as are many other revenues relating to financial assets and liabilities including loans, leases, securities and derivatives. As such, the majority of our revenues will not be impacted; however, certain ancillary revenues and components of "Other income" are being assessed at a contractual level pursuant to the new standard. We expect our accounting policies will not change materially.

CIT plans to adopt the standard in the first quarter of 2018 and expects to use the modified retrospective method (cumulative initial effect recognized at the date of adoption, with additional footnote disclosures). However, we are continuing to evaluate the impact of the standard, and our adoption method is subject to change. CIT does not anticipate a significant impact upon adoption of this standard. Our evaluations are not final and we continue to assess the impact of the Update on our revenue contracts.

### Leases (Topic 842)

ASU 2016-02, Leases (Topic 842), which is intended to increase transparency and comparability of accounting for lease transactions, will require all leases to be recognized on the balance sheet as lease assets and lease liabilities.

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. Lease classifications by lessors are similar; operating, direct financing, or sales-type.

## Edgar Filing: CIT GROUP INC - Form 10-K

Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit thresholds. The ASU will require both quantitative and qualitative disclosures regarding key information about leasing arrangements.

The standard is effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented.

Although the new guidance does not significantly change lessor accounting, CIT will need to determine impact to both, where it is a lessee and a lessor:

- Lessor accounting: Given limited changes to Lessor accounting, we do not expect material changes to recognition or measurement. Current lease administration and/or reporting systems and processes will need to be evaluated and updated

### Item 8: Financial Statements and Supplementary Data

---

#### Table of Contents

126 CIT ANNUAL REPORT 2016

---

#### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as required to ensure appropriate lease-type identification and classification.

- Lessee accounting: The new standard will result in virtually all leases being reflected on the balance sheet. The impact on lessee accounting also includes identification of any embedded leases included in service contracts that CIT has with vendors.

CIT is currently evaluating the impact and will adopt the new guidance in the first quarter of 2019.

#### Financial Instruments

*ASU 2016-01: Recognition and Measurement of Financial Assets and Financial Liabilities* addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The main objective is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments to current GAAP are summarized as follows:

- Supersede current guidance to classify equity securities into different categories (i.e. trading or available-for-sale);
- Require equity investments to be measured at fair value with changes in fair value recognized in net income, rather than other comprehensive income. This excludes those investments accounted for under the equity method, or those that result in consolidation of the investee;
- Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment (similar to goodwill);
-

## Edgar Filing: CIT GROUP INC - Form 10-K

Eliminate the requirement to disclose the method(s) and significant assumptions used to estimate fair value that is required to be disclosed for financial instruments measured at amortized cost;

- Require the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes;
- Require an entity to present separately in other comprehensive income the portion of the change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with fair value option for financial instruments;
- Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities, or loans and receivables) on the balance sheet or accompanying notes to the financial statements; and
- Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. CIT is currently evaluating the impact of adopting this amendment on its financial instruments.

### Derivatives and Hedging

In March 2016, the FASB issued *ASU 2016-05, Derivative Contract Novations*. The amendments clarify that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument in an existing hedging relationship would not, in and of itself, be considered a termination of the derivative instrument or a change in critical term of the hedging relationship. The update is effective for fiscal years and interim periods within those beginning after December 15, 2016. CIT adopted this amendment as of January 1, 2017. This update did not have a significant impact on the Company's financial statements.

In March 2016, the FASB issued *ASU 2016-06, Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments*. The amendments clarify the steps required to assess whether a call or put option meets the criteria for bifurcation as an embedded derivative. CIT adopted this amendment as of January 1, 2017 and did not have a significant impact on the Company's financial statements.

### Equity Method and Joint Ventures

*ASU 2016-07, Investments — Equity method and joint ventures (Topic 323)*, eliminates the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting.

For available-for-sale securities that become eligible for the equity method of accounting, any unrealized gain or loss recorded within accumulated other comprehensive income should be recognized in earnings at the date the investment initially qualifies for the use of the equity method. CIT has adopted the new standard prospectively for investments that qualify for the equity method of accounting as of January 1, 2017. CIT adopted this amendment as of January 1, 2017 and did not have a significant impact on the Company's financial statements.

### Stock Compensation

In March 2016, the FASB issued *ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Account*. The amendments simplify several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, statutory tax withholding requirements, and cash flow statements.

CIT adopted the new standard as of January 1, 2017, prospectively under the modified retrospective approach, with a cumulative-effect adjustment made to retained earnings as of the beginning of the fiscal period and did not have a significant impact on the Company's financial statements.

### Credit Losses

ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326)*, introduces a forward-looking “expected loss” model, the Current Expected Credit Losses (“CECL”) model, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale (“AFS”) debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination.

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 127

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### *CECL Model*

The CECL model will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes loans, held-to-maturity debt securities, loan commitments, financial guarantees, and net investments in leases, as well as reinsurance and trade receivables. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure. The estimate of expected credit losses should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. Financial instruments with similar risk characteristics should be grouped together when estimating expected credit losses. The ASU does not prescribe a specific method to make the estimate so its application will require significant judgment. Generally, the initial estimate of the expected credit losses and subsequent changes in the estimate will be reported in current earnings.

The expected credit losses will be recorded through an allowance for loan and lease losses (ALLL) in the statement of financial position.

#### *AFS Debt Securities*

The FASB made targeted improvements to the existing other-than-temporary impairment (“OTTI”) model in ASC 320 for certain AFS debt securities to eliminate the concept of “other-than-temporary” from that model. The new model will require an estimate of expected credit losses only when the fair value is below the amortized cost of the asset.

The notable changes under the ASU include:

- Use of an ALLL approach (versus permanently writing down the security’s cost basis) for impairment;
- Limit the ALLL to the amount at which the security’s fair value is less than its amortized cost basis;
- Removing the consideration for the length of time fair value has been less than amortized cost when assessing credit loss;
- Removing the consideration for recoveries in fair value after the balance sheet date when assessing whether a credit loss exists.

#### *Purchased Financial Assets with Credit Deterioration*

The purchased financial assets with credit deterioration (“PCD”) model applies to purchased financial assets (measured at amortized cost or AFS) that have experienced more than insignificant credit deterioration since origination. This represents a change from the scope of what are considered purchased credit-impaired (“PCI”) assets in ASC 310-30 under current GAAP. The initial estimate of expected credit losses for a PCD would be recognized through an ALLL with an offset to the cost basis of the related financial asset at acquisition (i.e., increases the cost basis of the asset, the “gross-up” approach with no impact to net income at initial recognition). Subsequently, the accounting will follow the applicable CECL or AFS debt security impairment model with all adjustments of the

## Edgar Filing: CIT GROUP INC - Form 10-K

ALLL recognized through earnings. Beneficial interests classified as held-to-maturity or AFS will need to apply the PCD model if the beneficial interest meets the definition of PCD or if there is a significant difference between contractual and expected cash flows at initial recognition.

This guidance also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the ALLL. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination (i.e. by vintage year).

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). A prospective transition approach is required for debt securities for which an OTTI had been recognized before the effective date. A prospective transition approach should be used for PCD assets where upon adoption; the amortized cost basis should be adjusted to reflect the addition of the allowance for credit losses.

The ASU will be effective in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption of the guidance will be permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. CIT is currently reviewing the impact of this guidance.

### Statement of Cash Flows

The FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) — Classification of Certain Cash Receipts and Cash Payments. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The following issues are addressed:

- **Issue 1 — Debt prepayment or debt extinguishment costs** — Cash payments for debt prepayment or debt extinguishment costs should be classified as cash outflows for financing activities.
- **Issue 2 — Settlement of zero-coupon debt instruments** — Cash payments for the settlement of zero-coupon debt instruments, including other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, should be classified as cash outflows for operating activities for the portion attributable to interest and as cash outflows for financing activities for the portion attributable to principal.
- **Issue 3 — Contingent consideration payments made after a business combination** — Cash payments made soon after an acquisition's consummation date (i.e., approximately three months or less) should be classified as cash outflows for investing activities. Payments made thereafter should be classified as cash outflows for financing activities up to the amount of the original contingent consideration liability. Payments made in excess of the amount of the original contingent consideration liability should be classified as cash outflows for operating activities.
- **Issue 4 — Proceeds from the settlement of insurance claim** — Cash payments received from the settlement of insurance claims should be classified on the basis of the nature of the loss (or each component loss, if an entity receives a lump-sum settlement).

### Item 8: Financial Statements and Supplementary Data

---

### Table of Contents

128 CIT ANNUAL REPORT 2016

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- **Issue 5 — Proceeds from the settlement of corporate-owned life insurance (“COLI”) policies, including bank-owned life insurance (“BOLI”) policies** — Cash payments received from the settlement of COLI or BOLI policies should be classified as cash inflows from investing activities. Cash payments for premiums on COLI or BOLI policies may be classified as cash outflows for

investing, operating, or a combination of investing and operating activities.

- **Issue 6 — Distributions received from equity method investments** — The guidance provides an accounting policy election for classifying distributions received from equity method investments. Such amounts can be classified using a 1) cumulative earnings approach, or 2) nature of distribution (or “look-through”) approach.
- **Issue 7 — Beneficial interests in securitization transactions** — A transferor’s beneficial interest obtained in a securitization of financial assets should be disclosed as a noncash activity. Cash receipts from a transferor’s beneficial interests in securitized trade receivables should be classified as cash inflows from investing activities.
- **Issue 8 — Separately identifiable cash flows and application of the predominance principle** — Entities should use reasonable judgment to separate cash flows. In the absence of specific guidance, an entity should classify each separately identifiable cash source and use on the basis of the nature of the underlying cash flows. For cash flows with aspects of more than one class that cannot be separated, the classification should be based on the activity that is likely to be the predominant source or use of cash flow.

For public business entities, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. CIT is currently evaluating the impact of the above eight issues on its statement of cash flows and related disclosures.

#### Presentation of restricted cash in the Statement of Cash Flows

The FASB issued final guidance to clarify how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of period and end-of-period total amounts shown on the statement of cash flows.

The guidance will be applied retrospectively and is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those years. CIT is currently evaluating the impact of this amendment and plans to adopt this amendment in the first quarter of 2018.

#### Intra-Entity Transfers of Assets Other than Inventory

In October 2016, the FASB released the guidance ASU 2016-16, Income Taxes (Topic 740), accounting for the income tax effects of intra-entity transfers of assets. Current GAAP requires a company to defer accounting for the income tax implications of an intercompany sale of assets until the assets are sold to a third party or recovered through use. Under the new guidance, the seller’s tax effects and the buyer’s deferred taxes will be immediately recognized upon the sale. This will likely cause an increase in the consolidated entity’s effective tax rate in the year of the transfer.

The new intra-entity guidance is effective for public companies in fiscal years beginning after December 15, 2017. Early adoption is permitted, but only in the first quarter of a fiscal year. The modified retrospective approach will be required for transition to the new guidance, with a cumulative-effect adjustment recorded in retained earnings as of the beginning of the period of adoption. CIT is currently evaluating the impact and does not intend to early adopt this standard.

#### NOTE 2 — ACQUISITION AND DISCONTINUED OPERATIONS

##### ACQUISITIONS

During 2015, the Company completed the following significant business acquisition. There were no significant business acquisitions in 2016.

##### OneWest Transaction

On August 3, 2015, CIT acquired IMB Holdco LLC, the parent company of OneWest Bank N.A. (the “OneWest Transaction”). CIT Bank, then a Utah-state chartered bank and a wholly owned subsidiary of CIT, merged with and into OneWest Bank, N.A., with OneWest Bank, N.A. surviving as a wholly owned subsidiary of CIT with the name CIT Bank, National Association. CIT paid



approximately \$3.4 billion as consideration, comprised of approximately \$1.9 billion in cash proceeds, approximately 30.9 million shares of CIT Group Inc. common stock (valued at approximately \$1.5 billion at the time of closing), and approximately 168,000 restricted stock units of CIT (valued at approximately \$8 million at the time of closing). Total consideration also included \$116 million of cash retained by CIT as a holdback for certain potential liabilities relating to IMB Holdco LLC and \$2 million of cash for expenses of the holders' representative. The acquisition was accounted for as a business combination, subject to the provisions of ASC 805-10-50, Business Combinations.

## **Table of Contents**

CIT ANNUAL REPORT 2016 129

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### **Consideration and Net Assets Acquired (dollars in millions)**

	<b>Adjusted Purchase Price</b>
<b>Purchase price</b>	\$ 3,391.6
<b>Recognized amounts of identifiable assets acquired and (liabilities assumed), at fair value</b>	
Cash and interest bearing deposits	\$ 4,411.6
Investment securities	1,297.3
Assets held for sale	20.4
Loans HFI	13,571.0
Indemnification assets	455.4
Other assets	722.4
Assets of discontinued operation	524.4
Deposits	(14,533.3)
Borrowings	(2,970.3)
Other liabilities	(206.1)
Liabilities of discontinued operation	(708.4)
Total fair value of identifiable net assets	\$ 2,584.4
<b>Intangible assets</b>	\$ 164.7
<b>Goodwill*</b>	\$ 642.5

\* See Note 26 — Goodwill and Intangible Assets for discussion on goodwill impairment.

#### *Unaudited Pro Forma Information*

Upon closing the OneWest Transaction and integration of OneWest Bank, effective August 3, 2015, separate records for OneWest Bank as a stand-alone business have not been maintained as the operations have been integrated into CIT. At and after year-end 2015, the Company no longer has the ability to break out the results of the former OneWest entities in a reliable manner. The pro forma information presented below reflects management's best estimate, based on information available at the reporting date.

The following table presents certain unaudited pro forma information for illustrative purposes only, for the year ended December 31, 2015 and 2014 as if OneWest Bank had been acquired on January 1, 2014. The unaudited estimated pro forma information combines the historical results of OneWest Bank with the Company's consolidated historical results and includes certain

## Edgar Filing: CIT GROUP INC - Form 10-K

adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition taken place on January 1, 2014.

Further, the unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value by OneWest Bank prior to the acquisition, which in turn did not require an allowance for loan losses. The pro forma financial information does not include the impact of possible business changes or synergies. The preparation of the pro forma financial information includes adjustments to conform accounting policies between OneWest Bank and CIT, specifically related to (1) adjustments to remove the fair value adjustments previously recorded by OneWest Bank on \$4.4 billion of loan balances and record income on a level yield basis, reflecting the adoption of ASC 310-20 and ASC 310-30 for loans, depending on whether the loans were determined to be purchased credit impaired; and (2) adjustments to remove the fair value adjustments previously recorded by OneWest Bank on \$500 million of borrowings and record interest expense in accordance with ASC 835-30.

The pro forma financial information in the table below reflects the total impact (\$1,022 million) of income tax benefits recognized by the Company in 2015 and 2014 (\$647 million and \$375 million for the year ended December 31, 2014 and 2015, respectively) in the 2014 period, assuming for the purpose of preparing the pro forma information that the OneWest Transaction had occurred on January 1, 2014. These tax benefits, which related to the reduction in the Company's deferred tax asset valuation allowance, do not have a continuing impact. Similarly, in connection with the OneWest Transaction, CIT incurred acquisition and integration costs recognized by the Company during the year ended December 31, 2015 and 2014 of approximately \$55 million and \$5 million, respectively. For the purpose of preparing the pro forma information, these acquisition and integration costs have been reflected as if the acquisition had occurred on January 1, 2014. Actual results may differ from the unaudited pro forma information presented and the differences could be material.

### Unaudited Pro Forma (dollars in millions)

	Years Ended December 31,	
	2015	2014
Net finance revenue	\$3,131.4	\$3,247.4
Net income	636.1	1,708.2

### DISCONTINUED OPERATIONS

#### Aerospace

Previously, Aerospace had been a division of the Transportation Finance segment, which consisted of Commercial Air and Business Air. The activity of the Commercial Air business that is subject to a definitive sales agreement (discussed below), as well as activity associated with the Business Air business are included in discontinued operations.

#### Commercial Air

Commercial Air provides aircraft leasing, lending, asset management, and advisory services. The primary clients of the business include global and regional airlines around the world. Offices are located in the U.S., Europe and Asia.

On October 6, 2016, the Company announced that it had agreed to sell Commercial Air to Avolon Holdings Limited ("Avolon"), an international aircraft leasing company and a wholly-owned subsidiary of Bohai Capital Holding Co. Ltd. ("Bohai"), pursuant to a Purchase and Sale Agreement, by and among C.I.T. Leasing Corporation, a wholly-owned subsidiary of the Company ("CIT Leasing"), Park Aerospace Holdings Limited, a wholly-owned subsidiary of Avolon, the Company, Bohai, and Avolon (the "Agreement"). The Agreement provides for the acquisition of all of the capital stock or other equity interests of C2 Aviation Capital, Inc., a Delaware corporation and wholly-owned subsidiary of CIT Leasing (the "Transaction").

**Table of Contents**

130 CIT ANNUAL REPORT 2016

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CIT expects to sell its Commercial Air business (the “Business”) to Avolon, including its operations, forward order aircraft purchase commitments, and certain assets and liabilities.

We continue to target closing at the end of the first quarter of 2017. In March 2017, Bohai has advised us that they received approval of Bohai shareholders to complete the transaction. The key remaining milestone for closing includes receipt of Chinese regulatory approvals. Bohai has advised us that they continue to work toward achieving the milestone by the end of the first quarter.

Avolon deposited \$600 million into an escrow account with a U.S. bank, which is payable to CIT at closing as part of the purchase price and in certain circumstances if the transaction is not consummated.

Included as part of the transaction are purchase commitments for commercial aircraft. Commitments to purchase new commercial aircraft are predominantly with Airbus Industries (“Airbus”) and The Boeing Company (“Boeing”). Aerospace equipment purchases were contracted for specific models, using baseline aircraft specifications at fixed prices, which reflect discounts from fair market purchase prices prevailing at the time of commitment. The delivery price of an aircraft may change depending on final specifications. Equipment purchases are recorded at the delivery date. The estimated commitment amount of \$8.7 billion at December 31, 2016, was based on contracted purchase prices reduced for pre-delivery payments to date and excludes buyer furnished equipment selected by the lessee. Pursuant to existing contractual commitments, 128 aircraft remain to be purchased from Airbus and Boeing at December 31, 2016. Aircraft deliveries are scheduled periodically through 2020.

**Business Air**

Business Air offers financing and leasing programs for corporate and private owners of business jets. Serving clients around the world, we provide financing that is tailored to our clients’ unique business requirements. Products include term loans, leases, pre-delivery financing, fractional share financing and vendor / manufacturer financing.

With the Commercial Air separation announced and the sales of various international businesses, Business Air, which included international loans, no longer was considered a strategic business. Business Air loans were classified as held for sale during 2016. Upon classification as AHFS, Business Air did not meet the strategic shift criteria to be classified as discontinued operations, since it was a minor part of the Aerospace division. When the assets of Commercial Air were transferred to AHFS in the fourth quarter of 2016, the total for the division (including Commercial Air and Business Air) met the strategic shift criteria and thus are reported as discontinued operations. The Company expects to dispose of the assets through sales and customer paydowns.

The following condensed financial information reflects the combination of our Commercial Air and Business Air businesses.

**Condensed Balance Sheet — Aerospace Discontinued Operations (dollars in millions)**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Total cash and deposits, of which \$535.5 million and \$498.2 million at December 31, 2016 and 2015, respectively, is restricted	\$ 759.0	\$ 649.1
Net finance receivables	1,047.7	1,136.6
Operating lease equipment, net	9,677.6	9,799.9
Goodwill	126.8	135.1
Other assets <sup>(1)</sup>	1,161.5	838.4
Assets of discontinued operations	\$12,772.6	\$12,559.1
Secured borrowings	\$ 1,204.6	\$ 2,091.6
Other liabilities <sup>(2)</sup>	1,597.3	1,514.2
Liabilities of discontinued operations	\$ 2,801.9	\$ 3,605.8

## Edgar Filing: CIT GROUP INC - Form 10-K

- (1) Amount includes Deposits on commercial aerospace equipment of \$1,013.7 million and \$696.0 million at December 31, 2016 and December 31, 2015, respectively.
- (2) Amount includes commercial aerospace maintenance reserves of \$1,084.9 million and security deposits of \$167.0 million at December 31, 2016, and commercial aerospace maintenance reserves of \$980.1 million and security deposits of \$155.1 million at December 31, 2015.

### Table of Contents

CIT ANNUAL REPORT 2016 131

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Condensed Statement of Income — Aerospace Discontinued Operations (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
Interest income	\$ 72.8	\$ 70.2	\$ 75.2
Interest expense	(369.3)	(366.5)	(356.7)
(Provision) recovery for credit losses	(15.6)	(1.8)	4.2
Rental income on operating leases	1,236.8	1,134.4	1,143.3
Other income <sup>(1)</sup>	22.5	56.5	22.7
Depreciation on operating lease equipment <sup>(2)</sup>	(345.6)	(411.4)	(385.8)
Maintenance and other operating lease expenses	(32.1)	(45.8)	(25.1)
Operating expenses <sup>(3)</sup>	(101.9)	(68.2)	(59.3)
Loss on debt extinguishment	(8.3)	(1.1)	—
Income from discontinued operation before provision for income taxes	459.3	366.3	418.5
Provision for income taxes <sup>(4)</sup>	(914.6)	(45.9)	(27.6)
(Loss) income from discontinued operations, net of taxes	\$ (455.3)	\$ 320.4	\$ 390.9

(1) Other income includes impairment charges on assets transferred to AHFS for \$32 million, \$4 million and \$19 million for the years ended December 31, 2016, 2015 and 2014, respectively.

(2) Depreciation on operating lease equipment is suspended when an operating lease asset is placed in Assets Held for Sale. Pre-tax income for 2016 benefited from \$106 million of suspended depreciation related to operating lease equipment to be sold to Avolon as described above.

(3) Operating expenses in 2016 include costs related to the commercial air separation initiative of \$34 million. Operating expense includes salaries and benefits of \$47 million, \$49 million and \$45 million for the years ended December 31, 2016, 2015 and 2014, respectively.

(4) Provision for income taxes for the year ended December 31, 2016 includes \$847 million net tax expense related to the Company's decision to no longer assert that it would indefinitely reinvest the unremitted earnings of Commercial Air. For the years ended December 31, 2016, 2015, and 2014, the Company's tax rate for discontinued operations was 199%, 12% and 7%, respectively.

Income from the discontinued operation for the years ended December 31, 2016, 2015 and 2014 was driven primarily by revenues on leased aircraft. The interest expense includes amounts allocated to the businesses and on secured debt included in the condensed balance sheet. Operating expenses included in the discontinued operations consisted of direct expenses of the

## Edgar Filing: CIT GROUP INC - Form 10-K

Commercial Air and Business Air businesses that were separate from ongoing CIT operations.

In connection with the classification of the Aerospace businesses as discontinued operations, certain indirect operating expenses that previously had been allocated to the businesses have instead been re-allocated as part of continuing operations. The total incremental pretax amounts of indirect overhead expenses that were previously allocated to the Aerospace businesses and remain in continuing operations were approximately \$19 million, \$39 million and \$32 million for the years ended December 31, 2016, 2015, and 2014, respectively.

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

#### Years Ended December 31,

	2016	2015	2014
Net cash flows provided by operations	\$ 35.7	\$ 942.1	\$ 1,009.8
Net cash flows used in investing activities	(655.9 )	(749.6 )	(1,812.8 )

#### *Reverse Mortgage Servicing*

The Financial Freedom business, a division of CIT Bank (formerly a division of OneWest Bank) that services reverse mortgage loans, was acquired in conjunction with the OneWest Transaction. Pursuant to ASC 205-20, the Financial Freedom business is reflected as discontinued operations effective 2015. The business includes the entire third party servicing of reverse mortgage operations, which consist of personnel, systems and servicing assets. The assets of discontinued operations primarily include Home Equity Conversion Mortgage (“HECM”) loans and servicing advances. The liabilities of discontinued operations include reverse mortgage servicing liabilities, which relates primarily to loans serviced for third party investors, secured borrowings and contingent liabilities. In addition, continuing operations includes a portfolio of reverse mortgages, which are recorded in the Legacy Consumer Mortgage division of the Consumer Banking segment, and are serviced by Financial Freedom. For the year ended December 31, 2016, based on the Company’s assessment of market and third party data, the Company recorded an impairment charge of \$19 million to increase the servicing liability to \$29 million as of December 31, 2016, as compared to \$10 million at December 31, 2015.

As a mortgage servicer of residential reverse mortgage loans, the Company is 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 is a party as the servicer of the loans. The Company has established reserves for contingent servicing-related liabilities associated with discontinued operations.

#### Item 8: Financial Statements and Supplementary Data

#### **Table of Contents**

**132** CIT ANNUAL REPORT 2016

#### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the year ended December 31, 2016, as a result of new information and taking into consideration the investigation being conducted by the Office of Inspector General (“OIG”) for the HUD, the Company recorded additional reserves, due to a change in estimate, of approximately \$260 million during 2016, which is net of a corresponding increase in the indemnification receivable from the FDIC noted in the paragraph below.

Edgar Filing: CIT GROUP INC - Form 10-K

A corresponding indemnification receivable from the FDIC of \$108 million and \$66 million at December 31, 2016 and December 31, 2015, respectively, was recognized for the loans covered by indemnification agreements with the FDIC reported in continuing operations. The indemnification receivable is measured using the same assumptions used to measure the indemnified item (contingent liability) subject to management's assessment of the collectability of the indemnification asset and any contractual limitations on the indemnified amount.

**Condensed Balance Sheet — Financial Freedom Discontinued Operation (dollars in millions)**

	December 31, 2016	December 31, 2015
Total cash and deposits, all of which is restricted	\$ 5.8	\$ 1.5
Net Finance Receivables <sup>(1)</sup>	374.0	449.5
Other assets <sup>(2)</sup>	68.3	49.5
Assets of discontinued operation	\$448.1	\$500.5
Secured borrowings <sup>(1)</sup>	\$366.4	\$440.6
Other liabilities <sup>(3)</sup>	569.4	255.6
Liabilities of discontinued operation	\$935.8	\$696.2

<sup>(1)</sup> Net finance receivables include \$365.5 million and \$440.2 million of securitized balances at December 31, 2016 and December 31, 2015, respectively, and \$8.5 million and \$9.3 million of additional draws awaiting securitization respectively. Secured borrowings relate to those receivables.

<sup>(2)</sup> Amount includes servicing advances, servicer receivables and property and equipment, net of accumulated depreciation.

<sup>(3)</sup> Other liabilities include contingent liabilities, reverse mortgage servicing liabilities and other accrued liabilities.

The results from discontinued operations for the year ended December 31, 2016 and 2015 are presented below. The year end results for 2016 include full period results while the year end results for 2015 represents a partial period in connection with the OneWest Transaction for Financial Freedom.

**Condensed Statements of Operation — Financial Freedom Discontinued Operation (dollars in millions)**

	Years Ended December 31,	
	2016	2015
Interest income <sup>(1)</sup>	\$ 11.6	\$ 4.3
Interest expense <sup>(1)</sup>	(10.7)	(4.4)
Other income (loss) <sup>(2)</sup>	15.4	16.7
Operating expenses <sup>(3)</sup>	(330.1)	(33.7)
Loss from discontinued operation before benefit for income taxes	(313.8)	(17.1)
Benefit for income taxes <sup>(4)</sup>	103.7	6.7
Loss from discontinued operation, net of taxes	\$(210.1)	\$(10.4)

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

<sup>(2)</sup> For the year ended December 31, 2016, other income (loss) includes a \$19 million impairment charge to the servicing liability related to our reverse mortgage servicing operations.

<sup>(3)</sup> For the year ended December 31, 2016, operating expense is comprised of approximately \$16 million in salaries and benefits, \$27 million in professional and legal services, and \$22 million for other expenses such as data processing, premises and equipment, and miscellaneous charges. In addition, operating expenses for the year ended December 31, 2016 includes a servicing-related reserve of approximately \$260 million, which is net of a corresponding increase in the indemnification receivable from the FDIC. For the year ended December 31, 2015, operating expense is comprised of approximately \$11 million in salaries and benefits, \$6 million in professional services and \$16 million for other expenses such as data processing, premises and equipment, legal settlement, and miscellaneous charges.

(4) For the years ended December 31, 2016 and 2015, the Company's tax rate for discontinued operations is 33% and 39%, respectively.

## **Table of Contents**

CIT ANNUAL REPORT 2016 **133**

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Condensed Statements of Cash Flow — Financial Freedom Discontinued Operation (dollars in millions)

	<b>Years Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Net cash flows (used in) provided by operations	\$(40.0)	\$18.5
Net cash flows provided by investing activities	88.5	27.9

#### Student Lending

On April 25, 2014, the Company completed the sale of its student lending business, along with certain secured debt and servicing rights. The business was in run-off. There were no assets or liabilities related to the student loan business at December 31, 2016 or 2015.

#### Condensed Statements of Operation — Student Lending Discontinued Operation (dollars in millions)

	<b>Year Ended December 31, 2014</b>
Interest income	\$ 27.0
Interest expense	(248.2)
Other income	(2.1)
Operating expenses	(3.6)
Loss from discontinued operation before provision for income taxes	(226.9)
Provision for income taxes	(3.4)
Loss from discontinued operation, net of taxes	(230.3)
Gain on sale of discontinued operations, net of taxes	282.8
Income from discontinued operation, net of taxes	\$ 52.5

Income from the discontinued operation for the year ended December 31, 2014, reflected the benefit of proceeds received in excess of the net carrying value of assets and liabilities sold. The interest expense primarily reflected the acceleration of FSA accretion on the extinguishment of the debt, while the gain on sale mostly reflects the excess of purchase price over net assets, and amounts received for the sale of servicing rights.

## Edgar Filing: CIT GROUP INC - Form 10-K

The 2014 interest expense allocated to the discontinued operation corresponded to debt of approximately \$3.2 billion, net of \$224 million of FSA. The debt included \$0.8 billion that was repaid using a portion of the cash proceeds. Operating expenses included in the discontinued operation consisted of direct expenses of the student lending business that were separate from ongoing CIT operations.

In connection with the classification of the student lending business as a discontinued operation, certain indirect operating expenses that previously had been allocated to the business have instead been allocated to Corporate and Other as part of continuing operations and are not included in the summary of discontinued operations presented in the table below. The total incremental pretax amounts of indirect overhead expense that were previously allocated to the student lending business and remain in continuing operations were approximately \$2.2 million for the year ended December 31, 2014.

### Condensed Statement of Cash Flow — Student Lending Discontinued Operation (dollars in millions)

	Year Ended December 31, 2014
Net cash flows used in operations	\$(1,155.9)
Net cash flows provided by investing activities	1,141.4

### Combined Results for Discontinued Operations

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

### Condensed Combined Balance Sheets of Discontinued Operations (dollars in millions)

	December 31, 2016	December 31, 2015
Total cash and deposits	\$ 764.8	\$ 650.6
Net Finance Receivables	1,421.7	1,586.1
Operating lease equipment, net	9,677.6	9,799.9
Goodwill	126.8	135.1
Other assets	1,229.8	887.9
Assets of discontinued operations	\$13,220.7	\$13,059.6
Secured borrowings	\$ 1,571.0	\$ 2,532.2
Other liabilities	2,166.7	1,769.8
Liabilities of discontinued operations	\$ 3,737.7	\$ 4,302.0

### Item 8: Financial Statements and Supplementary Data

#### Table of Contents

134 CIT ANNUAL REPORT 2016

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Condensed Combined Statements of Operation of Discontinued Operations (dollars in millions)

Years Ended December 31,



Edgar Filing: CIT GROUP INC - Form 10-K

	2016	2015	2014
Interest income	\$ 84.4	\$ 74.5	\$ 102.2
Interest expense	(380.0)	(370.9)	(604.9)
(Provision) recovery for credit losses	(15.6)	(1.8)	4.2
Rental income on operating leases	1,236.8	1,134.4	1,143.3
Other income (loss)	37.9	73.2	20.6
Depreciation on operating lease equipment	(345.6)	(411.4)	(385.8)
Maintenance and other operating lease expenses	(32.1)	(45.8)	(25.1)
Operating expenses	(432.0)	(101.9)	(62.9)
Loss on debt extinguishment	(8.3)	(1.1)	–
Income from discontinued operation before provision for income taxes	145.5	349.2	191.6
Provision for income taxes	(810.9)	(39.2)	(31.0)
(Loss) income from discontinued operations, net of taxes	(665.4)	310.0	160.6
Gain on sale of discontinued operations, net of taxes	–	–	282.8
(Loss) income from discontinued operation, net of taxes	\$ (665.4)	\$ 310.0	\$ 443.4

Condensed Combined Statement of Cash Flows of Discontinued Operations (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
Net cash flows (used in) provided by operations	\$ (4.3)	\$960.6	\$(146.1)
Net cash flows used in investing activities	(567.4)	(721.7)	(671.4)

NOTE 3 — LOANS

The following tables and data include the loan balances acquired in the OneWest Transaction, which were recorded at fair value at the time of the acquisition (August 3, 2015). See *Note 2 — Acquisition and Disposition Activities* for details of the OneWest Transaction. Finance receivables, excluding those reflected as discontinued operations, consist of the following:

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

	December 31, 2016	December 31, 2015
Commercial Loans	\$20,117.8	\$20,739.4
Direct financing leases and leveraged leases	2,852.9	2,919.1
<b>Total commercial</b>	<b>22,970.7</b>	<b>23,658.5</b>
Consumer Loans	6,565.2	6,860.2
<b>Total finance receivables</b>	<b>29,535.9</b>	<b>30,518.7</b>
Finance receivables held for sale	635.8	1,985.1
Finance receivables and held for sale receivables <sup>(1)</sup>	\$30,171.7	\$32,503.8

<sup>(1)</sup> *Assets held for sale on the Balance Sheet as of December 31, 2016 includes finance receivables and operating lease equipment primarily related to portfolios in Commercial Banking and the China portfolio in NSP. December 31, 2015 included finance receivables and operating lease equipment in Canada, China and the U.K. As discussed in subsequent tables, since the Company manages the credit risk and collections of finance receivables held for sale consistently with its finance receivables held for investment, the aggregate amount is presented in this table.*

## Edgar Filing: CIT GROUP INC - Form 10-K

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

### Finance Receivables (dollars in millions)

	December 31, 2016			December 31, 2015		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Commercial Banking	\$20,440.7	\$2,121.6	\$22,562.3	\$20,999.6	\$2,332.8	\$23,332.4
Consumer Banking	6,973.6	–	6,973.6	7,186.3	–	7,186.3
<b>Total</b>	<b>\$27,414.3</b>	<b>\$2,121.6</b>	<b>\$29,535.9</b>	<b>\$28,185.9</b>	<b>\$2,332.8</b>	<b>\$30,518.7</b>

### Table of Contents

CIT ANNUAL REPORT 2016 135

#### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

	December 31, 2016	December 31, 2015
Unearned income	\$ (727.1)	\$ (711.6)
Equipment residual values	583.4	581.7
Unamortized premiums / (discounts)	(31.0)	(34.0)
Accretable yield on PCI loans	1,261.4	1,299.1
Net unamortized deferred costs and (fees) <sup>(1)</sup>	55.8	42.9
Leveraged lease third party non-recourse debt payable	(109.7)	(119.2)

<sup>(1)</sup> Balance relates to the Commercial Banking segment.

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

#### Credit Quality Information

Commercial obligor risk ratings are reviewed on a regular basis by Credit Risk Management and are adjusted as necessary for updated information affecting the borrowers’ ability to fulfill their obligations.

The definitions of the commercial loan ratings are as follows:

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

- Special mention — a special mention asset exhibits potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects.
- Classified — a classified asset ranges from: (1) assets that exhibit a well-defined weakness and are inadequately protected by the current sound worth and paying capacity of the borrower, and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected to (2) assets with weaknesses that make collection or liquidation in full unlikely on the basis of current facts, conditions, and values. Assets in this classification can be accruing or on non-accrual depending on the evaluation of these factors.

The following table summarizes commercial finance receivables 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.

**Item 8: Financial Statements and Supplementary Data**

**Table of Contents**

136 CIT ANNUAL REPORT 2016

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Commercial Finance and Held for Sale Receivables — Risk Rating by Class / Segment (dollars in millions)**

Grade:	Pass	Special Mention	Classified-accruing	Classified-non-accrual	PCI Loans	Total
<b>December 31, 2016</b>						
<b>Commercial Banking</b>						
Commercial Finance	\$ 8,184.7	\$ 677.6	\$ 1,181.7	\$ 188.8	\$ 42.7	\$ 10,275.5
Real Estate Finance	5,191.4	168.7	115.6	20.4	70.5	5,566.6
Business Capital	6,238.7	422.0	271.7	41.7		6,974.1
Rail	88.7	14.1	0.9			103.7
Total Commercial Banking	19,703.5	1,282.4	1,569.9	250.9	113.2	22,919.9
<b>Consumer Banking</b>						
Other Consumer Banking	374.9	8.3	22.4		2.8	408.4
Total Consumer Banking	374.9	8.3	22.4		2.8	\$ 408.4
<b>Non-Strategic Portfolios</b>	143.7	36.9	19.1	10.3		210.0
<b>Total</b>	20,222.1	1,327.6	1,611.4	261.2	116.0	23,538.3
<b>December 31, 2015</b>						
<b>Commercial Banking</b>						
Commercial Finance	\$ 10,138.0	\$ 790.6	\$ 593.5	\$ 131.5	\$ 69.4	\$ 11,723.0
Real Estate Finance	5,154.9	97.6	18.5	3.6	93.9	5,368.5
Business Capital	5,648.8	517.0	320.1	56.0		6,541.9
Rail	119.0	1.4	0.6			121.0
Total Commercial Banking	21,060.7	1,406.6	932.7	191.1	163.3	23,754.4
<b>Consumer Banking</b>						
Other Consumer Banking	292.2	11.5	17.2		5.3	326.2
Total Consumer Banking	292.2	11.5	17.2		5.3	326.2
<b>Non- Strategic Portfolios</b>	1,286.6	115.4	60.0	56.0		1,518.0

Edgar Filing: CIT GROUP INC - Form 10-K

Grade:	Pass	Special Mention	Classified-accruing	Classified-non-accrual	PCI Loans	Total
<b>Total</b>	\$22,639.5	\$1,533.5	\$1,009.9	\$247.1	\$168.6	\$25,598.6

For consumer loans, the Company monitors credit risk based on indicators such as delinquencies and LTV, which the Company believes are relevant credit quality indicators.

LTV refers to the ratio comparing the loan's unpaid principal balance to the property's collateral value. We examine LTV migration and stratify LTV into categories to monitor the risk in the loan classes.

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 accretible yield and non-accretible difference for PCI loans recorded in purchase accounting. Included in the consumer finance receivables are "covered loans" for which the Company can be reimbursed for a substantial portion of future losses under the terms of loss sharing agreements with the FDIC. Covered Loans are discussed further in Note 5 — Indemnification Assets.

Included in the consumer loan balances as of December 31, 2016 and December 2015 were loans with terms that permitted negative amortization with an unpaid principal balance of \$761 million and \$966 million, respectively.

**Table of Contents**

CIT ANNUAL REPORT 2016 137

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Consumer Loan LTV Distributions (dollars in millions)**

	Single Family Residential				Total Single Family Residential	Reverse Mortgage				Co
	Covered Loans		Non-covered Loans			Non-covered loans				
	Non-PCI	PCI	Non-PCI	PCI		Covered Loans Non-PCI	Non-PCI	PCI	Total Reverse Mortgages	
<b>December 31, 2016</b>										
than	\$ 2.2	\$ 261.4	\$ 12.3	\$	\$ 275.9	\$ 0.6	\$ 8.8	\$ 33.8	\$ 43.2	\$
125%	4.7	443.7	13.6		462.0	1.2	12.7	7.9	21.8	
100%	226.6	588.1	40.5		855.2	24.0	42.3	7.5	73.8	
in	1,515.6	872.4	1,713.1	9.2	4,110.3	405.4	304.9	9.8	720.1	4
ble <sup>(1)</sup>			2.9		2.9					
<b>December 31, 2015</b>	\$ 1,749.1	\$ 2,165.6	\$ 1,782.4	\$ 9.2	\$ 5,706.3	\$ 431.2	\$ 368.7	\$ 59.0	\$ 858.9	\$ 6

	Single Family Residential					Reverse Mortgage				
than	\$ 1.1	\$ 394.6	\$ 0.8	\$ 15.7	\$ 412.2	\$ 1.0	\$ 3.9	\$ 39.3	\$ 44.2	\$
125%	3.6	619.2	0.2	14.8	637.8	2.5	6.5	17.0	26.0	
100%	449.3	551.4	14.3	11.4	1,026.4	26.5	37.5	7.0	71.0	1
n	1,621.0	828.6	1,416.1	12.9	3,878.6	432.6	312.5	11.1	756.2	4
ble (1)			7.8		7.8					
	\$ 2,075.0	\$ 2,393.8	\$ 1,439.2	\$ 54.8	\$ 5,962.8	\$ 462.6	\$ 360.4	\$ 74.4	\$ 897.4	\$ 6

(1) Certain Consumer Loans do not have LTV's, including the Credit Card portfolio.

The following table summarizes the covered loans, all of which are in the Consumer Banking segment:

#### Covered Loans (dollars in millions)

	PCI	Non-PCI	Total
<b>Balance at December 31, 2016</b>			
<b>Loans HFI</b>			
LCM	\$2,165.6	\$2,180.3	\$4,345.9
Loans HFI	2,165.6	2,180.3	4,345.9
Consumer Banking loans HFI at carrying value	\$2,165.6	\$2,180.3	\$4,345.9
<b>Balance at December 31, 2015</b>			
<b>Loans HFI</b>			
LCM	\$2,393.8	\$2,537.6	\$4,931.4
Loans HFI	2,393.8	2,537.6	4,931.4
Consumer Banking loans HFI at carrying value	\$2,393.8	\$2,537.6	\$4,931.4

#### Item 8: Financial Statements and Supplementary Data

#### Table of Contents

138 CIT ANNUAL REPORT 2016

#### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Edgar Filing: CIT GROUP INC - Form 10-K

	<b>Past Due</b>							
	<b>30 Days Past Due</b>	<b>59 Days Past Due</b>	<b>60 Days Past Due</b>	<b>89 Days or Greater</b>	<b>Total Past Due</b>	<b>Current<sup>(1)</sup></b>	<b>PCI Loans<sup>(2)</sup></b>	<b>Total</b>
<b>December 31, 2016</b>								
<b>Commercial Banking</b>								
Commercial Finance	\$ 21.4	\$	\$17.6	\$ 39.0	\$10,193.8	\$ 42.7	\$10,275.5	
Real Estate Finance	0.1			0.1	5,496.0	70.5	5,566.6	
Business Capital	143.6	42.4	16.3	202.3	6,771.8		6,974.1	
Rail	5.9	0.6	2.3	8.8	94.9		103.7	
<b>Total Commercial Banking</b>	<b>171.0</b>	<b>43.0</b>	<b>36.2</b>	<b>250.2</b>	<b>22,556.5</b>	<b>113.2</b>	<b>22,919.9</b>	
<b>Consumer Banking</b>								
Legacy Consumer Mortgages	22.6	6.1	36.6	65.3	2,563.6	2,233.8	4,862.7	
Other Consumer Banking	7.4	4.9	0.6	12.9	2,163.4	2.8	2,179.1	
<b>Total Consumer Banking</b>	<b>30.0</b>	<b>11.0</b>	<b>37.2</b>	<b>78.2</b>	<b>4,727.0</b>	<b>2,236.6</b>	<b>7,041.8</b>	
<b>Non-Strategic Portfolios</b>								
Total	3.0	1.1	7.0	11.1	198.9		210.0	
<b>Total</b>	<b>\$204.0</b>	<b>\$55.1</b>	<b>\$80.4</b>	<b>\$339.5</b>	<b>\$27,482.4</b>	<b>\$2,349.8</b>	<b>\$30,171.7</b>	
<b>December 31, 2015</b>								
<b>Commercial Banking</b>								
Commercial Finance	\$	\$	\$20.5	\$ 20.5	\$11,633.1	\$ 69.4	\$11,723.0	
Real Estate Finance	1.9		0.7	2.6	5,272.0	93.9	5,368.5	
Business Capital	131.0	32.7	26.8	190.5	6,351.4		6,541.9	
Rail	8.4	2.0	2.1	12.5	108.5		121.0	
<b>Total Commercial Banking</b>	<b>141.3</b>	<b>34.7</b>	<b>50.1</b>	<b>226.1</b>	<b>23,365.0</b>	<b>163.3</b>	<b>23,754.4</b>	
<b>Consumer Banking</b>								
Legacy Consumer Mortgages	15.8	1.7	4.1	21.6	2,923.7	2,523.1	5,468.4	
Other Consumer Banking	2.7	0.3	0.4	3.4	1,754.3	5.3	1,763.0	
<b>Total Consumer Banking</b>	<b>18.5</b>	<b>2.0</b>	<b>4.5</b>	<b>25.0</b>	<b>4,678.0</b>	<b>2,528.4</b>	<b>7,231.4</b>	
<b>Non-Strategic Portfolios</b>								
Total	18.8	22.1	33.7	74.6	1,443.4		1,518.0	

**Past Due**

<b>Total</b>	\$178.6	\$58.8	\$88.3	\$325.7	\$29,486.4	\$2,691.7	\$32,503.8
--------------	---------	--------	--------	---------	------------	-----------	------------

(1) Due to their nature, reverse mortgage loans are included in Current, as they do not have contractual payments due at a specified time.

(2) PCI loans are written down at acquisition to their fair value using an estimate of cash flows deemed to be collectible. Accordingly, such loans are no longer classified as past due or non-accrual even though they may be contractually past due as we expect to fully collect the new carrying values of these loans.

**Table of Contents**

CIT ANNUAL REPORT 2016 139

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Non-accrual loans include loans that are individually evaluated and determined to be impaired (generally loans with balances greater than \$500,000), as well as other, smaller balance loans placed on non-accrual due to delinquency (generally 90 days or more for smaller commercial loans and 120 or more days regarding real estate mortgage loans).

Certain loans 90 days or more past due as to interest or principal are still accruing, because they are (1) well-secured and in the process of collection or (2) real estate mortgage loans or consumer loans exempt under regulatory rules from being classified as nonaccrual until later delinquency, usually 120 days past due.

The following table sets forth non-accrual loans, assets received in satisfaction of loans (repossessed assets and OREO) and loans 90 days or more past due and still accruing.

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

	December 31, 2016			December 31, 2015		
	Held for Investment	Held for Sale	Total	Held for Investment	Held for Sale	Total
<b>Commercial Banking</b>						
Commercial Finance	\$156.7	\$32.1	\$188.8	\$120.5	\$11.0	\$131.5
Real Estate Finance	20.4	—	20.4	3.6	—	3.6
Business Capital	41.7	—	41.7	56.0	—	56.0
Total Commercial Banking	218.8	32.1	250.9	180.1	11.0	191.1
<b>Consumer Banking</b>						
Legacy Consumer Mortgages	17.3	—	17.3	4.2	0.6	4.8
Other Consumer Banking	0.1	—	0.1	—	0.4	0.4
Total Consumer Banking	17.4	—	17.4	4.2	1.0	5.2
<b>Non-Strategic Portfolios</b>	—	10.3	10.3	—	56.0	56.0
Total	\$236.2	\$42.4	\$278.6	\$184.3	\$68.0	\$252.3
Repossessed assets and OREO			72.7			123.5
Total non-performing assets			\$351.3			\$375.8

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2016	December 31, 2015
Commercial loans past due 90 days or more accruing	\$ 7.2	\$ 15.6
Consumer loans past due 90 days or more accruing	24.8	0.2
Total Accruing loans past due 90 days or more	\$ 32.0	\$ 15.8

Payments received on non-accrual financing receivables are generally applied first against outstanding principal, though in certain instances where the remaining recorded investment is deemed fully collectible, interest income is recognized on a cash basis. Reverse mortgages are not included in the non-accrual balances due to the nature of the mortgage product.

Loans in Process of Foreclosure

The table below summarizes the residential mortgage loans in the process of foreclosure and OREO:

(dollars in millions)	December 31, 2016	December 31, 2015
PCI	\$201.7	\$317.9
Non-PCI	106.3	71.0
Loans in process of foreclosure	\$308.0	\$388.9
OREO	\$ 69.9	\$118.0

Impaired Loans

The Company's policy is to review for impairment finance receivables greater than \$500,000 that are on non-accrual status. Small-ticket loan and lease receivables that have not been modified in a restructuring, as well as short-term factoring receivables, are included (if appropriate) in the reported non-accrual balances above, but are excluded from the impaired finance receivables disclosure below as charge-offs are typically determined and recorded for such loans when they are more than 90 — 150 days past due.

**Item 8:** Financial Statements and Supplementary Data

**Table of Contents**

140 CIT ANNUAL REPORT 2016

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**Impaired Loans** (dollars in millions)

Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment <sup>(3)</sup>
------------------------	--------------------------------	----------------------	--



Edgar Filing: CIT GROUP INC - Form 10-K

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment <sup>(3)</sup>
<b>December 31, 2016</b>				
<b>With no related allowance recorded:</b>				
<b>Commercial Banking</b>				
Commercial Finance	\$ 54.3	\$ 72.2	\$ –	\$ 29.5
Business Capital	0.5	1.8	–	5.1
Real Estate Finance	0.7	0.7	–	1.3
<b>With an allowance recorded:</b>				
<b>Commercial Banking</b>				
Commercial Finance	143.0	146.2	25.5	132.1
Business Capital	6.6	6.6	4.2	8.2
Real Estate Finance	16.7	16.8	4.0	5.2
Total Impaired Loans <sup>(1)</sup>	221.8	244.3	33.7	181.4
Total Loans Impaired at Acquisition Date <sup>(2)</sup>	2,349.8	3,440.7	13.6	2,504.4
Total	\$2,571.6	\$3,685.0	\$ 47.3	\$2,685.8
<b>December 31, 2015</b>				
<b>With no related allowance recorded:</b>				
<b>Commercial Banking</b>				
Commercial Finance	\$ 15.4	\$ 22.8	\$ –	\$ 6.5
Business Capital	6.4	9.7	–	5.9
Real Estate Finance	0.2	0.8	–	0.7
<b>Non-Strategic Portfolios</b>	–	–	–	7.3
<b>With an allowance recorded:</b>				
<b>Commercial Banking</b>				
Commercial Finance	102.5	112.1	22.7	53.2
Business Capital	9.7	11.8	4.7	5.4
Non-Strategic Portfolios	–	–	–	7.3
Total Impaired Loans <sup>(1)</sup>	134.2	157.2	27.4	86.3
Total Loans Impaired at Acquisition Date <sup>(2)</sup>	2,691.7	3,976.7	4.9	1,107.4
Total	\$2,825.9	\$4,133.9	\$ 32.3	\$1,193.7

<sup>(1)</sup> Interest income recorded for the years ended December 31, 2016 and December 31, 2015 while the loans were impaired were \$1.6 million and \$1.5 million, of which \$0.6 million and \$0.5 million was interest recognized using cash-basis method of accounting for each year, respectively.

<sup>(2)</sup> Details of finance receivables that were identified as impaired at the Acquisition Date are presented under Loans Acquired with Deteriorated Credit Quality.

<sup>(3)</sup> Average recorded investment for the year ended December 31, 2016 and year ended December 31, 2015.

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

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

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

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 141

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- Delinquency status of the loan;
- Borrowers experiencing problems, such as operating losses, marginal working capital, inadequate cash flow, excessive financial leverage or business interruptions;
- Loans secured by collateral that is not readily marketable or that has experienced or is susceptible to deterioration in realizable value; and
- Loans to borrowers in industries or countries experiencing severe economic instability.

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

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

- "Orderly liquidation value" is the basis for collateral valuation;
- Appraisals are updated annually or more often as market conditions warrant; and
- Appraisal values are discounted in the determination of impairment if the:
  - appraisal does not reflect current market conditions; or
  - collateral consists of inventory, accounts receivable, or other forms of collateral that may become difficult to locate, or collect or may be subject to pilferage in a liquidation.

#### Loans Acquired with Deteriorated Credit Quality

For purposes of this presentation, the Company is applying the income recognition and disclosure guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*) to loans that were identified as impaired as of the acquisition date of OneWest Bank. PCI loans were initially recorded at estimated fair value with no allowance for loan losses carried over, since the initial fair values reflected credit losses expected to be incurred over the remaining lives of the loans. The acquired loans are

Edgar Filing: CIT GROUP INC - Form 10-K

subject to the Company's internal credit review. See *Note 4 — Allowance for Loan Losses*.

**Purchased Credit Impaired Loans** (dollars in millions)

	December 31, 2016		
	Unpaid Principal Balance	Carrying Value	Allowance for Loan Losses
<b>Commercial Banking</b>			
Commercial Finance	\$ 70.0	\$ 42.7	\$ 2.4
Real Estate Finance	108.1	70.5	4.9
<b>Consumer Banking</b>			
Other Consumer Banking	3.7	2.8	—
Legacy Consumer Mortgages	3,258.9	2,233.8	6.3
	<b>\$3,440.7</b>	<b>\$2,349.8</b>	<b>\$ 13.6</b>
	December 31, 2015		
	Unpaid Principal Balance	Carrying Value	Allowance for Loan Losses
<b>Commercial Banking</b>			
Commercial Finance	\$ 115.5	\$ 69.4	\$ 2.5
Real Estate Finance	160.4	93.9	0.6
<b>Consumer Banking</b>			
Other Consumer Banking	6.8	5.3	—
Legacy Consumer Mortgages	3,694.0	2,523.1	1.8
	<b>\$3,976.7</b>	<b>\$2,691.7</b>	<b>\$ 4.9</b>

**Item 8: Financial Statements and Supplementary Data**

**Table of Contents**

**142** CIT ANNUAL REPORT 2016

**CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

An accretable yield is measured as the excess of the cash flows expected to be collected, estimated at the acquisition date, over the recorded investment (estimated fair value at acquisition) and is recognized in interest income over the remaining life of the loan, or pool of loans, on an effective yield basis. The difference between the cash flows contractually required to be paid, measured as of the acquisition date, over the expected cash flows is referred to as the non-accretable difference.

Subsequent to acquisition, we evaluate our estimates of the cash flows expected to be collected on a quarterly basis. Probable and significant decreases in expected cash flows as a result of further credit deterioration result in a charge to the provision for credit losses and a corresponding increase to the allowance for credit losses. Probable and significant increases in expected cash flows due to improved credit quality result in reversal of any previously recorded allowance for loan losses, to the extent applicable, and an increase in the accretable yield applied prospectively for any remaining increase. Changes in expected cash flows caused by changes in market interest rates or by prepayments are recognized as adjustments to the accretable yield on a prospective basis.

Edgar Filing: CIT GROUP INC - Form 10-K

The following table summarizes commercial PCI loans, which are monitored for credit quality based on internal risk classifications. See previous table Consumer Loan LTV Distributions for credit quality metrics on consumer PCI loans.

	December 31, 2016		
	Non-criticized	Criticized	Total
<b>(dollars in millions)</b>			
Commercial Finance	\$ 5.4	\$37.3	\$ 42.7
Real Estate Finance	35.6	34.9	70.5
Total	\$41.0	\$72.2	\$113.2

	December 31, 2015		
	Non-criticized	Criticized	Total
<b>(dollars in millions)</b>			
Commercial Finance	\$ 5.3	\$ 64.1	\$ 69.4
Real Estate Finance	33.0	60.9	93.9
Total	\$38.3	\$125.0	\$163.3

Accretable Yield

The excess of cash flows expected to be collected over the recorded investment (estimated fair value at acquisition) of the PCI loans represents the accretable yield and is recognized in interest income on an effective yield basis over the remaining life of the loan, or pools of loans. The accretable yield is adjusted for changes in interest rate indices for variable rate PCI loans, changes in prepayment assumptions and changes in expected principal and interest payments and collateral values. Further, if a loan within a pool of loans is modified, the modified loan remains part of the pool of loans.

Changes in the accretable yield for PCI loans are summarized below:

	Year ended December 31, 2015
<b>(dollars in millions)</b>	
<b>Balance at August 3, 2015</b>	\$ 1,254.8
Accretion into interest income	(76.2)
Reclassification from non-accretable difference	133.2
Disposals and Other	(12.7)
<b>Balance at December 31, 2015</b>	\$ 1,299.1
	Year ended December 31, 2016
<b>Balance at December 31, 2015</b>	\$ 1,299.1
Accretion into interest income	(208.3)
Reclassification from non-accretable difference	213.7
Disposals and Other	(43.1)
<b>Balance at December 31, 2016</b>	\$ 1,261.4

Troubled Debt Restructurings

## Edgar Filing: CIT GROUP INC - Form 10-K

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

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

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

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

- Assets used to satisfy debt are less than CIT's recorded investment in the receivable
- Modification of terms — interest rate changed to below market rate
- Maturity date extension at an interest rate less than market rate

---

### **Table of Contents**

CIT ANNUAL REPORT 2016 **143**

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- The borrower does not otherwise have access to funding for debt with similar risk characteristics in the market at the restructured rate and terms
- Capitalization of interest
- Increase in interest reserves
- Conversion of credit to Payment-In-Kind (PIK)

## Edgar Filing: CIT GROUP INC - Form 10-K

- Delaying principal and/or interest for a period of three months or more
- Partial forgiveness of the balance.

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

We may require some consumer borrowers experiencing financial difficulty to make trial payments generally for a period of three to four months, according to the terms of a planned permanent modification, to determine if they can perform according to those terms. These arrangements represent trial modifications, which we classify and account for as TDRs. While loans are in trial payment programs, their original terms are not considered modified and they continue to advance through delinquency status and accrue interest according to their original terms. The planned modifications for these arrangements predominantly involve interest rate reductions or other interest rate concessions; however, the exact concession type and resulting financial effect are usually not finalized and do not take effect until the loan is permanently modified. The trial period terms are developed in accordance with our proprietary programs or the U.S. Treasury's Making Homes Affordable programs for real estate 1-4 family first lien (i.e. Home Affordable Modification Program — HAMP) and junior lien (i.e. Second Lien Modification Program — 2MP) mortgage loans. HAMP expired on December 31, 2016, which was the last day to submit an application.

At December 31, 2016, the loans in trial modification period were \$36.4 million under HAMP, \$0.1 million under 2MP and \$3 million under proprietary programs. Trial modifications with a recorded investment of \$38.1 million at December 31, 2016 were accruing loans and \$1.4 million were non-accruing loans. Our experience is that substantially all of the mortgages that enter a trial payment period program are successful in completing the program requirements and are then permanently modified at the end of the trial period. Our allowance process considers the impact of those modifications that are probable to occur.

The recorded investment of TDRs, excluding those classified as PCI, at December 31, 2016 and December 31, 2015, was \$82.3 million and \$31.0 million, of which 41% and 84%, respectively, were on non-accrual. Commercial Finance and Consumer banking accounted for 85% and 15%, respectively, of the total TDRs at December 31, 2016. At December 31, 2015, Commercial Banking and Consumer banking receivables accounted for 79% and 6%, respectively and the remainder related to NSP. There were \$5.4 million and \$1.4 million, as of December 31, 2016 and 2015, respectively, of commitments to lend additional funds to borrowers whose loan terms have been modified in TDRs.

The recorded investment related to modifications qualifying as TDRs that occurred during the years ended December 31, 2016 and 2015 were \$80.5 million and \$22.4 million, respectively. The recorded investment at the time of default of TDRs that experience a payment default (payment default is one missed payment), during the years ended December 31, 2016 and 2015, and for which the payment default occurred within one year of the modification totaled \$11.3 million and \$4.3 million, respectively. The December 31, 2016 defaults related to Commercial Banking.

The financial impact of the various modification strategies that the Company employs in response to borrower difficulties is described below. While the discussion focuses on the 2016 amounts, the overall nature and impact of modification programs were comparable in the prior year.

- The nature of modifications qualifying as TDR's based upon recorded investment at December 31, 2016 was comprised of payment deferrals for 12% and covenant relief and/or other for 88%. For December 31, 2015 TDR recorded investment was comprised of payment deferrals for 74% and covenant relief and/or other for 26%.
- Payment deferrals result in lower net present value of cash flows, if not accompanied by additional interest or fees, and increased provision for credit losses to the extent applicable. The financial impact of these modifications is not significant given the moderate length of deferral periods;
- Interest rate reductions result in lower amounts of interest being charged to the customer, but are a relatively small part of the Company's restructuring programs. Additionally, in some instances, modifications improve the Company's economic return through increased interest rates and fees, but are reported as TDRs due to assessments regarding the borrowers' ability to independently obtain similar funding in the market and assessments of the relationship between modified rates and terms and comparable market rates and terms. The weighted average change in interest rates for all TDRs occurring during the quarters ended December 31, 2016 and 2015 was not significant;
-

Debt forgiveness, or the reduction in amount owed by borrower, results in incremental provision for credit losses, in the form of higher charge-offs. While these types of modifications have the greatest individual impact on the allowance, the amounts of principal forgiveness for TDRs occurring during the years ended December 31, 2016 and 2015 was not significant, as debt forgiveness is a relatively small component of the Company's modification programs; and

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

**Item 8: Financial Statements and Supplementary Data**

---

**Table of Contents**

**144 CIT ANNUAL REPORT 2016**

---

**CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Reverse Mortgages**

Consumer loans within continuing operations include an outstanding balance of \$859.0 million and \$897.3 million at December 31, 2016 and December 31, 2015, respectively, related to the reverse mortgage portfolio, of which \$769.6 million and \$812.6 million at December 31, 2016 and December 31, 2015, respectively, was uninsured. Reverse mortgage loans are contracts in which a homeowner borrows against the equity in their home and receives cash in one lump sum payment, a line of credit or fixed monthly payments for either a specific term or for as long as the homeowner lives in the home, or a combination of these options. Reverse mortgages feature no recourse to the borrower, no required repayment during the borrower's occupancy of the home (as long as the borrower complies with the terms of the mortgage), and, in the event of foreclosure, a repayment amount cannot exceed the lesser of either the unpaid principal balance of the loan or the proceeds recovered upon sale of the home. The mortgage balance consists of cash advanced, interest compounded over the life of the loan, capitalized mortgage insurance premiums, and other servicing advances capitalized into the loan.

The uninsured reverse mortgage portfolio consists of approximately 1,700 loans with an average borrowers' age of 83 years old and an unpaid principal balance of \$1,027.9 million at December 31, 2016. The uninsured reverse mortgage portfolio consisted of approximately 1,960 loans with an average borrowers' age of 82 years old and an unpaid principal balance of \$1,113.4 million at December 31, 2015. There is currently overcollateralization in the portfolio, as the realizable collateral value (the lower of collectible principal and interest, or estimated value of the home) exceeds the outstanding book balance at December 31, 2016 and 2015.

Reverse mortgage loans were recorded at fair value on the acquisition date. Subsequent to that, we account for uninsured reverse mortgages, which are the vast majority of the total, in accordance with the instructions provided by the staff of the Securities and Exchange Commission (SEC) entitled "Accounting for Pools of Uninsured Residential Reverse Mortgage Contracts." The remaining amounts are accounted for in accordance with PCI guidance. See *Note 1 — Business and Summary of Significant Accounting Policies* for further details. To determine the carrying value of these reverse mortgages as of December 31, 2016 and December 31, 2015, the Company used a proprietary model which uses actual cash flow information, actuarially determined mortality assumptions, likelihood of prepayments, and estimated future collateral values (determined by applying externally published market index). In addition, drivers of cash flows include:

- Mobility rates — We used the actuarial estimates of contract termination using the Society of Actuaries mortality tables, adjusted for expected prepayments and relocations.
- Home Price Appreciation — Consistent with other projections from various market sources, we use the Moody's baseline forecast at a regional level to estimate home price appreciation on a loan-level basis.

**Estimated Future Advances in Reverse Mortgages (dollars in millions)**

## Edgar Filing: CIT GROUP INC - Form 10-K

As of December 31, 2016, the Company's estimated future advances to reverse mortgagors are as follows:

### Year Ending:

2017	\$ 13.5
2018	11.2
2019	9.3
2020	7.6
2021	6.2
2022 – 2026	17.0
2027 – 2031	5.2
2032 – 2036	1.3
Thereafter	0.3
<b>Total<sup>(1)(2)</sup></b>	<b>\$71.6</b>

<sup>(1)</sup> This table does not take into consideration cash inflows including payments from mortgagors or payoffs based on contractual terms.

<sup>(2)</sup> This table includes the reverse mortgages supported by the Company as a result of the IndyMac loss-share agreements with the FDIC. As of December 31, 2016, the Company is responsible for funding up to a remaining \$54.8 million of the total amount. Refer to the Indemnification Asset footnote for more information on this agreement and the Company's responsibilities toward this reverse mortgage portfolio.

From the acquisition date through December 31, 2016, any changes to the portfolio value as a result of re-estimated cash flows due to changes in actuarial assumptions or actual or expected appreciation or depreciation in property values was immaterial to the portfolio as a whole.

### Serviced Loans

In conjunction with the OneWest Transaction, the Company services HECM reverse mortgage loans sold to Agencies (Fannie Mae) and securitized in GNMA HMBS pools. HECM loans transferred into the HMBS program have not met all of the requirements for sale accounting and, therefore, the Company has accounted for these transfers as a financing transaction with the loans remaining on the Company's statement of financial position and the proceeds received are recorded as a secured borrowing. The pledged loans and secured borrowings are reported in Assets of discontinued operations and Liabilities of discontinued operations, respectively. See Note 2 — Acquisition and Disposition Activities.

---

### Table of Contents

CIT ANNUAL REPORT 2016 145

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As servicer of HECM loans, the Company is required to repurchase loans out of the HMBS pool upon completion of foreclosure or once the outstanding principal balance is equal to or greater than 98% of the maximum claim amount. These HECM loans are repurchased at a price equal to the unpaid principal balance outstanding on the loan plus accrued interest. The repurchase transaction represents extinguishment of debt. As a result, the HECM loan basis and accounting methodology (retrospective effective interest) would carry forward. However, if the Company classifies these repurchased loans as AHFS, that classification would result in a new accounting methodology. Loans classified as AHFS are carried at LOCOM pending assignment to the Department of Housing and Urban Development ("HUD"). Loans classified as HFI are not assignable to HUD and are subject to periodic impairment assessment. Although permitted under the GNMA HMBS program, the Company does not conduct optional repurchases upon the loan reaching a maturity event (i.e. borrower's death or the property ceases to be the borrower's principal residence).



## Edgar Filing: CIT GROUP INC - Form 10-K

In the year ended December 31, 2016, the Company repurchased \$96.1 million (unpaid principal balance) of additional HECM loans, of which \$66.1 million were classified as AHFS and the remaining \$30.0 million were classified as HFI. As of December 31, 2016, the Company had an outstanding balance of \$122.2 million of HECM loans, of which \$32.8 million (unpaid principal balance) is classified as AHFS with a remaining purchase discount of \$0.1 million and \$68.1 million is classified as HFI accounted for as PCI loans with an associated remaining purchase discount of \$9.1 million. Serviced loans also include \$30.4 million that are classified as HFI, which are accounted for under the effective yield method, with no remaining purchase discount.

As of December 31, 2015, the Company had an outstanding balance of \$118.1 million of HECM loans, of which \$20.2 million (unpaid principal balance) were classified as AHFS with a remaining purchase discount of \$0.1 million, \$87.6 million were classified as HFI accounted for as PCI loans with an associated remaining purchase discount of \$13.2 million. Serviced loans also included \$10.3 million that were classified as HFI, accounted for under the effective yield method and have no remaining purchase discount.

### NOTE 4 — ALLOWANCE FOR LOAN LOSSES

The Company maintains an allowance for loan losses for estimated credit losses in its HFI loan portfolio. The allowance is adjusted through a provision for credit losses, which is charged against current period earnings, and reduced by any charge-offs for losses, net of recoveries.

The Company maintains a separate reserve for credit losses on off-balance sheet commitments, which is reported in Other Liabilities. Off-balance sheet credit exposures include items such as unfunded loan commitments, issued standby letters of credit and deferred purchase agreements. The Company's methodology for assessing the appropriateness of this reserve is similar to the allowance process for outstanding loans.

### Item 8: Financial Statements and Supplementary Data

### Table of Contents

146 CIT ANNUAL REPORT 2016

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Commercial Banking	Consumer Banking	Non-Strategic Portfolios	Corporate and Other	Total
<b>Year Ended December 31, 2016</b>					
Balance – December 31, 2015	\$ 336.8	\$ 10.2	\$ –	\$ –	\$ 347.0
Provision for credit losses	183.1	11.7	(0.1)	–	194.7
Other <sup>(1)</sup>	0.2	2.0	–	–	2.2
Gross charge-offs <sup>(2)</sup>	(133.8)	(2.8)	–	–	(136.6)
Recoveries	22.1	3.1	0.1	–	25.3
Balance – December 31, 2016	\$ 408.4	\$ 24.2	\$ –	\$ –	\$ 432.6
<b>Allowance balance at December 31, 2016</b>					
Loans individually evaluated for impairment	\$ 33.7	\$ –	\$ –	\$ –	\$ 33.7
Loans collectively evaluated for impairment	367.4	17.9	–	–	385.3
Loans acquired with deteriorated credit quality <sup>(3)</sup>	7.3	6.3	–	–	13.6
Allowance for loan losses	\$ 408.4	\$ 24.2	\$ –	\$ –	\$ 432.6
Other reserves <sup>(1)</sup>	\$ 43.6	\$ 0.1	\$ –	\$ –	\$ 43.7

Edgar Filing: CIT GROUP INC - Form 10-K

	Commercial Banking	Consumer Banking	Non-Strategic Portfolios	Corporate and Other	Total
<b>Finance receivables at December 31, 2016</b>					
Loans individually evaluated for impairment	\$ 221.8	\$ —	\$ —	\$ —	\$ 221.8
Loans collectively evaluated for impairment	22,227.3	4,737.0	—	—	26,964.3
Loans acquired with deteriorated credit quality <sup>(3)</sup>	113.2	2,236.6	—	—	2,349.8
Ending balance	\$ 22,562.3	\$ 6,973.6	\$ —	\$ —	\$ 29,535.9
Percent of loans to total loans	76.4%	23.6%	—	—	100%
<b>Year Ended December 31, 2015</b>					
Balance – December 31, 2014	\$ 296.7	\$ —	\$ 37.5	\$ —	\$ 334.2
Provision for credit losses	143.7	8.7	6.2	—	158.6
Other <sup>(1)</sup>	(8.2)	1.7	(2.7)	—	(9.2)
Gross charge-offs <sup>(2)</sup>	(113.0)	(1.3)	(50.8)	—	(165.1)
Recoveries	17.6	1.1	9.8	—	28.5
Balance – December 31, 2015	\$ 336.8	\$ 10.2	\$ —	\$ —	\$ 347.0
<b>Allowance balance at December 31, 2015</b>					
Loans individually evaluated for impairment	\$ 27.4	\$ —	\$ —	\$ —	\$ 27.4
Loans collectively evaluated for impairment	306.2	8.4	—	—	314.6
Loans acquired with deteriorated credit quality <sup>(3)</sup>	3.2	1.8	—	—	5.0
<b>Allowance for loan losses</b>	<b>\$ 336.8</b>	<b>\$ 10.2</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 347.0</b>
Other reserves <sup>(1)</sup>	\$ 43.0	\$ 0.1	\$ —	\$ —	\$ 43.1
<b>Finance receivables at December 31, 2015</b>					
Loans individually evaluated for impairment	\$ 134.2	\$ —	\$ —	\$ —	\$ 134.2
Loans collectively evaluated for impairment	23,034.9	4,657.9	—	—	27,692.8
Loans acquired with deteriorated credit quality <sup>(3)</sup>	163.3	2,528.4	—	—	2,691.7
Ending balance	\$ 23,332.4	\$ 7,186.3	\$ —	\$ —	\$ 30,518.7
Percentage of loans to total loans	76.5%	23.5%	—	—	100%

(1) "Other reserves" represents credit loss reserves for unfunded lending commitments, letters of credit and for deferred purchase agreements, all of which is recorded in Other liabilities. "Other" also includes allowance for loan losses associated with loan sales and foreign currency translations.

(2) Gross charge-offs of amounts specifically reserved in prior periods included \$35.8 million and \$21.3 million charged directly to the Allowance for loan losses for the years ended December 31, 2016 and December 31, 2015, respectively. The current year charge offs related to Commercial Banking for all periods. The prior year charge offs related to Commercial banking and Non-Strategic Portfolio.

(3) Represents loans considered impaired as part of the OneWest transaction and are accounted for under the guidance in ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality).

**Table of Contents**

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 5 — INDEMNIFICATION ASSETS**

The Company acquired the indemnifications provided by the FDIC under the loss sharing agreements from previous transactions entered into by OneWest Bank. The loss share agreements with the FDIC relates to the FDIC-assisted transactions of IndyMac in March 2009 (“IndyMac Transaction”), First Federal in December 2009 (“First Federal Transaction”) and La Jolla in February 2010 (“La Jolla Transaction”). Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., loan modification, charge-off of loan balance or liquidation of collateral). Reimbursements approved by the FDIC are received usually within 60 days of submission.

In connection with the IndyMac, First Federal and La Jolla Transactions, the FDIC indemnified the Company against certain future losses for covered loans. For the IndyMac Transaction, First Federal Transaction and La Jolla Transaction, the loss share agreement covering SFR mortgage loans is set to expire March 2019, December 2019 and February 2020, respectively. In addition, in connection with the IndyMac Transaction, the Company recorded an indemnification receivable for estimated reimbursements due from the FDIC for loss exposure arising from breach in origination and servicing obligations associated with covered reverse mortgage loans sold to the Agencies prior to March 2009 pursuant to the loss share agreement with the FDIC.

No indemnification asset was recognized in connection with the First Federal Transaction and an insignificant indemnification asset balance was associated with the La Jolla Transaction. Below provides the carrying value of the recognized indemnification assets and related receivable/payable balance with the FDIC associated with indemnified losses under the IndyMac Transaction.

**Indemnification Assets — IndyMac Transaction** (dollars in millions)

	Years Ended December 31,	
	2016	2015
Loan indemnification <sup>(1)</sup>	\$ 223.0	\$ 332.9
Reverse mortgage indemnification	10.4	10.3
Agency claims indemnification <sup>(2)</sup>	108.0	65.6
Total	\$ 341.4	\$ 408.8
Receivable with (Payable to) the FDIC	\$ 12.7	\$ 18.6

<sup>(1)</sup> As of December 31, 2016, the carrying value of the loan indemnification decreased by \$115.6 million from December 31, 2015, which comprised of \$85.3 million in claim submissions filed with the FDIC during the period and \$30.3 million in other (yield and provision for credit losses adjustments).

<sup>(2)</sup> As of December 31, 2016, the carrying value of the agency claims indemnification increased by \$42.4 million, which is primarily attributable to an increase in the amount of servicing-related obligations covered by the loss share agreement related to reverse mortgage loans.

The amount of net amortization recognized on the indemnification asset from the IndyMac Transaction was \$21.9 million and \$0.5 million for the years ended December 31, 2016 and 2015, respectively.

The Company separately recognizes a net receivable (recorded in other assets) for the claim submissions filed with the FDIC and a net payable (recorded in other liabilities) for the remittances due to the FDIC for previously submitted claims that were later recovered by investor (e.g., guarantor payments, recoveries).

*IndyMac Transaction*

There are three components to the Indy Mac indemnification program described below: 1. SFR Mortgages, 2. Reverse Mortgages, and 3. Certain Servicing Obligations.

*Single Family Residential (SFR) Mortgage Loan Indemnification Asset*

The FDIC indemnifies the Company against certain credit losses on SFR mortgage loans based on specified thresholds. Prior to the OneWest acquisition, the cumulative losses of the SFR portfolio exceeded the First Loss Tranche (\$2.551 billion) with the excess losses reimbursed 80% by the FDIC. As of December 31, 2016, the Company projects the cumulative losses will reach the final loss threshold of "meets or exceeds stated threshold" (\$3.826 billion) in December 2017 at which time the excess losses will be reimbursed 95% by the FDIC.

**Item 8:** Financial Statements and Supplementary Data**Table of Contents**

148 CIT ANNUAL REPORT 2016

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the submission of qualifying losses (net of recoveries) for reimbursement from the FDIC since inception of the loss share agreement as of December 31, 2016 and 2015, respectively:

**Submission of Qualifying Losses for Reimbursement** (dollars in millions)

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Unpaid principal balance	\$3,832.1	\$4,372.8
Cumulative losses incurred	3,727.8	3,623.4
Cumulative claims	3,722.9	3,608.4
Cumulative reimbursement	893.7	802.6

*Reverse Mortgage Indemnification Asset*

The FDIC indemnifies the Company against losses on the first \$200.0 million of funds advanced post March 2009, and to fund any advances above \$200.0 million.

As of December 31, 2016 and 2015, \$145.2 million and \$152.4 million, respectively, had been advanced on the reverse mortgage loans post March 2009. Prior to the OneWest Transaction, the cumulative loss submissions and reimbursements totaled \$1.8 million from the FDIC. From August 3, 2015 (the date of OneWest Transaction) through December 31, 2016, the Company was reimbursed \$1.4 million from the FDIC for the cumulative losses incurred.

*Indemnification from Certain Servicing Obligations*

Subject to certain requirements and limitations, the FDIC agreed to indemnify the Company, among other things, for third party claims from the Agencies related to the selling representations and warranties of IndyMac as well as liabilities arising from the acts or omissions, including, without limitation, breaches of servicer obligations of IndyMac for SFR mortgage loans and reverse mortgage loans as follows:

*SFR mortgage loans sold to the Agencies*

The FDIC indemnification for third party claims by the Agencies for servicer obligations expired as of the acquisition date; however, for any claims, issues or matters relating to the servicing obligations that are known or identified as of the end of the expired term, the FDIC indemnification protection continues until resolution of such claims, issues or matters.

## Edgar Filing: CIT GROUP INC - Form 10-K

The Company had no submitted claims from acquisition date through December 31, 2016. Prior to the OneWest acquisition, the cumulative loss submissions and reimbursements totaled \$5.7 million from the FDIC to cover third party claims made by the Agencies for SFR loans. During the fourth quarter of 2016, the Company and the FDIC resolved the selling and servicing-related obligations of IndyMac for SFR mortgage loans with one of the Agencies, Fannie Mae and the Company released the FDIC from its indemnification obligation to CIT with respect to the settled loans.

### *Reverse mortgage loans sold to the Agencies*

The FDIC indemnifies the Company through March 2019 for third party claims made by the Agencies relating to any liabilities or obligations imposed on the seller of HECM loans acquired by the Agencies from IndyMac resulting from servicing errors or servicing obligations prior to March 2009.

The Company had submitted \$0.2 million in claims from acquisition date through December 31, 2016. Prior to the OneWest Transaction, the cumulative loss submissions totaled \$11.2 million and reimbursements totaled \$10.7 million from the FDIC to cover third party claims made by the Agencies for reverse mortgage loans.

### *First Federal Transaction*

The FDIC agreed to indemnify the Company against certain losses on SFR and commercial HFI loans based on established thresholds.

As of December 31, 2016, the loss share agreements covering the SFR mortgage loans remain in effect (expiring in December 2019) while the agreement covering commercial loans expired (in December 2014). However, pursuant to the terms of the shared-loss agreement, the loss recovery provisions for commercial loans extend for three years past the expiration date (December 2017). The loss thresholds apply to the covered loans collectively. Pursuant to the loss share agreement, the first \$932 million (First Loss Tranche) of cumulative losses are borne by the Company without reimbursement by the FDIC.

## **Table of Contents**

CIT ANNUAL REPORT 2016 **149**

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the submission of qualifying losses for reimbursement from the FDIC since inception of the loss share agreement:

#### **Submission of Qualifying Losses for Reimbursement** (dollars in millions)

	December 31, 2016		
	SFR	Commercial <sup>(1)</sup>	Total
Unpaid principal balance	\$ 1,237.1	\$ —	\$ 1,237.1
Cumulative losses incurred	416.6	9.0	425.6
Cumulative claims	416.4	9.0	425.4
Cumulative reimbursement	—	—	—

  

	December 31, 2015		
	SFR	Commercial <sup>(1)</sup>	Total

Edgar Filing: CIT GROUP INC - Form 10-K

December 31, 2015

Unpaid principal balance	\$1,456.8	\$ –	\$1,456.8
Cumulative losses incurred	408.5	9.0	417.5
Cumulative claims	407.2	9.0	416.2
Cumulative reimbursement	–	–	–

<sup>(1)</sup> Due to the expiration of the loss share agreement covering commercial loans in December 2014, the outstanding unpaid principal balance eligible for reimbursement is zero. As provided by the loss share agreement, the loss recoveries for commercial loans extend for three years from expiration date (December 2017). As such, the cumulative losses incurred, claim submissions and reimbursements for commercial loans are reduced by the reported recoveries.

As reflected above, the cumulative losses incurred have not reached the specified level (\$932 million) for FDIC reimbursement and the Company does not project to reach the specified level of losses. Accordingly, no indemnification asset was recognized in connection with the First Federal Transaction.

Separately, as part of the loss sharing agreement, the Company is required to make a true-up payment to the FDIC in the event that losses do not exceed a specified level by December 2019. As the Company does not project to reach the First Loss Tranche (\$932 million) for FDIC reimbursement, the Company does not expect that such true-up payment will be required for the First Federal portfolio.

*La Jolla Transaction*

The FDIC agreed to indemnify the Company against certain losses on SFR, and commercial loans HFI based on established thresholds.

As of December 31, 2016, the loss share agreement covering the SFR mortgage loans remain in effect (expiring in February 2020) while the agreement covering commercial loans expired (in March 2015). However, pursuant to the terms of the loss share agreement, the loss recovery provisions for commercial loans extend for three years past the expiration date (March 2018). The loss thresholds apply to the covered loans collectively. Pursuant to the loss share agreement, the Company's cumulative losses since the acquisition date by OneWest Bank are reimbursed by the FDIC at 80% until the stated threshold (\$1.007 billion) is met.

The following table summarizes the submission of cumulative qualifying losses for reimbursement from the FDIC since inception of the loss share agreement:

**Submission of Qualifying Losses for Reimbursement** (dollars in millions)

	December 31, 2016		
	SFR	Commercial <sup>(1)</sup>	Total
Unpaid principal balance	\$68.8	\$ –	\$ 68.8
Cumulative losses incurred	56.3	351.8	408.1
Cumulative claims	56.3	351.8	408.1
Cumulative reimbursement	45.0	281.4	326.4

  

	December 31, 2015		
	SFR	Commercial <sup>(1)</sup>	Total
Unpaid principal balance	\$89.3	\$ –	\$ 89.3
Cumulative losses incurred	56.2	359.5	415.7
Cumulative claims	56.2	359.5	415.7
Cumulative reimbursement	45.0	287.6	332.6

## Edgar Filing: CIT GROUP INC - Form 10-K

<sup>(1)</sup> Due to the expiration of the loss share agreement covering commercial loans in March 2015, the outstanding unpaid principal balance eligible for reimbursement is zero. As provided by the loss share agreement, the loss recoveries for commercial loans extend for three years from expiration date (March 2018). As such, the cumulative losses incurred, claim submissions and reimbursements for commercial loans are reduced by the reported recoveries.

### Item 8: Financial Statements and Supplementary Data

#### **Table of Contents**

**150** CIT ANNUAL REPORT 2016

#### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As part of the loss share agreement with La Jolla, the Company is required to make a true-up payment to the FDIC in the event that losses do not exceed a specified level by the tenth anniversary of the agreement (February 2020). The Company currently expects that such payment will be required based upon its forecasted loss estimates for the La Jolla portfolio as the actual and estimated cumulative losses of the acquired covered assets are projected to be lower than the cumulative losses. As of December 31, 2016 and 2015, an obligation of \$61.9 million and \$56.9 million, respectively, has been recorded as a FDIC true-up liability for the contingent payment measured at estimated fair value. Refer to Note 13 — *Fair Value* for further discussion.

#### **NOTE 6 — OPERATING LEASE EQUIPMENT**

The following table provides the net book value (net of accumulated depreciation of \$0.9 billion at December 31, 2016 and \$0.7 billion at December 31, 2015) of operating lease equipment, by equipment type.

##### **Operating Lease Equipment** (dollars in millions)

	December 31, 2016	December 31, 2015
Railcars and locomotives	\$7,116.5	\$6,591.9
Other equipment	369.6	259.8
Total <sup>(1)</sup>	\$7,486.1	\$6,851.7

<sup>(1)</sup> Includes equipment off-lease of \$823.5 million and \$493.2 million at December 31, 2016 and 2015, respectively, primarily consisting of rail assets.

The following table presents future minimum lease rentals due on non-cancelable operating leases at December 31, 2016. Excluded from this table are variable rentals calculated on asset usage levels, re-leasing rentals, and expected sales proceeds from remarketing equipment at lease expiration, all of which are components of operating lease profitability.

##### **Minimum Lease Rentals Due** (dollars in millions)

	Years Ended December 31,
2017	\$ 787.3
2018	595.4
2019	389.0
2020	238.1
2021	129.6
Thereafter	147.4

## Years Ended December 31,

Total	\$2,286.8
-------	-----------

## NOTE 7 — INVESTMENT SECURITIES

Investments include debt and equity securities. The Company's debt securities include residential mortgage-backed securities ("MBS"), U.S. Government Agency securities, U.S. Treasury securities, and supranational and foreign government securities. Equity securities include common stock and warrants, along with restricted stock in the FHLB and FRB.

## Investment Securities (dollars in millions)

	December 31, 2016	December 31, 2015
<b>Available-for-sale securities</b>		
Debt securities	\$3,674.1	\$2,007.8
Equity securities	34.1	14.3
<b>Held-to-maturity securities</b>		
Debt securities <sup>(1)</sup>	243.0	300.1
<b>Securities carried at fair value with changes recorded in net income</b>		
Debt securities	283.5	339.7
<b>Non-marketable investments<sup>(2)</sup></b>	256.4	291.8
<b>Total investment securities</b>	<b>\$4,491.1</b>	<b>\$2,953.7</b>

<sup>(1)</sup> Recorded at amortized cost.

<sup>(2)</sup> Non-marketable investments include securities of the FRB and FHLB carried at cost of \$239.7 million at December 31, 2016 and \$263.5 million at December 31, 2015. The remaining non-marketable investments include ownership interests greater than 3% in limited partnership investments that are accounted for under the equity method, other investments carried at cost, which include qualified Community Reinvestment Act (CRA) investments, equity fund holdings and shares issued by customers during loan work out situations or as part of an original loan investment, totaling \$16.7 million and \$28.3 million at December 31, 2016 and December 31, 2015, respectively.

Realized investment gains totaled \$29.3 million, \$8.1 million, and \$38.8 million for the years ended 2016, 2015, and 2014, respectively. In addition, the Company maintained \$5.6 billion and \$6.7 billion of interest bearing deposits at December 31, 2016 and December 31, 2015, respectively, which are cash equivalents and are classified separately on the balance sheet.

**Table of Contents**

CIT ANNUAL REPORT 2016 151

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents interest and dividends on interest bearing deposits and investments:

## Interest and Dividend Income (dollars in millions)

	Year Ended December 31,		
	2016	2015	2014



Edgar Filing: CIT GROUP INC - Form 10-K

	Year Ended December 31,		
	2016	2015	2014
Interest income — investments / reverse repos	\$ 82.1	\$43.7	\$14.1
Interest income — interest bearing deposits	33.1	17.1	17.7
Dividends — investments	16.7	10.4	3.7
Total interest and dividends	\$131.9	\$71.2	\$35.5

Securities Available-for-Sale

The following table presents amortized cost and fair value of securities AFS.

**Debt Securities AFS — Amortized Cost and Fair Value** (dollars in millions)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2016</b>				
Debt securities AFS				
Mortgage-backed Securities				
U.S. government agency securities	\$2,073.6	\$ 1.6	\$(32.3)	\$2,042.9
Non-agency securities	471.7	15.6	(1.8)	485.5
U.S. government agency obligations	649.9	—	(3.9)	646.0
U.S. Treasury securities	299.9	—	(0.4)	299.5
Supranational and foreign government securities	200.2	—	—	200.2
Total debt securities AFS	3,695.3	17.2	(38.4)	3,674.1
Equity securities AFS	35.0	—	(0.9)	34.1
Total securities AFS	\$3,730.3	\$17.2	\$(39.3)	\$3,708.2
<b>December 31, 2015</b>				
Debt securities AFS				
Mortgage-backed Securities				
U.S. government agency securities	\$ 148.4	\$ —	\$ (0.9)	\$ 147.5
Non-agency securities	573.9	0.4	(7.2)	567.1
U.S. government agency obligations	996.8	—	(3.7)	993.1
U.S. Treasury securities	—	—	—	—
Supranational and foreign government securities	300.1	—	—	300.1
Total debt securities AFS	2,019.2	0.4	(11.8)	2,007.8
Equity securities AFS	14.4	0.1	(0.2)	14.3
Total securities AFS	\$2,033.6	\$ 0.5	\$(12.0)	\$2,022.1

**Item 8: Financial Statements and Supplementary Data**

**Table of Contents**

Edgar Filing: CIT GROUP INC - Form 10-K

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the debt securities AFS by contractual maturity dates:

**Securities AFS — Maturities** (dollars in millions)

	December 31, 2016		
	Amortized Cost	Fair Value	Weighted Average Yields
<b>Mortgage-backed securities — U.S. government agency securities</b>			
After 5 but within 10 years	\$ 55.1	\$ 54.2	1.56%
Due after 10 years	2,018.5	1,988.7	2.45%
<b>Total</b>	2,073.6	2,042.9	2.43%
<b>Mortgage-backed securities — non agency securities</b>			
After 5 but within 10 years	22.3	21.7	4.93%
Due after 10 years	449.4	463.8	5.88%
<b>Total</b>	471.7	485.5	5.84%
<b>U.S. government agency obligations</b>			
After 1 but within 5 years	649.9	646.0	1.22%
<b>Total</b>	649.9	646.0	1.22%
<b>U.S. Treasury Securities</b>			
Due within 1 year	200.1	200.1	0.36%
After 1 but within 5 years	99.8	99.4	0.93%
<b>Total</b>	299.9	299.5	0.55%
<b>Supranational and foreign government securities</b>			
Due within 1 year	200.2	200.2	0.36%
<b>Total</b>	200.2	200.2	0.36%
<b>Total debt securities available-for-sale</b>	<b>\$3,695.3</b>	<b>\$3,674.1</b>	<b>2.38%</b>

The following table summarizes the gross unrealized losses and estimated fair value of AFS securities aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position.

**Securities AFS — Estimated Unrealized Losses** (dollars in millions)

	December 31, 2016			
	Less than 12 months		12 months or greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Debt securities AFS				
Mortgage-backed securities				
U.S. government agency securities	\$1,589.6	\$(31.8)	\$13.8	\$(0.5)
Non-agency securities	56.5	(1.4)	15.8	(0.4)
U.S. government agency obligations	546.1	(3.9)	—	—
U.S. Treasury Securities	299.5	(0.4)	—	—
<b>Total debt securities AFS</b>	<b>2,491.7</b>	<b>(37.5)</b>	<b>29.6</b>	<b>(0.9)</b>

Edgar Filing: CIT GROUP INC - Form 10-K

December 31, 2016				
Equity securities AFS	34.1	(0.9)	–	–
<b>Total securities available-for-sale</b>	<b>\$2,525.8</b>	<b>\$(38.4)</b>	<b>\$29.6</b>	<b>\$(0.9)</b>
December 31, 2015				
	Less than 12 months		12 months or greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Debt securities AFS				
Mortgage-backed securities				
U.S. government agency securities	\$ 147.0	\$ (0.9)	\$ –	\$ –
Non-agency securities	495.5	(7.2)	–	–
U.S. government agency obligations	943.0	(3.7)	–	–
Total debt securities AFS	1,585.5	(11.8)	–	–
Equity securities AFS	0.2	(0.2)	–	–
<b>Total securities available-for-sale</b>	<b>\$1,585.7</b>	<b>\$(12.0)</b>	<b>\$ –</b>	<b>\$ –</b>

**Table of Contents**

CIT ANNUAL REPORT 2016 **153**

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Purchased Credit-Impaired AFS Securities*

In connection with the OneWest acquisition, the Company classified AFS mortgage-backed securities as PCI due to evidence of credit deterioration since issuance and for which it was probable that the Company will not collect all principal and interest payments contractually required at the time of purchase. Accounting for these PCI securities is discussed in Note 1 — *Business and Summary of Significant Accounting Policies*.

Changes in the accretable yield for PCI securities are summarized below:

**Changes in Accretable Yield** (dollars in millions)

	Year Ended December 31, 2016
<b>Beginning Balance</b>	<b>\$ 189.0</b>
Accretion into interest income	(29.2)
Reclassifications from non-accretable difference due to increasing cash flows	4.7
Reclassifications to non-accretable difference due to decreasing cash flows	0.5

	Year Ended December 31, 2016	
<b>Balance at December 31, 2016</b>	\$	165.0
	Year Ended December 31, 2015	
<b>Beginning Balance</b>	\$	204.4
Accretion into interest income		(13.5)
Reclassifications to non-accretable difference due to decreasing cash flows		(1.7)
Disposals and Other		(0.2)
<b>Balance at December 31, 2015</b>	\$	189.0

The estimated fair value of PCI securities was \$478.9 million and \$559.6 million with a par value of \$615.2 million and \$717.1 million as of December 31, 2016 and December 31, 2015, respectively.

#### Securities Carried at Fair Value with Changes Recorded in Net Income

Securities carried at fair value with changes recorded in net income are presented in the following tables.

#### Securities Carried at Fair Value with changes Recorded in Net Income (dollars in millions)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2016</b>				
Mortgage-backed Securities — Non-agency	\$277.5	\$6.7	\$(0.7)	\$283.5
Total Securities Carried at Fair Value with Changes Recorded in Net Income	\$277.5	\$6.7	\$(0.7)	\$283.5

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2015</b>				
Mortgage-backed Securities — Non-agency	\$343.8	\$0.3	\$(4.4)	\$339.7
Total Securities Carried at Fair Value with Changes Recorded in Net Income	\$343.8	\$0.3	\$(4.4)	\$339.7

#### Item 8: Financial Statements and Supplementary Data

#### Table of Contents

Edgar Filing: CIT GROUP INC - Form 10-K

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Securities Carried at Fair Value with changes Recorded in Net Income — Amortized Cost and Fair Value Maturities** (dollars in millions)

	December 31, 2016		
	Amortized Cost	Fair Value	Weighted Average Yield
<b>Mortgage-backed securities — Non agency</b>			
After 5 but within 10 years	\$ 0.3	\$ 0.3	41.82%
Due after 10 years	277.2	283.2	4.89%
<b>Total</b>	<b>\$277.5</b>	<b>\$283.5</b>	<b>4.93%</b>

Debt Securities Held-to-Maturity

The carrying value and fair value of securities HTM at December 31, 2016 and December 31, 2015 were as follows:

**Debt Securities HTM — Carrying Value and Fair Value** (dollars in millions)

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2016</b>				
<i>Mortgage-backed securities</i>				
U.S. government agency securities	\$ 110.0	\$0.7	\$(3.3)	\$ 107.4
State and municipal	27.7	—	(0.5)	27.2
Foreign government	2.4	—	—	2.4
Corporate — foreign	102.9	6.2	—	109.1
Total debt securities held-to-maturity	\$243.0	\$6.9	\$(3.8)	\$246.1
<b>December 31, 2015</b>				
<i>Mortgage-backed securities</i>				
U.S. government agency securities	\$ 147.2	\$ 1.1	\$(2.6)	\$ 145.7
State and municipal	37.1	—	(1.6)	35.5
Foreign government	13.5	—	—	13.5
Corporate — foreign	102.3	4.5	—	106.8
Total debt securities held-to-maturity	\$300.1	\$5.6	\$(4.2)	\$301.5

The following table presents the debt securities HTM by contractual maturity dates:

**Debt Securities HTM — Amortized Cost and Fair Value Maturities** (dollars in millions)

	December 31, 2016		
	Amortized Cost	Fair Value	Weighted Average Yield

December 31, 2016

<b>Mortgage-backed securities — U.S. government agency securities</b>			
Due after 10 years	\$ 110.0	\$ 107.4	2.52%
<b>Total</b>	<b>110.0</b>	<b>107.4</b>	<b>2.52%</b>
<b>State and municipal</b>			
Due within 1 year	0.5	0.5	2.09%
After 1 but within 5 years	0.5	0.5	2.46%
After 5 but within 10 years	0.5	0.5	2.70%
Due after 10 years	26.2	25.7	2.30%
<b>Total</b>	<b>27.7</b>	<b>27.2</b>	<b>2.31%</b>
<b>Foreign government</b>			
Due within 1 year	2.4	2.4	2.43%
<b>Total</b>	<b>2.4</b>	<b>2.4</b>	<b>2.43%</b>
<b>Corporate — Foreign securities</b>			
After 1 but within 5 years	102.9	109.1	4.35%
<b>Total</b>	<b>102.9</b>	<b>109.1</b>	<b>4.35%</b>
<b>Total debt securities held-to-maturity</b>	<b>\$243.0</b>	<b>\$246.1</b>	<b>3.27%</b>

Table of Contents

CIT ANNUAL REPORT 2016 155

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Debt Securities HTM — Estimated Unrealized Losses** (dollars in millions)

	December 31, 2016			
	Less than 12 months		12 months or greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Debt securities HTM				
Mortgage-backed securities				
U.S. government agency securities	\$ 68.2	\$ (1.7)	\$ 26.7	\$ (1.6)
State and municipal	3.8	(0.1)	22.4	(0.4)
<b>Total securities held-to-maturity</b>	<b>\$ 72.0</b>	<b>\$ (1.8)</b>	<b>\$ 49.1</b>	<b>\$ (2.0)</b>
	December 31, 2015			
	Less than 12 months		12 months or greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss

December 31, 2015

	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Debt securities HTM				
Mortgage-backed securities				
U.S. government agency securities	\$62.2	\$(0.9)	\$40.7	\$(1.7)
State and municipal	3.1	(0.1)	28.2	(1.5)
<b>Total securities held-to-maturity</b>	<b>\$65.3</b>	<b>\$(1.0)</b>	<b>\$68.9</b>	<b>\$(3.2)</b>

## Other Than Temporary Impairment

As discussed in Note 1 — Business and Summary of Significant Accounting Policies, the Company conducted and documented its periodic review of all securities with unrealized losses, which it performs to evaluate whether the impairment is other than temporary.

For PCI securities, management determined certain PCI securities with unrealized losses were deemed credit-related and recognized OTTI credit-related losses of \$3.3 million and \$2.8 million as permanent write-downs for the year ended December 31, 2016 and December 31, 2015, respectively. There were no PCI securities in 2014.

The Company reviewed debt securities AFS and HTM with unrealized losses and determined that the unrealized losses were not OTTI. The unrealized losses were not credit-related and the Company does not have an intent to sell and believes it is not more-likely-than-not that the Company will have to sell prior to the recovery of the amortized cost basis.

The Company reviewed equity securities classified as AFS with unrealized losses and determined that the unrealized losses were not OTTI. The unrealized losses were not credit-related.

There were no unrealized losses on non-marketable investments.

**Item 8: Financial Statements and Supplementary Data****Table of Contents**

156 CIT ANNUAL REPORT 2016

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 8 — OTHER ASSETS**

The following table presents the components of other assets.

**Other Assets** (dollars in millions)

	December 31, 2016	December 31, 2015
Tax credit investments and investments in unconsolidated subsidiaries <sup>(1)</sup>	\$ 220.2	\$ 174.6
Current and deferred federal and state tax assets <sup>(2)</sup>	201.3	1,212.4
Property, furniture and fixtures	191.1	196.3

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2016	December 31, 2015
Fair value of derivative financial instruments	111.2	140.7
Other real estate owned and repossessed assets	72.7	123.5
Tax receivables, other than income taxes	50.7	97.2
Other counterparty receivables	42.8	59.0
Other <sup>(3)(4)</sup>	350.4	465.2
Total other assets	\$1,240.4	\$2,468.9

(1) Included in this balance are affordable housing investments of \$151.3 million and \$108.4 million as of December 31, 2016 and December 31, 2015, respectively that provide tax benefits to investors in the form of tax deductions from operating losses and tax credits. As a limited partner, the Company has no significant influence over the operations. In 2016 and 2015, the Company recognized pre-tax losses of \$12.1 million and \$5.2 million, respectively related to these affordable housing investments. In addition, the Company recognized total tax benefits of \$20.6 million and \$8.7 million, respectively which included tax credits of \$15.9 million and \$6.7 million recorded in income taxes. The Company is periodically required to provide additional financial support during the investment period. The Company's liability for these unfunded commitments was \$62.3 million and \$15.7 million at December 31, 2016 and December 31, 2015, respectively. See Note 10 — Borrowings.

(2) The decrease is primarily due to the establishment of \$847 million deferred tax liabilities related to the change in assertion with respect to indefinite reinvestment of foreign earnings related to the Commercial Air business. See Note 19 — Income Taxes.

(3) Other includes executive retirement plan and deferred compensation, other deferred charges, prepaid expenses, accrued interest and dividends, and other miscellaneous assets.

(4) Other also includes servicing advances. In connection with the OneWest Transaction, the Company acquired the servicing obligations for residential mortgage loans. As of December 31, 2016 and December 31, 2015, the loans serviced for others total \$15.6 billion and \$17.4 billion for reverse mortgage loans and \$55.1 million and \$87.4 million for single family mortgage loans, respectively.

NOTE 9 — DEPOSITS

The following table presents detail on the type, maturities and weighted average interest rates of deposits.

**Deposits** (dollars in millions)

	December 31, 2016	December 31, 2015
Deposits Outstanding	\$32,304.3	\$32,761.4
Weighted average contractual interest rate	1.19%	1.26%
Weighted average remaining number of days to maturity <sup>(1)</sup>	641 days	864 days

(1) Excludes deposit balances with no stated maturity.

	Year Ended December 31, 2016	Year Ended December 31, 2015
Daily average deposits	\$32,628.4	\$23,223.0
Maximum amount outstanding	33,209.9	32,868.5
Weighted average contractual interest rate for the year	1.23%	1.46%



**Table of Contents**

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides further detail of deposits.

**Deposits — Rates and Maturities** (dollars in millions)

	December 31, 2016	
	Amount	Average Rate
Deposits – no stated maturity		
Non-interest-bearing checking	\$ 1,255.6	–
Interest-bearing checking	3,251.8	0.54%
Money market	6,593.3	0.85%
Savings	4,303.0	0.88%
Other	162.0	NM
Total checking and savings deposits	15,565.7	
Certificates of deposit, remaining contractual maturity:		
Within one year	8,659.6	1.14%
One to two years	2,673.2	1.42%
Two to three years	2,072.3	2.27%
Three to four years	1,555.8	2.27%
Four to five years	628.2	2.41%
Over five years	1,139.9	3.27%
Total certificates of deposit	16,729.0	
Purchase accounting adjustments	9.6	
Total Deposits	\$32,304.3	–

*NM Not meaningful — includes certain deposits such as escrow accounts, security deposits, and other similar accounts.*

The following table presents the maturity profile of other time deposits with a denomination of \$100,000 or more.

**Certificates of Deposit \$100,000 or More** (dollars in millions)

	December 31, 2016	December 31, 2015
U.S. certificates of deposits:		
Three months or less	\$ 1,725.4	\$ 1,476.5
After three months through six months	1,902.6	1,462.6
After six months through twelve months	2,907.7	2,687.2
After twelve months	7,013.4	9,245.8
Total	\$13,549.1	\$14,872.1

## NOTE 10 — BORROWINGS

Edgar Filing: CIT GROUP INC - Form 10-K

The following table presents the carrying value of outstanding borrowings.

**Borrowings<sup>(1)</sup>** (dollars in millions)

	December 31, 2016			December 31, 2015
	CIT Group Inc.	Subsidiaries	Total	Total
Senior Unsecured	\$10,599.0	\$ —	\$10,599.0	\$10,636.3
Secured borrowings:				
Structured financings	—	1,925.7	1,925.7	2,596.4
FHLB advances	—	2,410.8	2,410.8	3,117.6
<b>Total Borrowings</b>	<b>\$10,599.0</b>	<b>\$4,336.5</b>	<b>\$14,935.5</b>	<b>\$16,350.3</b>

*December 31, 2015 balances for Senior Unsecured and Structured Financing were adjusted to include deferred debt issuance costs of \$41.4 million and \$10.0 million, respectively, compared to balances presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, upon adoption and in accordance with the provision in ASU 2015-03. Previously these amounts were included in other assets.*

**Item 8: Financial Statements and Supplementary Data**

**Table of Contents**

158 CIT ANNUAL REPORT 2016

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes contractual maturities of borrowings outstanding, which excludes PAA discounts, original issue discounts, and FSA discounts.

**Contractual Maturities — Borrowings as of December 31, 2016** (dollars in millions)

	2017	2018	2019	2020	2021	Thereafter	Contractual Maturities
Senior unsecured notes	\$1,978.6	\$3,115.9	\$2,750.0	\$750.0	\$ —	\$2,051.4	\$10,645.9
Structured financings	328.1	281.4	787.2	68.8	61.1	411.9	1,938.5
FHLB advances	15.0	1,150.0	1,245.5	—	—	—	2,410.5
	\$2,321.7	\$4,547.3	\$4,782.7	\$818.8	\$61.1	\$2,463.3	\$14,994.9

**Unsecured Borrowings**

Second Amended and Restated Revolving Credit Facility

## Edgar Filing: CIT GROUP INC - Form 10-K

On February 17, 2016, the Company entered into a Second Amended and Restated Revolving Credit Facility, which amended the Company's existing revolving credit facility. See *Note 31 — Subsequent Events*. The following information was in effect at December 31, 2016.

There were no outstanding borrowings under the Second Amended and Restated Revolving Credit and Guaranty Agreement (the "Revolving Credit Facility") at December 31, 2016 and December 31, 2015. The amount available to draw upon at December 31, 2016 was approximately \$1.4 billion, with the remaining amount of approximately \$0.1 billion being utilized for issuance of letters of credit to customers.

The Revolving Credit Facility has a total commitment amount of \$1.5 billion and the maturity date of the commitment is January 26, 2018. The total commitment amount consists of a \$1.15 billion revolving loan tranche and a \$350 million revolving loan tranche that can also be utilized for issuance of letters of credit to customers. The applicable margin charged under the facility is 2.25% for LIBOR Rate loans and 1.25% for Base Rate loans.

The Revolving Credit Facility may be drawn and prepaid at the option of CIT. The unutilized portion of any commitment under the Revolving Credit Facility may be reduced permanently or terminated by CIT at any time without penalty.

The Revolving Credit Facility is unsecured and is guaranteed by nine of the Company's domestic operating subsidiaries. The facility was amended in February 2016 to extend the final maturity date of the lenders' commitments and modify the applicable margin, which depends on the Company's long-term senior unsecured, non-credit enhanced debt rating used to calculate the interest rate for LIBOR Rate and Base Rate loans. The applicable required minimum guarantor asset coverage ratio ranges from 1.0:1.0 to 1.5:1.0 and was 1.375:1.0 at December 31, 2016. The amendment also added Fitch Ratings Ltd. as a provider of the Company's long-term senior unsecured, non-credit enhanced debt rating.

The Revolving Credit Facility is subject to a \$6 billion minimum consolidated net worth covenant of the Company, tested quarterly, and also limits the Company's ability to create liens, merge or consolidate, sell, transfer, lease or dispose of all or substantially all of its assets, grant a negative pledge or make certain restricted payments during the occurrence and continuance of an event of default.

### Senior Unsecured Notes

The following tables present the principal amounts by maturity date.

#### Senior Unsecured Notes (dollars in millions)

<u>Maturity Date</u>	<u>Rate (%)</u>	<u>Date of Issuance</u>	<u>Par Value</u>
May 2017	5.000%	May 2012	\$ 252.8
August 2017	4.250%	August 2012	1,725.8
March 2018	5.250%	March 2012	1,465.0
April 2018	6.625%	March 2011	695.0
May 2018 <sup>(1)</sup>	5.000%	December 2016	955.9
February 2019	5.500%	February 2012	1,750.0
February 2019	3.875%	February 2014	1,000.0
May 2020	5.375%	May 2012	750.0
August 2022	5.000%	August 2012	1,250.0
August 2023	5.000%	August 2013	750.0
Weighted average rate and total	5.02%		\$10,594.5

<sup>(1)</sup> Reflects amounts tendered and exchanged to extend maturity of notes originally issued in May 2012 by one year.

In December 2016, CIT commenced an offer to exchange (the “Exchange Offer”) any and all of its \$1.2 billion outstanding 5.00% Senior Unsecured Notes due May 2017 (the “Old Notes”) for its newly issued 5.00% Senior Unsecured Notes due 2018 (the “New Notes”). The New Notes will mature on May 15, 2018, which is one year later than the maturity of the Old Notes. The New Notes will have the same interest rate, ranking and covenants as the Old Notes. Commencing on May 15, 2017, the New

**Table of Contents**

CIT ANNUAL REPORT 2016 159

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Notes will be redeemable at the Company’s option at 100.50% of the principal amount of the New Notes. Approximately \$956 million of the aggregate principal amount of outstanding Old Notes were validly tendered and exchanged as of December 31, 2016.

The Indentures for the senior unsecured notes limit the Company’s ability to create liens, merge or consolidate, or sell, transfer, lease or dispose of all or substantially all of its assets. Upon a Change of Control Triggering Event as defined in the Indentures for the senior unsecured notes, holders of the senior unsecured notes will have the right to require the Company, as applicable, to repurchase all or a portion of the senior unsecured notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest to the date of such repurchase.

In addition to the above table, there is an unsecured note with a 6.0% coupon and a carrying value of \$39 million (par value of \$51 million) that matures in 2036.

***Secured Borrowings***

At December 31, 2016 the Company had pledged assets (including collateral for the FRB discount window) of \$13.1 billion, which included \$11.5 billion of loans (including amounts held for sale), \$1.3 billion of operating lease assets, \$0.2 billion of cash and \$0.1 billion of investment securities.

**FHLB Advances**

As a member of the FHLB of San Francisco, CIT Bank can access financing based on an evaluation of its creditworthiness, statement of financial position, size and eligibility of collateral. The interest rates charged by the FHLB for advances typically vary depending upon maturity, the cost of funds of the FHLB, and the collateral provided for the borrowing and the advances are secured by certain Bank assets and bear either a fixed or floating interest rate. The FHLB advances are collateralized by a variety of consumer and commercial loans and leases, including SFR mortgage loans, reverse mortgage loans, multi-family mortgage loans, commercial real estate loans, certain foreclosed properties and certain amounts receivable under a loss sharing agreement with the FDIC, commercial loans, leases and/or equipment.

As of December 31, 2016, the Company had \$5.5 billion of financing availability with the FHLB, of which \$2.3 billion was unused and available, and \$0.8 million was being used for issuance of letters of credit. FHLB Advances as of December 31, 2016, have a weighted average rate of 1.18%. The following table includes the outstanding FHLB Advances, and respective pledged assets.

**FHLB Advances with Pledged Assets Summary** (dollars in millions)

December 31, 2016		December 31, 2015	
FHLB Advances	Pledged Assets	FHLB Advances	Pledged Assets

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2016		December 31, 2015	
<b>Total</b>	\$2,410.8	\$6,389.7	\$3,117.6	\$6,783.1

Structured Financings

Set forth in the following table are amounts primarily related to and owned by consolidated VIEs. Creditors of these VIEs received ownership and/or security interests in the assets. These entities are intended to be bankruptcy remote so that such assets are not available to creditors of CIT or any affiliates of CIT until and unless the related secured borrowings have been fully discharged. These transactions do not meet accounting requirements for sales treatment and are recorded as secured borrowings. Structured financings as of December 31, 2016, had a weighted average rate of 3.39%, which ranged from 0.85% to 5.74%.

**Structured Financings and Pledged Assets Summary<sup>(1)</sup>** (dollars in millions)

	December 31, 2016		December 31, 2015	
	Secured Borrowing	Pledged Assets	Secured Borrowing	Pledged Assets
Business Capital <sup>(2)</sup>	\$ 949.8	\$2,608.0	\$1,128.6	\$2,434.1
Rail <sup>(3)(4)</sup>	860.1	1,327.5	917.0	1,344.4
Commercial Finance	—	0.2	—	0.2
Subtotal — Commercial Banking	1,809.9	3,935.7	2,045.6	3,778.7
Non-Strategic Portfolios <sup>(3)</sup>	115.8	212.6	550.8	734.2
<b>Total</b>	\$1,925.7	\$4,148.3	\$2,596.4	\$4,512.9

<sup>(1)</sup> As part of our liquidity management strategy, the Company pledges assets to secure financing transactions (which include securitizations), and for other purposes as required or permitted by law while CIT Bank also pledges assets to secure borrowings from the FHLB and access the FRB discount window.

<sup>(2)</sup> In 2016, the Company established a \$1 billion, three-year asset-based lending facility in support of its factoring business in Business Capital. The 2016 secured borrowings and pledged assets include balances under this facility.

<sup>(3)</sup> Management identified \$8 million and \$22 million of errors related to Rail and Non-Strategic Portfolios pledged assets, respectively, at December 31, 2015, which were revised.

<sup>(4)</sup> At December 31, 2016, the TRS Transactions related borrowings and pledged assets, respectively, of \$528.7 million and \$838.3 million were included in Commercial Banking. The TRS Transactions are described in Note 11 — Derivative Financial Instruments.

Not included in the above are liabilities of discontinued operations at December 31, 2016, and 2015, of \$1,571.0 million and \$2,532.2 million of secured borrowings, respectively. See Note 2 — Acquisitions and Discontinued Operations. During

**Item 8: Financial Statements and Supplementary Data**

**Table of Contents**

160 CIT ANNUAL REPORT 2016

February 2017, the Company repaid secured debt related to Commercial Air. See *Note 31 — Subsequent Events* for additional detail.

### **Going Concern**

In accordance with the guidance provided by ASU No. 2014 – 15, Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern, which become effective for the Company at year-end 2016, CIT considered relevant events and conditions up to and within one year from the issuance date of the financial statements, to determine if conditions exist, or will exist, that would give rise to "substantial doubt" as defined by the standard, about the Company's ability to meet its obligations and ability to continue as a going concern.

Given this standard requires a Company to disclose when it would not be able to meet its obligations, absent a management action, within one year from the filing date of these financials, management evaluated the impact of the Commercial Air sale transaction on this disclosure. Specifically, the Commercial Air sale is targeted to close by the end of the first quarter of 2017; therefore, the Company has refrained from taking actions to refinance or extend certain future unsecured debt maturities since, in connection with the sale, the Company has announced plans to return up to \$3.3 billion of capital to shareholders and repurchase or redeem approximately \$6 billion of unsecured debt. In the event that the Commercial Air transaction does not close in the anticipated timeline, CIT has contingency plans that include drawing on its existing revolving credit facility, issuing additional unsecured debt, entering into exchange offers to extend the maturity of existing debt, and/or taking other actions as needed. The Company believes that these plans are probable and would sufficiently mitigate any adverse conditions.

### **FRB**

The Company has a borrowing facility with the FRB Discount Window that can be used for short-term, typically overnight, borrowings. The borrowing capacity is determined by the FRB based on the collateral pledged.

There were no outstanding borrowings with the FRB Discount Window as of December 31, 2016, or December 31, 2015.

### **Variable Interest Entities ("VIEs")**

Below describes the results of the Company's assessment of its variable interests to determine its current status with regards to being the primary beneficiary of a VIE.

#### **Consolidated VIEs**

The Company utilizes VIEs in the ordinary course of business to support its own and its customers' financing needs. Each VIE is a separate legal entity and maintains its own books and records.

The most significant types of VIEs that CIT utilizes are 'on balance sheet' secured financings of pools of leases and loans originated by the Company where the Company is the primary beneficiary. The Company originates pools of assets and sells these to special purpose entities, which, in turn, issue debt instruments backed by the asset pools or sells individual interests in the assets to investors. CIT retains the servicing rights and participates in certain cash flows. These VIEs are typically organized as trusts or limited liability companies, and are intended to be bankruptcy remote, from a legal standpoint.

The main risks inherent in structured financings are deterioration in the credit performance of the vehicle's underlying asset portfolio and risk associated with the servicing of the underlying assets.

Lenders typically have recourse to the assets in the VIEs and may benefit from other credit enhancements, such as: (1) a reserve or cash collateral account that requires the Company to deposit cash in an account, which will first be used to cover any defaulted obligor payments, (2) over-collateralization in the form of excess assets in the VIE, or (3) subordination, whereby the Company retains a subordinate position in the secured borrowing which would absorb losses due to defaulted obligor payments before the senior certificate holders. The VIE may also enter into derivative contracts in order to convert the debt issued by the VIEs to match the underlying assets or to limit or change the risk of the VIE.

With respect to events or circumstances that could expose CIT to a loss, as these are accounted for as on balance sheet, the Company records an allowance for loan losses for the credit risks associated with the underlying leases and loans. The VIE has an obligation to pay the debt in accordance with the terms of the underlying agreements.

Generally, third-party investors in the obligations of the consolidated VIEs have legal recourse only to the assets of the VIEs and do not have recourse to the Company beyond certain specific provisions that are customary for secured financing transactions, such as asset repurchase obligations for breaches of representations and warranties. In addition, the assets are generally restricted to pay only such liabilities.

### **Unconsolidated VIEs**

Unconsolidated VIEs include government sponsored entity (“GSE”) securitization structures, private-label securitizations and limited partnership interests where the Company’s involvement is limited to an investor interest where the Company does not have the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE and limited partnership interests.

As a result of the OneWest Transaction, the Company has certain contractual obligations related to the HECM loans and the GNMA HMBS securitizations. The Company, as servicer of these HECM loans, is currently obligated to fund future borrower advances, which include fees paid to taxing authorities for borrowers’ unpaid taxes and insurance, mortgage insurance premiums and payments made to borrowers for line of credit draws on HECM loans. In addition, the Company capitalizes the servicing fees and interest income earned and is obligated to fund guarantee fees associated with the GNMA HMBS. The Company periodically pools and securitizes certain of these funded advances through issuance of HMBS to third-party security holders, which did not qualify for sale accounting and rather, are treated as financing transactions. As a financing transaction, the HECM loans and related proceeds from the issuance of the HMBS recognized as secured borrowings remain on the Company’s Consolidated Balance Sheet. Due to the Company’s planned exit of third party servicing, HECM loans of \$374.0 million and \$449.5 million were included in Assets of discontinued operations and the associated secured borrowing of \$366.4 million and \$440.6 million (including an unamortized premium balances of \$8.1 million and \$13.2 million) were included in Liabilities of discontinued operations at December 31, 2016, and 2015, respectively.

---

### **Table of Contents**

CIT ANNUAL REPORT 2016 161

---

### **CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As servicer, the Company is required to repurchase the HECM loans once the outstanding principal balance is equal to or greater than 98% of the maximum claim amount or when the property forecloses to OREO, which reduces the secured borrowing balance. Additionally the Company services \$160.2 million and \$189.6 million of HMBS outstanding principal balance at December 31, 2016, and 2015, respectively, for transferred loans securitized by IndyMac for which OneWest Bank prior to the acquisition had purchased the mortgage servicing rights (“MSRs”) in connection with the IndyMac Transaction. The carrying value of the MSRs was not significant at December 31, 2016, and 2015. As the HECM loans are federally insured by the FHA and the secured borrowings guaranteed to the investors by GNMA, the Company does not believe maximum loss exposure as a result of its involvement is material or quantifiable.

For Agency and private label securitizations where the Company is not the servicer, the maximum exposure to loss represents the recorded investment based on the Company’s beneficial interests held in the securitized assets. These interests are not expected to absorb losses or receive benefits that are significant to the VIE.

As a limited partner, the nature of the Company’s ownership interest in tax credit equity investments is limited in its ability to direct the activities that drive the economic performance of the entity, as these entities are managed by the general or managing partner. As a result, the Company was not deemed to be the primary beneficiary of these VIEs.

The table below presents potential losses that would be incurred under hypothetical circumstances, such that the value of its interests and any associated collateral declines to zero and at the same time assuming no consideration of recovery or offset from any economic hedges. The Company believes the possibility is remote under this hypothetical scenario; accordingly, this required disclosure is not an indication of expected loss.

**Assets and Liabilities in Unconsolidated VIEs** (dollars in millions)

	Unconsolidated VIEs Carrying Value December 31, 2016		Unconsolidated VIEs Carrying Value December 31, 2015	
	Securities	Partnership Investment	Securities	Partnership Investment
Agency securities <sup>(1)</sup>	\$2,152.9	\$ —	\$ 294.5	\$ —
Non agency securities — Other servicer	769.0	—	906.8	—
Tax credit equity investments	—	167.7	—	125.0
Equity investments <sup>(2)</sup>	—	11.4	—	15.4
Total Assets	\$2,921.9	\$179.1	\$1,201.3	\$140.4
Commitments to tax credit investments	—	62.3	—	15.7
Total Liabilities	\$ —	\$ 62.3	\$ —	\$ 15.7
Maximum loss exposure <sup>(3)</sup>	\$2,921.9	\$179.1	\$1,201.3	\$140.4

<sup>(1)</sup> The Company discovered and corrected an immaterial error impacting the disclosure of agency securities in the amount of \$147.0 million as of December 31, 2015.

<sup>(2)</sup> In preparing the financial statements for the year ended December 31, 2016, the Company discovered and corrected an immaterial omission of disclosure of equity investments as of December 31, 2015.

<sup>(3)</sup> Maximum loss exposure to the unconsolidated VIEs excludes the liability for representations and warranties, corporate guarantees and also excludes servicing advances.

**NOTE 11 — DERIVATIVE FINANCIAL INSTRUMENTS**

As part of managing economic risk and exposure to interest rate and foreign currency risk, the Company primarily enters into derivative transactions in over-the-counter markets with other financial institutions. The Company does not enter into derivative financial instruments for speculative purposes.

The Dodd-Frank Act (the "Act") includes measures to broaden the scope of derivative instruments subject to regulation by requiring clearing and exchange trading of certain derivatives, and imposing margin, reporting and registration requirements for certain market participants. Since the Company does not meet the definition of a Swap Dealer or Major Swap Participant under the Act, the reporting and clearing obligations apply to a limited number of derivative transactions executed with its lending customers in order to manage their interest rate risk.

See *Note 1 — Business and Summary of Significant Accounting Policies* for further description of the Company's derivative transaction policies.

**Item 8:** Financial Statements and Supplementary Data

**Table of Contents**

**162** CIT ANNUAL REPORT 2016

**CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table presents fair values and notional values of derivative financial instruments:



Edgar Filing: CIT GROUP INC - Form 10-K

Fair and Notional Values of Derivative Financial Instruments<sup>(1)</sup> (dollars in millions)

	December 31, 2016			December 31, 2015		
	Notional Amount	Asset Fair Value	Liability Fair Value	Notional Amount	Asset Fair Value	Liability Fair Value
<b>Qualifying Hedges</b>						
Foreign currency forward contracts — net investment hedges	\$ 817.9	\$ 16.9	\$ —	\$ 787.6	\$ 45.5	\$ (0.3)
Total Qualifying Hedges	817.9	16.9	—	787.6	45.5	(0.3)
<b>Non-Qualifying Hedges</b>						
Interest rate swaps <sup>(2)</sup>	5,309.2	63.0	(50.1)	4,607.6	45.1	(37.9)
Written options	2,626.5	0.1	(1.0)	3,346.1	0.1	(2.5)
Purchased options	2,129.6	1.0	(0.1)	2,342.5	2.2	(0.1)
Foreign currency forward contracts	1,329.8	30.2	(6.0)	1,624.2	47.8	(6.6)
Total Return Swap (TRS)	587.5	—	(11.3)	1,152.8	—	(54.9)
Equity Warrants	1.0	0.2	—	1.0	0.3	—
Interest Rate Lock Commitments	20.7	0.1	(0.1)	9.9	0.1	—
Forward sale commitments on agency MBS	39.0	0.1	—	—	—	—
Credit derivatives	267.6	—	(0.2)	37.6	—	(0.3)
Total Non-qualifying Hedges	12,310.9	94.7	(68.8)	13,121.7	95.6	(102.3)
Total Hedges	\$ 13,128.8	\$ 111.6	\$ (68.8)	\$ 13,909.3	\$ 141.1	\$ (102.6)

<sup>(1)</sup> Presented on a gross basis.

<sup>(2)</sup> Fair value balances include accrued interest.

**TRS Transactions**

Two financing facilities between two wholly-owned subsidiaries of CIT, one Canadian (“CFL”) and one Dutch, and Goldman Sachs International (“GSI”), respectively, are structured as total return swaps (“TRS”), under which amounts available for advances (otherwise known as the unused portion) are accounted for as derivatives and recorded at its estimated fair value. The total facility capacity available under the Canadian TRS was \$437 million and the Dutch TRS was \$625 million at December 31, 2016. The utilized portion reflects the borrowing.

On December 7, 2016, CFL entered into a Fourth Amended and Restated Confirmation (the “Termination Agreement”) with GSI to terminate the Canadian TRS. Under the Termination Agreement, the Canadian TRS terminates on March 31, 2017, or such earlier date designated by CFL upon five business days’ prior notice delivered to GSI on or after January 2, 2017. The Termination Agreement required payment by CFL to GSI on December 7, 2016, of the present value of the remaining facility fee in an amount equal to approximately \$280 million.

In order to prepare for the previously announced sale of the Company’s commercial aircraft leasing business to Avolon Holdings Limited, CIT redeemed in December 2016 the commercial aircraft securitization transaction utilized as a reference obligation in the Canadian TRS, causing the Canadian TRS to become fully unutilized. As a result, the Company and its Board of Directors decided to terminate the Canadian TRS in order to further simplify the Company’s business model and reduce earnings volatility resulting from the mark-to-market of the Canadian TRS derivative. On January 9, 2017, CFL provided notice to GSI designating January 17,

2017, as the termination date for the Canadian TRS.

The aggregate “notional amounts” of the TRS Transactions of \$587.5 million at December 31, 2016 and \$1,152.8 million at December 31, 2015, represent the aggregate unused portions under the Canadian TRS and Dutch TRS, respectively, and constitute derivative financial instruments. These notional amounts are calculated as the maximum aggregate facility commitment amounts, \$1,062.3 million at December 31, 2016 and \$2,125.0 at December 31, 2015, less the aggregate actual adjusted qualifying borrowing base outstanding of \$474.8 million at December 31, 2016 and \$972.2 million at December 31, 2015, under the Canadian TRS and Dutch TRS. The notional amounts of the derivatives will increase as the adjusted qualifying borrowing base decreases due to repayment of the underlying ABS to investors. If CIT funds additional ABS under the Dutch TRS, the aggregate adjusted qualifying borrowing base of the total return swaps will increase and the notional amount of the derivatives will decrease accordingly.

Valuation of the derivatives related to the TRS Transactions is based on several factors using a discounted cash flow (“DCF”) methodology, including:

- Funding costs for similar financings based on current market conditions;
- Forecasted amortization, due to principal payments on the underlying ABS, which impacts the amount of the unutilized portion; and
- Specific to the Dutch TRS, forecasted usage of the long-dated facilities through the final maturity date in 2028.

Based on the Company’s valuation, a liability of \$11.3 million and \$54.9 million was recorded at December 31, 2016, and December 31, 2015, respectively on the aggregate unused portion. The decrease in the liability of \$43.6 million and increase in the liability of \$30.4 million for the years ended December 31, 2016, and 2015, respectively, were recognized in Other Income. The termination fee on the financing facility, mentioned above, and the reduction of the liability associated with the TRS Transactions of approximately \$37 million, resulted in a net pretax charge for the Company of approximately \$245 million in the fourth

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 163

---

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

quarter of 2016. As a result of the Termination Agreement, the unsecured counterparty receivable held by GSI under the Canadian TRS was also released.

Interest expense related to the TRS Transactions is affected by the following:

- A fixed facility fee of 2.85% per annum times the maximum facility commitment amount, (the facility fee on the Canadian TRS was reduced to zero effective December 7, 2016)
- A variable amount based on one-month or three-month USD LIBOR times the “utilized amount” (effectively the “adjusted qualifying borrowing base”) of the total return swap, and
- A reduction in interest expense due to the recognition of the payment of any original issue discount from GSI on the various ABS.

### **Impact of Collateral and Netting Arrangements on the Total Derivative Portfolio**

Edgar Filing: CIT GROUP INC - Form 10-K

The following tables present a summary of our derivative portfolio, which includes the gross amounts of recognized financial assets and liabilities; the amounts offset in the consolidated balance sheet; the net amounts presented in the consolidated balance sheet; the amounts subject to an enforceable master netting arrangement or similar agreement that were not included in the offset amount above, and the amount of cash collateral received or pledged. The derivative transactions are entered into under an International Swaps and Derivatives Association ("ISDA") agreement.

**Offsetting of Derivative Assets and Liabilities** (dollars in millions)

	Gross Amount of Recognized Assets (Liabilities)	Gross Amount Offset in the Consolidated Balance Sheet	Net Amount Presented in the Consolidated Balance Sheet	Gross Amounts not offset in the Consolidated Balance Sheet		
				Derivative Financial Instruments <sup>(1)</sup>	Cash Collateral Pledged / (Received) <sup>(1)(2)</sup>	Net Amount
<b>December 31, 2016</b>						
Derivative assets	\$ 111.6	\$ —	\$ 111.6	\$(30.9)	\$(48.7)	\$ 32.0
Derivative liabilities	(68.8)	—	(68.8)	30.9	5.0	(32.9)
<b>December 31, 2015</b>						
Derivative assets	\$ 141.1	\$ —	\$ 141.1	\$(9.7)	\$(82.7)	\$ 48.7
Derivative liabilities	(102.6)	—	(102.6)	9.7	31.8	(61.1)

<sup>(1)</sup> The Company's derivative transactions are governed by ISDA agreements that allow for net settlements of certain payments as well as offsetting of all contracts ("Derivative Financial Instruments") with a given counterparty in the event of bankruptcy or default of one of the two parties to the transaction. We believe our ISDA agreements meet the definition of a master netting arrangement or similar agreement for purposes of the above disclosure. In conjunction with the ISDA agreements, the Company has entered into collateral arrangements with its counterparties which provide for the exchange of cash depending on change in the market valuation of the derivative contracts outstanding. Such collateral is available to be applied in settlement of the net balances upon an event of default of one of the counterparties.

<sup>(2)</sup> Collateral pledged or received is included in Other assets or Other liabilities, respectively.

The following table presents the impact of derivatives on the statements of income.

**Derivative Instrument Gains and Losses** (dollars in millions)

Derivative Instruments	Gain / (Loss) Recognized	Years Ended December 31,		
		2016	2015	2014
<b>Non Qualifying Hedges</b>				
Cross currency swaps	Other income	—	—	4.1
Interest rate swaps	Other income	7.9	4.6	(5.2)
Interest rate options	Other income	0.6	1.6	(2.4)
Foreign currency forward contracts	Other income	26.2	116.5	118.1

		Years Ended December 31,		
Equity warrants	Other income	(0.2)	0.2	(0.7)
TRS	Other income	43.6	(30.4)	(14.8)
Rate Locks	Other income	(0.2)	—	—
Forward sale commitments on agency MBS	Other income	1.1	—	—
Risk Participation Agreements	Other income	1.8	—	—
Total Non-qualifying Hedges		80.8	92.5	99.1
<b>Total derivatives-income statement impact</b>		<b>\$80.8</b>	<b>\$ 92.5</b>	<b>\$ 99.1</b>

**Item 8:** Financial Statements and Supplementary Data**Table of Contents**

164 CIT ANNUAL REPORT 2016

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the changes in AOCI relating to derivatives:

**Changes in AOCI Relating to Derivatives** (dollars in millions)

<u>Contract Type</u>	<u>Derivatives — effective portion reclassified from AOCI to income</u>	<u>Hedge effectiveness recorded directly in income</u>	<u>Total income statement impact</u>	<u>Derivatives — effective portion recorded in OCI</u>	<u>Total change in OCI for period</u>
<b>Year Ended December 31, 2016</b>					
Foreign currency forward contracts — net investment hedges	\$ 1.8	\$ —	\$ 1.8	\$ 2.7	\$ 0.9
<b>Total</b>	<b>\$ 1.8</b>	<b>\$ —</b>	<b>\$ 1.8</b>	<b>\$ 2.7</b>	<b>\$ 0.9</b>
<b>Year Ended December 31, 2015</b>					
Foreign currency forward contracts — cash flow hedges	\$ —	\$ —	\$ —	\$ —	\$ —
Foreign currency forward contracts — net investment hedges	33.8	—	33.8	128.4	94.6
Cross currency swaps — net investment hedges	—	—	—	—	—
<b>Total</b>	<b>\$ 33.8</b>	<b>\$ —</b>	<b>\$ 33.8</b>	<b>\$ 128.4</b>	<b>\$ 94.6</b>
<b>Year Ended December 31, 2014</b>					
Foreign currency forward contracts — cash flow hedges	\$ —	\$ —	\$ —	\$ 0.2	\$ 0.2
Foreign currency forward contracts — net investment hedges	(18.1)	—	(18.1)	111.1	129.2
Cross currency swaps — net investment hedges	—	—	—	1.1	1.1
<b>Total</b>	<b>\$ (18.1)</b>	<b>\$ —</b>	<b>\$ (18.1)</b>	<b>\$ 112.4</b>	<b>\$ 130.5</b>

## NOTE 12 — OTHER LIABILITIES

The following table presents components of other liabilities:

	December 31, 2016	December 31, 2015
Accrued expenses and accounts payable	\$ 580.4	\$ 608.9
Current and deferred taxes payable	250.6	214.6
Accrued interest payable	181.2	201.9
Fair value of derivative financial instruments	69.0	102.6
Security and other deposits	59.0	107.9
Equipment maintenance reserves	45.9	32.3
Other <sup>(1)</sup>	711.5	420.8
Total other liabilities	\$1,897.6	\$1,689.0

<sup>(1)</sup> Other consists of unsettled investment security purchased of \$201.2 million and \$0 million as of December 31, 2016 and 2015, respectively, contingent performance liability, and other miscellaneous liabilities.

## NOTE 13 — FAIR VALUE

## Fair Value Hierarchy

The Company is required to report fair value measurements for specified classes of assets and liabilities. See Note 1 — “Business and Summary of Significant Accounting Policies” for fair value measurement policy.

The Company characterizes inputs in the determination of fair value according to the fair value hierarchy. The fair value of the Company’s assets and liabilities where the measurement objective specifically requires the use of fair value are set forth in the tables below.

Disclosures that follow in this note exclude assets and liabilities classified as discontinued operations.

**Table of Contents**

CIT ANNUAL REPORT 2016 165

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Financial Assets and Liabilities Measured at Estimated Fair Value on a Recurring Basis

The following table summarizes the Company’s assets and liabilities measured at estimated fair value on a recurring basis, including those management elected under the fair value option.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis** (dollars in millions)

Total	Level 1	Level 2	Level 3
-------	---------	---------	---------

Edgar Filing: CIT GROUP INC - Form 10-K

**December 31, 2016**

**Assets**

Debt Securities AFS	\$3,674.1	\$200.1	\$2,988.5	\$ 485.5
Securities carried at fair value with changes recorded in net income	283.5	—	—	283.5
Equity Securities AFS	34.1	0.3	33.8	—
Derivative assets at fair value — non-qualifying hedges	94.7	—	94.7	—
Derivative assets at fair value — qualifying hedges	16.9	—	16.9	—
Total	\$4,103.3	\$200.4	\$3,133.9	\$ 769.0

**Liabilities**

Derivative liabilities at fair value — non-qualifying hedges <sup>(1)</sup>	\$ (68.8)	\$ —	\$ (57.3)	\$ (11.5)
Consideration holdback liability	(47.2)	—	—	(47.2)
FDIC True-up Liability	(61.9)	—	—	(61.9)
Total	\$ (177.9)	\$ —	\$ (57.3)	\$ (120.6)

**December 31, 2015**

**Assets**

Debt Securities AFS	\$2,007.8	\$ —	\$1,440.7	\$ 567.1
Securities carried at fair value with changes recorded in net income	339.7	—	—	339.7
Equity Securities AFS	14.3	0.3	14.0	—
FDIC receivable	54.8	—	—	54.8
Derivative assets at fair value — non-qualifying hedges	95.6	—	95.6	—
Derivative assets at fair value — qualifying hedges	45.5	—	45.5	—
Total	\$2,557.7	\$ 0.3	\$1,595.8	\$ 961.6

**Liabilities**

Derivative liabilities at fair value — non-qualifying hedges <sup>(1)</sup>	\$ (102.3)	\$ —	\$ (46.8)	\$ (55.5)
Derivative liabilities at fair value — qualifying hedges	(0.3)	—	(0.3)	—
Consideration holdback liability	(60.8)	—	—	(60.8)
FDIC True-up Liability	(56.9)	—	—	(56.9)
Total	\$ (220.3)	\$ —	\$ (47.1)	\$ (173.2)

<sup>(1)</sup> Derivative fair values include accrued interest.

*Debt and Equity Securities Classified as AFS and Securities carried at fair value with changes recorded in Net Income* — Debt and equity securities classified as AFS are carried at fair value, as determined either by Level 1, Level 2 or Level 3 inputs. Debt securities classified as AFS included investments in U.S. federal government agency, U.S. Treasury, and supranational securities and were valued using Level 2 inputs, primarily quoted prices for similar securities. Certain equity securities classified as AFS were valued using Level 1 inputs, primarily quoted prices in active markets. For Agency pass-through MBS, which are classified as Level 2, the Company generally determines estimated fair value utilizing prices obtained from independent broker dealers and recent trading activity for similar assets. Debt securities classified as AFS and securities carried at fair value with changes recorded in net income represent non-Agency MBS, the market for such securities is not active and the estimated fair value was determined using a discounted cash flow technique. The significant unobservable assumptions, which are verified to the extent possible using broker dealer quotes, are estimated by type of underlying collateral, including credit loss assumptions, estimated prepayment speeds and appropriate discount rates. Given the lack of observable market data, the estimated fair value of the non-agency MBS is classified as Level 3.

**Item 8: Financial Statements and Supplementary Data**

**Table of Contents**166 CIT ANNUAL REPORT 2016

---

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*FDIC Receivable* — The Company elected to measure its receivable under a participation agreement with the FDIC in connection with the IndyMac Transaction at estimated fair value under the fair value option. The participation agreement provides the Company a secured interest in certain homebuilder, home construction and lot loans, which entitle the Company to a 40% share of the underlying loan cash flows.

Projected future cash flows are estimated by taking the Company's share (40%) of the future cash flows from the underlying loans and real estate properties that include proceeds and interest offset by servicing expenses and servicing fees. Estimated fair value of the FDIC receivable is based on a discounted cash flow technique using significant unobservable inputs, including prepayment rates, default rates, loss severities and liquidation assumptions.

To determine the estimated fair value, the cash flows are discounted using a market interest rate that represents an overall weighted average discount rate based on the underlying collateral specific discount rates. Due to the reduced liquidity that exists for such loans and lack of observable market data available, this requires the use of significant unobservable inputs; as a result these measurements are classified as Level 3. As of December 31, 2016, substantially all of the underlying loans were sold to a third party.

*Derivative Assets and Liabilities* — The Company's financial derivatives include interest rate swaps, floors, caps, forwards and credit derivatives. These derivatives are valued using models that incorporate inputs depending on the type of derivative, such as, interest rate curves, foreign exchange rates and volatility. Readily observable market inputs to models can be validated to external sources, including industry pricing services, or corroborated through recent trades, broker dealer quotes, yield curves, or other market-related data. As such, these derivative instruments are valued using a Level 2 methodology. In addition, these derivative values incorporate an assessment of the risk of counterparty nonperformance, measured based on the Company's evaluation of credit risk. The fair values of the TRS derivative, written options on certain CIT Bank CDs and credit derivatives were estimated using Level 3 inputs.

*FDIC True-up Liability* — In connection with the La Jolla Transaction, the Company recognized a FDIC True-up liability due to the FDIC 45 days after the tenth anniversary of the loss sharing agreement (the maturity) because the actual and estimated cumulative losses on the acquired covered PCI loans are lower than the cumulative losses originally estimated by the FDIC at the time of acquisition. The FDIC True-up liability was recorded at estimated fair value as of the acquisition date and is remeasured to fair value at each reporting date until the contingency is resolved. The FDIC True-up liability was valued using the discounted cash flow method based on the terms specified in the loss-sharing agreements with the FDIC, the actual FDIC payments collected and significant unobservable inputs, including a risk-adjusted discount rate (reflecting the Company's credit risk plus a liquidity premium), prepayment and default rates. Due to the significant unobservable inputs used to calculate the estimated fair value, these measurements are classified as Level 3.

*Consideration Holdback Liability* — In connection with the OneWest acquisition, the parties negotiated 4 separate holdbacks related to selected trailing risks, totaling \$116 million, which reduced the cash consideration paid at closing. Any unapplied Holdback funds at the end of the respective holdback periods, which range from 1 — 5 years, are payable to the former OneWest shareholders. Unused funds for any of the four holdbacks cannot be applied against another holdback amount. The range of potential holdback to be paid is from \$0 to \$116 million. Based on management's estimate of the probability of each holdback it was determined that the probable amount of holdback to be paid was originally \$62.4 million and currently is \$47.2 million. The amount expected to be paid was discounted based on CIT's cost of funds. This contingent consideration was measured at fair value at the acquisition date and is re-measured at fair value in subsequent accounting periods, with the changes in fair value recorded in the statement of income, until the related contingent issues are resolved. Gross payments, which are determined based on the Company's probability assessment, are discounted at a rate approximating the Company's average coupon rate on deposits and borrowings. Due to the significant unobservable inputs used to calculate the estimated fair value, these measurements are classified as Level 3.

The following tables summarize information about significant unobservable inputs related to the Company's categories of Level 3 financial assets and liabilities measured on a recurring basis as of December 31, 2016 and 2015.

**Table of Contents**

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Quantitative Information about Level 3 Fair Value Measurements — Recurring** (dollars in millions)

<b>Financial Instrument</b>	<b>Estimated Fair Value</b>	<b>Valuation Technique(s)</b>	<b>Significant Unobservable Inputs</b>	<b>Range of Inputs</b>	<b>Weighted Average</b>
<b>December 31, 2016</b>					
<b>Assets</b>					
Securities — AFS	\$ 485.5	Discounted cash flow	Discount Rate	0.0% – 96.4%	5.5%
			Prepayment Rate	3.2% – 21.2%	8.8%
			Default Rate	0.0% – 9.0%	3.9%
			Loss Severity	1.0% – 79.8%	36.3%
Securities carried at fair value with changes recorded in net income	283.5	Discounted cash flow	Discount Rate	0.0% – 34.6%	5.6%
			Prepayment Rate	6.1% – 16.2%	11.9%
			Default Rate	1.9% – 8.1%	4.6%
			Loss Severity	22.2% – 44.7%	25.8%
<b>Total Assets</b>	<b>\$ 769.0</b>				
<b>Liabilities</b>					
FDIC True-up liability	\$ (61.9)	Discounted cash flow	Discount Rate	3.2%	3.2%
Consideration holdback liability	(47.2)	Discounted cash flow	Probability	0% – 100%	40.9%
			Discount Rate	1.3% – 4.0%	2.1%
Derivative liabilities — non qualifying	(11.5)	Market Comparables <sup>(1)</sup>			
<b>Total Liabilities</b>	<b>\$(120.6)</b>				
<b>December 31, 2015</b>					
<b>Assets</b>					
Securities — AFS	\$ 567.1	Discounted cash flow	Discount Rate	0.0% – 94.5%	6.4%
			Prepayment Rate	2.7% – 20.8%	9.2%
			Default Rate	0.0% – 9.5%	4.1%
			Loss Severity	0.2% – 83.5%	36.4%
Securities carried at fair value with changes recorded in net income	339.7	Discounted cash flow	Discount Rate	0.0% – 19.9%	6.3%
			Prepayment Rate	2.5% – 22.4%	11.5%
			Default Rate	0.0% – 5.9%	4.1%
			Loss Severity	3.8% – 39.0%	25.1%
FDIC Receivable	54.8		Discount Rate		9.4%



Edgar Filing: CIT GROUP INC - Form 10-K

Financial Instrument	Estimated Fair Value	Valuation Technique(s)	Significant Unobservable Inputs	Range of Inputs	Weighted Average
		Discounted cash flow		7.8% – 18.4%	
			Prepayment Rate	2.0% – 14.0%	3.6%
			Default Rate	6.0% – 36.0%	10.8%
			Loss Severity	20.0% – 65.0%	31.6%
<b>Total Assets</b>	\$ 961.6				
<b>Liabilities</b>					
FDIC True-up liability	\$ (56.9)	Discounted cash flow	Discount Rate	4.1%	4.1%
Consideration holdback liability	(60.8)	Discounted cash flow	Probability	0% – 100%	53.8%
			Discount Rate	1.3% – 3.9%	3.0%
Derivative liabilities — non qualifying	(55.5)	Market Comparables <sup>(1)</sup>			
<b>Total Liabilities</b>	\$ (173.2)				

<sup>(1)</sup> The valuation of these derivatives is primarily related to the TRS Transactions, which is based on several factors using a discounted cash flow methodology, including a) funding costs for similar financings based on current market conditions; b) forecasted usage of long-dated facilities through the final maturity date in 2028; and c) forecasted amortization, due to principal payments on the underlying ABS, which impacts the amount of the unutilized portion.

Item 8: Financial Statements and Supplementary Data

**Table of Contents**

168 CIT ANNUAL REPORT 2016

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The level of aggregation and diversity within the products disclosed in the tables results in certain ranges of inputs being wide and unevenly distributed across asset and liability categories. For instruments backed by residential real estate, diversity in the portfolio is reflected in a wide range for loss severity due to varying levels of default. The lower end of the range represents high performing loans with a low probability of default while the higher end of the range relates to more distressed loans with a greater risk of default.

The valuation techniques used for the Company's Level 3 assets and liabilities, as presented in the previous tables, are described as follows:

- *Discounted cash flow* — Discounted cash flow valuation techniques generally consist of developing an estimate of future cash flows that are expected to occur over the life of an instrument and then discounting those cash flows at a rate of return that results in the estimated fair value amount. The Company utilizes both the direct and indirect valuation methods. Under the direct method, contractual cash flows are adjusted for expected losses. The adjusted cash flows are discounted at a rate which considers other costs and risks, such as market risk and liquidity. Under the indirect method, contractual cash flows are discounted at a rate which reflects the costs and risks associated with the likelihood of generating the contractual cash flows.

## Edgar Filing: CIT GROUP INC - Form 10-K

*Market comparables* — Market comparable(s) pricing valuation techniques are used to determine the estimated fair value of certain instruments by incorporating known inputs such as recent transaction prices, pending transactions, or prices of other similar investments which require significant adjustment to reflect differences in instrument characteristics.

Significant unobservable inputs presented in the previous tables are those the Company considers significant to the estimated fair value of the Level 3 asset or liability. The Company considers unobservable inputs to be significant if, by their exclusion, the estimated fair value of the Level 3 asset or liability would be significantly impacted based on qualitative factors such as nature of the instrument, type of valuation technique used, and the significance of the unobservable inputs on the values relative to other inputs used within the valuation. Following is a description of the significant unobservable inputs provided in the tables.

- *Default rate* — is an estimate of the likelihood of not collecting contractual amounts owed expressed as a constant default rate.
- *Discount rate* — is a rate of return used to present value the future expected cash flows to arrive at the estimated fair value of an instrument. The discount rate consists of a benchmark rate component and a risk premium component. The benchmark rate component, for example, LIBOR or U.S. Treasury rates, is generally observable within the market and is necessary to appropriately reflect the time value of money. The risk premium component reflects the amount of compensation market participants require due to the uncertainty inherent in the instruments' cash flows resulting from risks such as credit and liquidity.
- *Loss severity* — is the percentage of contractual cash flows lost in the event of a default.
- *Prepayment rate* — is the estimated rate at which forecasted prepayments of principal of the related loan or debt instrument are expected to occur, expressed as a constant prepayment rate ("CPR").
- *Payment Probability* — is an estimate of the likelihood the consideration holdback amount will be required to be paid expressed as a percentage.

As reflected above, the Company generally uses discounted cash flow techniques to determine the estimated fair value of Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs and assumptions and as a result, changes in these unobservable inputs (in isolation) may have a significant impact to the estimated fair value. Increases in the probability of default and loss severities will result in lower estimated fair values, as these increases reduce expected cash flows. Increases in the discount rate will result in lower estimated fair values, as these increases reduce the present value of the expected cash flows.

Alternatively a change in one unobservable input may result in a change to another unobservable input due to the interrelationship among inputs, which may counteract or magnify the estimated fair value impact from period to period. Generally, the value of the Level 3 assets and liabilities estimated using a discounted cash flow technique would decrease (increase) upon an increase (decrease) in discount rate, default rate, loss severity or weighted average life inputs. Discount rates are influenced by market expectations for the underlying collateral performance, and therefore may directionally move with probability and severity of default; however, discount rates are also impacted by broader market forces, such as competing investment yields, sector liquidity, economic news, and other macroeconomic factors. There is no direct interrelationship between prepayments and discount rate. Prepayment rates generally move in the opposite direction of market interest rates. Increase in the probability of default will generally be accompanied with an increase in loss severity, as both are impacted by underlying collateral values.

---

### **Table of Contents**

CIT ANNUAL REPORT 2016 169

---

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: CIT GROUP INC - Form 10-K

The following table summarizes the changes in estimated fair value for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3):

**Changes in Estimated Fair Value of Level 3 Financial Assets and Liabilities Measured on a Recurring Basis** (dollars in millions)

	Securities- AFS	Securities carried at fair value with changes recorded in net income	FDIC Receivable	Derivative liabilities — non-qualifying <sup>(1)</sup>	FDIC True-up Liability	Consideration holdback Liability
<b>December 31, 2015</b>	\$ 567.1	\$ 339.7	\$ 54.8	\$ (55.5 )	\$ (56.9)	\$ (60.8 )
Included in earnings	(5.8)	13.0	10.7	44.0	(5.0)	(0.7)
Included in comprehensive income	20.6	—	—	—	—	—
Impairment	(3.3)	—	—	—	—	—
Paydowns and adjustments	(93.1)	(69.2)	(64.9)	—	—	14.3
<b>Balance as of December 31, 2016</b>	\$ 485.5	\$ 283.5	\$ 0.6	\$ (11.5)	\$ (61.9)	\$ (47.2)
<b>December 31, 2014</b>	\$ —	\$ —	\$ —	\$ (26.6)	\$ —	\$ —
Included in earnings	(2.9)	(2.5)	3.4	(28.9)	(0.6)	—
Included in comprehensive income	(6.8)	—	—	—	—	—
Impairment	(2.8)	—	—	—	—	—
Purchases	619.4	373.4	54.8	—	(56.3)	(60.8)
Paydowns	(39.8)	(31.2)	(3.4)	—	—	—
<b>Balance as of December 31, 2015</b>	\$ 567.1	\$ 339.7	\$ 54.8	\$ (55.5)	\$ (56.9)	\$ (60.8)

<sup>(1)</sup> Valuation of the derivatives related to the TRS Transactions and written options on certain CIT Bank CDs.

The Company monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in the observability of key inputs to a fair value measurement may result in a transfer of assets or liabilities between Level 1, 2 and 3. The Company's policy is to recognize transfers in and transfers out as of the end of the reporting period. For the years ended December 31, 2016 and 2015, there were no transfers into or out of Level 1, Level 2 and Level 3.

*Financial Assets Measured at Estimated Fair Value on a Non-recurring Basis*

Certain assets or liabilities are required to be measured at estimated fair value on a nonrecurring basis subsequent to initial recognition. Generally, these adjustments are the result of LOCOM or other impairment accounting. In determining the estimated fair values during the period, the Company determined that substantially all the changes in estimated fair value were due to declines in market conditions versus instrument specific credit risk. This was determined by examining the changes in market factors relative to instrument specific factors.

Assets and liabilities acquired in the OneWest Transaction were recorded at fair value on the acquisition date. See Note 2 — Acquisition and Disposition Activities for balances and assumptions used in the valuations.

The following table presents assets measured at estimated fair value on a non-recurring basis for which a non-recurring change in fair value has been recorded in the current year:

**Carrying Value of Assets Measured at Fair Value on a Non-recurring Basis** (dollars in millions)

Total	Fair Value Measurements at Reporting Date Using:		
	Level 1	Level 2	Level 3

	Fair Value Measurements at Reporting Date Using:				Total (Losses)
	Level 1	Level 2	Level 3	Total	
<b>Assets</b>					
<b>December 31, 2016</b>					
Goodwill	\$ 51.8	\$ —	\$ —	\$ 51.8	\$ (354.2)
Assets held for sale	201.6	—	—	201.6	(14.7)
Other real estate owned	22.5	—	—	22.5	(3.2)
Impaired loans	151.9	—	—	151.9	(26.8)
Total	\$ 427.8	\$ —	\$ —	\$ 427.8	\$ (398.9)
<b>December 31, 2015</b>					
Assets held for sale	\$ 1,648.3	\$ —	\$ 31.0	\$ 1,617.3	\$ (32.0)
Other real estate owned <sup>(1)</sup>	33.6	—	—	33.6	(3.8)
Impaired loans	112.3	—	—	112.3	(21.6)
Total	\$ 1,794.2	\$ —	\$ 31.0	\$ 1,763.2	\$ (57.4)

<sup>(1)</sup> In preparing the year-end financial statements as of December 31, 2016, the Company discovered and corrected an immaterial disclosure error impacting the carrying amount and total losses related to Other real estate owned in the amount of \$93.8 million (carrying amount) and \$1.9 million (total losses) as of December 31, 2015.

## Item 8: Financial Statements and Supplementary Data

### Table of Contents

170 CIT ANNUAL REPORT 2016

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Assets of continuing operations that are measured at fair value on a non-recurring basis are as follows:

Loans are transferred from held for investment to AHFS at the lower of cost or fair value. At the time of transfer, a write-down of the loan is recorded as a charge-off, if applicable. Once classified as AHFS, the amount by which the carrying value exceeds fair value is recorded as a valuation allowance.

*Assets Held for Sale* — Assets held for sale are recorded at the lower of cost or fair value on the balance sheet. As there is no liquid secondary market for the other assets held for sale in the Company's portfolio, the fair value is estimated based on a binding contract, current letter of intent or other third-party valuation, or using internally generated valuations or discounted cash flow technique, all of which are Level 3 inputs. In those instances where a current letter of intent was utilized, the most significant assumption was the discount rate of 13.0%. At December 31, 2016, carrying value of assets held for sale approximates fair value.

*Other Real Estate Owned* — Other real estate owned represents collateral acquired from the foreclosure of secured real estate loans. Other real estate owned is measured at LOCOM less disposition costs. Estimated fair values of other real estate owned are reviewed on a quarterly basis and any decline in value below cost is recorded as impairment. Estimated fair value is generally based upon broker price opinions or independent appraisals, adjusted for costs to sell. The estimated costs to sell are incremental direct costs to transact a sale, such as broker commissions, legal fees, closing costs and title transfer fees. The costs must be essential to the sale and would not have been incurred if the decision to sell had not been made. The range of inputs in estimating appraised value or the sales price was 5.3% to 29.4% with a weighted average of 6.3%. The significant unobservable input is the appraised value or the sales price and thus is classified as Level 3. As of the reporting date, carrying value of OREO approximates

fair value.

*Impaired Loans* — Impaired finance receivables of \$500,000 or greater that are placed on non-accrual status are subject to periodic individual review in conjunction with the Company's ongoing problem loan management (PLM) function. Impairment occurs when, based on current information and events, it is probable that CIT will be unable to collect all amounts due according to contractual terms of the agreement. Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable, with the estimated value determined using fair value of collateral and other cash flows if the finance receivable is collateralized, the present value of expected future cash flows discounted at the contract's effective interest rate, or observable market prices. The significant unobservable inputs result in the Level 3 classification. As of the reporting date, the carrying value of impaired loans approximates fair value.

*Goodwill* — In accordance with ASC 350, Intangibles — Goodwill and other, goodwill is assessed for impairment at least annually, or more often if events or circumstances have changed significantly from the annual test date that would indicate a potential reduction in the fair value of the reporting unit below its carrying value. During the fourth quarter of 2016, the Company performed its annual goodwill impairment test. Based on our assessments under both Step 1 and Step 2, the Company recorded an impairment of the Consumer Banking and Commercial Services RUs of \$319.4 million and \$34.8 million, respectively. *See Note 26 — Goodwill and Intangible Assets for further information.*

#### *Fair Value Option*

#### **FDIC Receivable**

The Company has made an irrevocable option to elect fair value for the initial and subsequent measurement of the FDIC receivable acquired by OneWest Bank in the IndyMac Transaction, as it was determined at the time of election that this treatment would allow a better economic offset of the changes in estimated fair values of the loans.

As of December 31, 2016, the FDIC receivable had a negligible balance as substantially all of the underlying loans were sold to a third party. As of December 31, 2015, the following table summarizes the differences between the estimated fair value carrying amount of those assets measured at estimated fair value under the fair value option, and the aggregate unpaid principal amount the Company is contractually entitled to receive or pay respectively:

	December 31, 2015		
	Estimated Fair Value Carrying Amount	Aggregate Unpaid Principal	Difference Between Estimated Fair Value and 100% Aggregate Unpaid Principal Balance
<i>(dollars in millions)</i>			
<b>FDIC Receivable</b>	\$54.8	\$204.5	\$ 149.7

The gains and losses due to changes in the estimated fair value of the FDIC receivable under the fair value option are included in earnings for the period from August 3, 2015 (the date of the OneWest transaction) to December 31, 2016. Amounts recognized in 2016 are negligible and amounts recognized in 2015 are shown in the Financial Assets and Liabilities Measured at Estimated Fair Value on a Recurring Basis section of this Note.

#### **Securities Carried at Fair Value with Changes Recorded in Net Income**

As of December 31, 2016, the non-agency MBS securities carried at fair value with changes recorded in net income totaled approximately \$284 million.

The acquisition date fair value of the securities was based on market quotes, where available, or on discounted cash flow techniques using assumptions for prepayment rates, market yield requirements and credit losses where market quotes were not available. Future prepayment rates were estimated based on current and expected future interest rate levels, collateral seasoning and market forecasts, as well as relevant characteristics of the collateral underlying the securities, such as loan types, prepayment penalties, interest rates and recent prepayment experience.

**Fair Values of Financial Instruments**

The carrying values and estimated fair values of financial instruments presented below exclude leases and certain other assets and liabilities, which are not required for disclosure.

**Table of Contents**

CIT ANNUAL REPORT 2016 171

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Financial Instruments** (dollars in millions)

	Carrying Value	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
<b>December 31, 2016</b>					
<b>Financial Assets</b>					
Cash and interest bearing deposits	\$ 6,430.6	\$6,430.6	\$ —	\$ —	\$ 6,430.6
Derivative assets at fair value — non-qualifying hedges	94.7	—	94.7	—	94.7
Derivative assets at fair value — qualifying hedges	16.9	—	16.9	—	16.9
Assets held for sale (excluding leases)	428.4	—	175.0	264.6	439.6
Loans (excluding leases)	26,683.0	—	390.3	26,456.4	26,846.7
Investment securities <sup>(1)</sup>	4,491.1	200.4	3,199.6	1,094.2	4,494.2
Indemnification assets <sup>(2)</sup>	233.4	—	—	201.0	201.0
Other assets subject to fair value disclosure and unsecured counterparty receivables <sup>(3)</sup>	712.2	—	—	712.2	712.2
<b>Financial Liabilities</b>					
Deposits <sup>(4)</sup>	(32,323.2)	—	—	(32,490.9)	(32,490.9)
Derivative liabilities at fair value — non-qualifying hedges	(68.8)	—	(57.3)	(11.5)	(68.8)
Borrowings <sup>(4)</sup>	(15,097.8)	—	(14,457.8)	(1,104.9)	(15,562.7)
Credit balances of factoring clients	(1,292.0)	—	—	(1,292.0)	(1,292.0)
Other liabilities subject to fair value disclosure <sup>(5)</sup>	(1,003.6)	—	—	(1,003.6)	(1,003.6)
<b>December 31, 2015</b>					
<b>Financial Assets</b>					
Cash and interest bearing deposits	\$ 7,652.4	\$7,652.4	\$ —	\$ —	\$ 7,652.4
	95.6	—	95.6	—	95.6

Edgar Filing: CIT GROUP INC - Form 10-K

Estimated Fair Value

Derivative assets at fair value — non-qualifying hedges					
Derivative assets at fair value — qualifying hedges	45.5	—	45.5	—	45.5
Assets held for sale (excluding leases)	738.8	21.8	55.8	669.1	746.7
Loans (excluding leases)	27,599.6	—	975.5	25,893.2	26,868.7
Investment securities <sup>(1)</sup>	2,953.7	11.4	1,678.7	1,265.0	2,955.1
Indemnification assets <sup>(2)</sup>	343.2	—	—	323.2	323.2
Other assets subject to fair value disclosure and unsecured counterparty receivables <sup>(3)</sup>	936.5	—	—	936.5	936.5
<b>Financial Liabilities</b>					
Deposits <sup>(4)</sup>	(32,793.1)	—	—	(32,951.4)	(32,951.4)
Derivative liabilities at fair value — non-qualifying hedges	(102.3)	—	(46.8)	(55.5)	(102.3)
Derivative liabilities at fair value qualifying hedges	(0.3)	—	(0.3)	—	(0.3)
Borrowings <sup>(4)</sup>	(16,520.5)	—	(15,792.3)	(1,191.6)	(16,983.9)
Credit balances of factoring clients	(1,344.0)	—	—	(1,344.0)	(1,344.0)
Other liabilities subject to fair value disclosure <sup>(5)</sup>	(789.0)	—	—	(789.0)	(789.0)

<sup>(1)</sup> Level 3 estimated fair value at December 31, 2016, includes debt securities AFS (\$485.5 million), debt securities carried at fair value with changes recorded in net income (\$283.5 million), non-marketable investments (\$256.4 million), and debt securities HTM (\$68.8 million). Level 3 estimated fair value at December 31, 2015, includes debt securities AFS (\$567.1 million), debt securities carried at fair value with changes recorded in net income (\$339.7 million), non-marketable investments (\$291.8 million), and debt securities HTM (\$66.3 million).

<sup>(2)</sup> The indemnification assets included in the above table do not include Agency claims indemnification (\$108.0 million and \$65.6 million at December 31, 2016 and 2015, respectively), as they are not considered financial instruments.

<sup>(3)</sup> Other assets subject to fair value disclosure primarily include accrued interest receivable and miscellaneous receivables. These assets have carrying values that approximate fair value generally due to the short-term nature and are classified as Level 3. The unsecured counterparty receivables primarily consist of amounts owed to CIT from GSI for debt discount, return of collateral posted to GSI and settlements resulting from market value changes to asset-backed securities underlying the Dutch TRS.

<sup>(4)</sup> Deposits and borrowings include accrued interest, which is included in "Other liabilities" in the Balance Sheet.

<sup>(5)</sup> Other liabilities subject to fair value disclosure include accounts payable, accrued liabilities, customer security and maintenance deposits and miscellaneous liabilities. The fair value of these approximate carrying value and are classified as level 3.

Item 8: Financial Statements and Supplementary Data

**Table of Contents**

## Edgar Filing: CIT GROUP INC - Form 10-K

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The methods and assumptions used to estimate the fair value of each class of financial instruments are explained below:

*Cash and interest bearing deposits* — The carrying values of cash and interest bearing deposits are at face amount. The impact of the time value of money from the unobservable discount rate for restricted cash is inconsequential as of December 31, 2016 and December 31, 2015. Accordingly cash and cash equivalents and restricted cash approximate estimated fair value and are classified as Level 1.

*Derivatives* — The estimated fair values of derivatives were calculated using observable market data and represent the gross amount receivable or payable to terminate, taking into account current market rates, which represent Level 2 inputs, except for the TRS derivative, written options on certain CIT Bank CDs and credit derivatives that utilized Level 3 inputs. See *Note 11 — Derivative Financial Instruments* for notional principal amounts and fair values.

*Investment Securities* — Debt and equity securities classified as AFS are carried at fair value, as determined either by Level 1, Level 2 or Level 3 inputs. Debt securities classified as AFS included investments in U.S. federal government agency securities, U.S. Treasury and supranational securities and were valued using Level 2 inputs, primarily quoted prices for similar securities. Debt securities carried at fair value with changes recorded in net income include non-agency MBS where the market for such securities is not active; therefore the estimated fair value was determined using a discounted cash flow technique, which is a Level 3 input. Certain equity securities classified as AFS were valued using Level 1 inputs, primarily quoted prices in active markets. Debt securities classified as HTM include government agency securities and were valued using Level 2 inputs, primarily quoted prices for similar securities. For debt securities HTM where no market rate was available, Level 3 inputs were utilized. Debt securities HTM are securities that the Company has both the ability and the intent to hold until maturity and are carried at amortized cost and periodically assessed for OTTI, with the cost basis reduced when impairment is deemed to be other-than-temporary. Non-marketable equity investments utilize Level 3 inputs to estimate fair value and are generally recorded under the cost or equity method of accounting and are periodically assessed for OTTI, with the net asset values reduced when impairment is deemed to be other-than-temporary.

*Assets held for sale* — Assets held for sale are recorded at the lower of cost or fair value on the balance sheet. Of the assets held for sale above \$175 million carrying amount at December 31, 2016 was valued using Level 2 inputs. As there is no liquid secondary market for the other assets held for sale in the Company's portfolio, the fair value is estimated based on a binding contract, current letter of intent or other third-party valuation, or using internally generated valuations or discounted cash flow technique, all of which are Level 3 inputs. Commercial loans are generally valued individually, while small ticket commercial loans are valued on an aggregate portfolio basis.

*Loans* — Within the Loans category, there are several types of loans as follows:

- *Commercial and Consumer Loans* — Of the loan balance above, approximately \$0.4 billion at December 31, 2016 and \$1.0 billion at December 31, 2015, was valued using Level 2 inputs. As there is no liquid secondary market for the other loans in the Company's portfolio, the fair value is estimated based on discounted cash flow analyses which use Level 3 inputs at both December 31, 2016 and December 31, 2015. In addition to the characteristics of the underlying contracts, key inputs to the analysis include interest rates, prepayment rates, and credit spreads. For the commercial loan portfolio, the market based credit spread inputs are derived from instruments with comparable credit risk characteristics obtained from independent third party vendors. As these Level 3 unobservable inputs are specific to individual loans / collateral types, management does not believe that sensitivity analysis of individual inputs is meaningful, but rather that sensitivity is more meaningfully assessed through the evaluation of aggregate carrying values of the loans. The fair value of loans at December 31, 2016 was \$26.8 billion, which was 100.6% of carrying value. The fair value of loans at December 31, 2015 was \$26.9 billion, which was 97.4% of carrying value.
- *Impaired Loans* — The value of impaired loans is estimated using the fair value of collateral (on an orderly liquidation basis) if the loan is collateralized, the present value of expected cash flows utilizing the current market rate for such loan, or observable market price. As these Level 3 unobservable inputs are specific to individual loans / collateral types, management does not believe that sensitivity analysis of individual inputs is meaningful, but rather that sensitivity is more meaningfully assessed through the evaluation of aggregate carrying values of impaired loans relative to contractual amounts owed (unpaid principal balance or "UPB") from customers. As of December 31, 2016, the UPB related to impaired loans including loans for which the Company was applying the income recognition and disclosure guidance in ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality), totaled \$244.3 million. Including related allowances, these loans are carried at \$188.2 million, or 77.0% of UPB. Of these amounts, \$74.7 million and \$55.5 million of UPB and carrying value, respectively, relate to loans with no specific allowance. As of December 31, 2015 the UPB related to impaired loans, including loans for which the Company was applying the income recognition and disclosure guidance in ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality), totaled \$157.2 million and including related allowances, these loans were carried at \$106.9 million, or 68.0% of



UPB. Of these amounts, \$33.3 million and \$22.0 million of UPB and carrying value relate to loans with no specific allowance. The difference between UPB and carrying value reflects cumulative charge-offs on accounts remaining in process of collection, FSA discounts and allowances. See *Note 3 — Loans* for more information.

- *PCI loans* — These loans are valued by grouping the loans into performing and non-performing groups and stratifying the loans based on common risk characteristics such as product type, FICO score and other economic attributes. Due to a lack of observable market data, the estimated fair value of these loan portfolios was based on an internal model using unobservable inputs, including discount rates, prepayment rates, delinquency roll-rates, and loss severities. Due to the

## **Table of Contents**

CIT ANNUAL REPORT 2016 173

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

significance of the unobservable inputs, these instruments are classified as Level 3.

- *Jumbo Mortgage Loans* — The estimated fair value was determined by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Due to the unobservable nature of the inputs used in deriving the estimated fair value of these instruments, these loans are classified as Level 3.

*Indemnification Assets* — The Company's indemnification assets relating to the SFR loans purchased in the OneWest Bank Transaction are measured on the same basis as the related indemnified item, the underlying SFR and commercial loans. The estimated fair values reflect the present value of expected reimbursements under the indemnification agreements based on the loan performance discounted at an estimated market rate, and classified as Level 3. See "PCI Loans" above for more information.

*Deposits* — The estimated fair value of deposits with no stated maturity such as: demand deposit accounts (including custodial deposits), money market accounts and savings accounts is the amount payable on demand at the reporting date.

The estimated fair value of time deposits is determined using a discounted cash flow analysis. The discount rate for the time deposit accounts is derived from the rate currently offered on alternate funding sources with similar maturities. Discount rates used in the present value calculation are based on the Company's average current deposit rates for similar terms, which are Level 3 inputs.

#### *Borrowings*

- Unsecured debt — Approximately \$10.6 billion par value at December 31, 2016 and \$10.7 billion par value at December 31, 2015 were valued using market inputs, which are Level 2 inputs.
- Secured Borrowings — Approximately \$3.3 billion par value at December 31, 2016 and \$4.6 billion par value at December 31, 2015 were valued using market inputs, which are Level 2 inputs. Where market estimates were not available for approximately \$1.1 billion and \$1.2 billion par value at December 31, 2016 and December 31, 2015, respectively, values were estimated using a discounted cash flow analysis with a discount rate approximating current market rates for issuances by CIT of similar debt, which are Level 3 inputs. Included in the above, the estimated fair value of FHLB Advances is based on a discounted cash flow model that utilizes benchmark interest rates and other observable market inputs. The discounted cash flow model uses the contractual advance features to determine the cash flows with a zero spread to the forward FHLB curve, which are discounted using observable benchmark interest rates. As the model inputs can be observed in a liquid market and the model does not require significant judgment, FHLB advances are classified as Level 2.

*Credit balances of factoring clients* — The impact of the time value of money from the unobservable discount rate for credit balances of factoring clients is inconsequential due to the short term nature of these balances (typically 90 days or less) as of December 31, 2016 and December 31, 2015. Accordingly, credit balances of factoring clients approximate estimated fair value and are classified as Level 3.

#### NOTE 14 — STOCKHOLDERS' EQUITY

A roll forward of common stock activity is presented in the following table.

	Issued	Less Treasury	Outstanding
Common Stock – December 31, 2015	204,447,769	(3,426,261)	201,021,508
Restricted stock issued	1,662,119	–	1,662,119
Shares held to cover taxes on vesting restricted shares and other	–	(668,280)	(668,280)
Employee stock purchase plan participation	72,325	–	72,325
Common Stock – December 31, 2016	206,182,213	(4,094,541)	202,087,672

We declared and paid dividends totaling \$0.60 per common share during 2016 and 2015.

#### Accumulated Other Comprehensive Income/(Loss)

Total comprehensive loss was \$846.0 million for the year ended December 31, 2016, compared to total comprehensive income of \$1,025.9 million for the year ended December 31, 2015 and \$1,058.8 million for the year ended December 31, 2014, including accumulated other comprehensive loss of \$140.1 million and \$142.1 million at December 2016 and 2015, respectively.

#### Item 8: Financial Statements and Supplementary Data

#### Table of Contents

174 CIT ANNUAL REPORT 2016

#### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table details the components of Accumulated Other Comprehensive Loss, net of tax:

#### Components of Accumulated Other Comprehensive Income (Loss) (dollars in millions)

	December 31, 2016			December 31, 2015		
	Gross Unrealized	Income Taxes	Net Unrealized	Gross Unrealized	Income Taxes	Net Unrealized
Foreign currency translation adjustments	\$ (28.6)	\$ (32.8)	\$ (61.4)	\$ (29.8)	\$ (35.9)	\$ (65.7)
Changes in benefit plan net gain (loss) and prior service (cost)/credit	(70.6)	5.3	(65.3)	(76.3)	7.0	(69.3)

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2016			December 31, 2015		
Unrealized net gains (losses) on available for sale securities	(22.0)	8.6	(13.4)	(11.4)	4.3	(7.1)
Total accumulated other comprehensive loss	\$(121.2)	\$(18.9)	\$(140.1)	\$(117.5)	\$(24.6)	\$(142.1)

The following table details the changes in the components of Accumulated Other Comprehensive Income (Loss), net of income taxes:

**Changes in Accumulated Other Comprehensive Loss by Component** (dollars in millions)

	Foreign currency translation adjustments	Changes in benefit plan net gain (loss) and prior service (cost) credit	Unrealized net gains (losses) on available for sale securities	Total AOCI
<b>Balance as of December 31, 2015</b>	\$(65.7)	\$(69.3)	\$ (7.1)	\$(142.1)
AOCI activity before reclassifications	(0.4)	2.4	(6.3)	(4.3)
Amounts reclassified from AOCI	4.7	1.6	–	6.3
Net current period AOCI	4.3	4.0	(6.3)	2.0
<b>Balance as of December 31, 2016</b>	\$(61.4)	\$(65.3)	\$(13.4)	\$(140.1)
<b>Balance as of December 31, 2014</b>	\$(75.4)	\$(58.5)	\$ –	\$(133.9)
AOCI activity before reclassifications	(70.8)	(12.8)	(7.1)	(90.7)
Amounts reclassified from AOCI	80.5	2.0	–	82.5
Net current period AOCI	9.7	(10.8)	(7.1)	(8.2)
<b>Balance as of December 31, 2015</b>	\$(65.7)	\$(69.3)	\$ (7.1)	\$(142.1)

Other Comprehensive Income/(Loss)

The amounts included in the Statement of Comprehensive Income (Loss) are net of income taxes.

Foreign currency translation reclassification adjustments impacting net income were \$4.7 million for 2016, \$80.5 million for 2015 and \$15.8 million for 2014. The change in income taxes associated with foreign currency translation adjustments was \$3.1 million for the year ended December 31, 2016 and \$(35.9) million for the year ended December 31, 2015 and there were no taxes associated with foreign currency translation adjustments for 2014.

The changes in benefit plans net gain/(loss) and prior service (cost)/credit reclassification adjustments impacting net income was \$1.6 million, \$2.0 million and \$8.1 million for the years ended December 31, 2016, 2015 and 2014, respectively. The change in income taxes associated with changes in benefit plans net gain/(loss) and prior service (cost)/credit was \$(1.7) million and \$6.8 million for the years ended December 31, 2016 and 2015, respectively and was not significant for 2014.

There were no reclassification adjustments impacting net income related to unrealized gains (losses) on available for sale securities for the years ended December 31, 2016 and 2015 compared to \$0.5 million for 2014. The change in income taxes associated with net unrealized gains on available for sale securities was \$4.3 million, \$4.3 million and \$0.2 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The Company has operations primarily in North America. The functional currency for foreign operations is generally the local currency. The value of assets and liabilities of these operations is translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rates during the year. The resulting foreign currency translation gains and losses, as well as offsetting gains and losses on hedges of net investments in foreign operations, are reflected in AOCI. Transaction gains and losses resulting from exchange rate changes on transactions denominated in currencies other than the functional currency are recorded in Other Income.

**Reclassifications Out of Accumulated Other Comprehensive Income** (dollars in millions)

	Years Ended December 31,						Affected Income Statement line item
	2016			2015			
	Gross Amount	Tax	Net Amount	Gross Amount	Tax	Net Amount	
Foreign currency translation adjustments gains (losses)	\$3.5	\$ 1.2	\$4.7	\$73.4	\$ 7.1	\$80.5	Other Income
Changes in benefit plan net gain/(loss) and prior service (cost)/credit gains (losses)	1.8	(0.2)	1.6	2.3	(0.3)	2.0	Operating Expenses
Total Reclassifications out of AOCI	\$5.3	\$ 1.0	\$6.3	\$75.7	\$ 6.8	\$82.5	

**Table of Contents**

CIT ANNUAL REPORT 2016 175

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 15 — REGULATORY CAPITAL

The Company and the Bank are each subject to various regulatory capital requirements administered by the FRB and the OCC. Quantitative measures established by regulation to ensure capital adequacy require that the Company and the Bank each maintain minimum amounts and ratios of Total, Tier 1 and Common Equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. We compute capital ratios in accordance with Federal Reserve capital guidelines and OCC capital guidelines for assessing adequacy of capital for the Company and CIT Bank, respectively. At December 31, 2016 and December 31, 2015, the regulatory capital guidelines applicable to the Company and Bank were based on the Basel III Final Rule.

The calculation of the Company's regulatory capital ratios are subject to review and consultation with the FRB, which may result in refinements to amounts reported at December 31, 2016.

The following table summarizes the actual and effective minimum required capital ratios:

**Tier 1 Capital and Total Capital Components** (dollars in millions)

	CIT		CIT Bank, N.A.	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>Tier 1 Capital</b>				
Total common stockholders' equity <sup>(1)</sup>	\$10,002.7	\$10,944.7	\$ 5,187.8	\$ 5,582.2
Effect of certain items in accumulated other comprehensive loss excluded	79.1	76.9	13.4	7.0

Edgar Filing: CIT GROUP INC - Form 10-K

	CIT		CIT Bank, N.A.	
from Tier 1 Capital and qualifying noncontrolling interests				
Adjusted total equity	10,081.8	11,021.6	5,201.2	5,589.2
Less: Goodwill <sup>(2)(3)</sup>	(733.1)	(1,130.8)	(490.9)	(830.8)
Disallowed deferred tax assets	(213.7)	(908.3)	–	–
Disallowed intangible assets <sup>(2)(3)</sup>	(68.3)	(53.6)	(84.9)	(58.4)
Other Tier 1 components <sup>(4)(5)</sup>	(7.8)	(0.1)	(2.2)	–
Common Equity Tier 1 Capital	9,058.9	8,928.8	4,623.2	4,700.0
Tier 1 Capital	9,058.9	8,928.8	4,623.2	4,700.0
<b>Tier 2 Capital</b>				
Qualifying allowance for credit losses and other reserves <sup>(6)</sup>	476.3	403.3	430.2	374.7
Total qualifying capital	\$ 9,535.2	\$ 9,332.1	\$ 5,053.4	\$ 5,074.7
Risk-weighted assets	\$64,586.3	\$69,552.3	\$34,410.3	\$36,807.2
<b>Common Equity Tier 1 Capital (to risk-weighted assets):</b>				
Actual	14.0%	12.8%	13.4%	12.8%
Effective minimum ratios under Basel III guidelines <sup>(7)</sup>	5.125%	4.5%	5.125%	4.5%
<b>Tier 1 Capital (to risk-weighted assets):</b>				
Actual	14.0%	12.8%	13.4%	12.8%
Effective minimum ratios under Basel III guidelines <sup>(7)</sup>	6.625%	6.0%	6.625%	6.0%
<b>Total Capital (to risk-weighted assets):</b>				
Actual	14.8%	13.4%	14.7%	13.8%
Effective minimum ratios under Basel III guidelines <sup>(7)</sup>	8.625%	8.0%	8.625%	8.0%
<b>Tier 1 Leverage Ratio:</b>				
Actual	13.9%	13.4%	10.9%	10.9%
Required minimum ratio for capital adequacy purposes	4.0%	4.0%	4.0%	4.0%

(1) See Consolidated Balance Sheets for the components of Total stockholders' equity.

(2) Goodwill and disallowed intangible assets adjustments also reflect the portion included within assets of discontinued operations.

(3) Goodwill and disallowed intangible assets adjustments include the respective portion of deferred tax liability in accordance with guidelines under Basel III.

(4) The December 31, 2016 amount represents the Volcker Rule requirement of deducting covered funds from equity. This requirement was first implemented in the second quarter of 2016. The December 31, 2015 amount includes the Tier 1 capital charge for nonfinancial equity instruments under Basel I.

(5) Other Tier 1 components include excess cost over fair market value on available-for-sale equity securities with readily determinable fair values.

(6) "Other reserves" represents additional credit loss reserves for unfunded lending commitments, letters of credit, and deferred purchase agreements, all of which are recorded in Other Liabilities.

(7) Required ratios under Basel III Final Rule in effect as of the reporting date including the partially phased-in capital conservation buffer.

The Basel III Final Rule: (i) introduced a new capital measure called “Common Equity Tier 1” (“CET1”) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specified that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain revised requirements; (iii) mandated that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expanded the scope of the deductions from and adjustments to capital as compared to the prior regulations.

**Item 8: Financial Statements and Supplementary Data**

**Table of Contents**

176 CIT ANNUAL REPORT 2016

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Basel III Final Rule also prescribed new approaches for risk weightings. Of these, CIT will calculate risk weightings using the Standardized Approach. This approach expands the risk-weighting categories from the former four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the exposure, ranging from 0% for U.S. government and agency securities to as high as 1,250% for such exposures as mortgage backed securities, credit-enhancing interest-only strips or unsettled security/commodity transactions.

The Basel III Final Rule established new minimum capital ratios for CET1, Tier 1 capital, and Total capital of 4.5%, 6.0% and 8.0%, respectively. In addition, the Basel III Final Rule also introduced a new “capital conservation buffer”, composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity — repurchases and compensation based on the amount of the shortfall. This buffer was implemented beginning January 1, 2016 at the 0.625% level and increases by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

NOTE 16 — EARNINGS PER SHARE

The following table sets forth the computation of the Basic and Diluted earnings per share:

	Years Ended December 31,		
	2016	2015	2014
<b>(dollars in millions, except per share amounts; shares in thousands)</b>			
<b>Earnings / (Loss)</b>			
(Loss) income from continuing operations	\$ (182.6)	\$ 724.1	\$ 675.7
(Loss) income from discontinued operations	(665.4)	310.0	443.4
Net (loss) income	\$ (848.0)	\$ 1,034.1	\$ 1,119.1
<b>Weighted Average Common Shares Outstanding</b>			
Basic shares outstanding	201,850	185,500	188,491
Stock-based awards <sup>(1)(2)</sup>	—	888	972
Diluted shares outstanding	201,850	186,388	189,463
<b>Basic Earnings Per Common Share Data</b>			
(Loss) income from continuing operations	\$ (0.90)	\$ 3.90	\$ 3.59
(Loss) income from discontinued operation	\$ (3.30)	\$ 1.67	\$ 2.35
Basic (loss) income per common share	\$ (4.20)	\$ 5.57	\$ 5.94
<b>Diluted Earnings Per Common Share Data<sup>(2)</sup></b>			
(Loss) income from continuing operations	\$ (0.90)	\$ 3.89	\$ 3.57

Edgar Filing: CIT GROUP INC - Form 10-K

	Years Ended December 31,		
	2016	2015	2014
(Loss) income from discontinued operation	\$ (3.30)	\$ 1.66	\$ 2.34
Diluted (loss) income per common share	\$ (4.20)	\$ 5.55	\$ 5.91

- (1) Represents the incremental shares from in-the-money non-qualified restricted stock awards, performance shares, and stock options. Weighted average restricted shares, performance shares and options that were either out-of-the money or did not meet performance targets and therefore excluded from diluted earnings per share totaled 2.7 million, 2.0 million, and 1.3 million for the years ended December 31, 2016, 2015 and 2014, respectively.
- (2) Due to the net loss for the year ended December 31, 2016, the Diluted Earnings Per Share calculation excluded 0.7 million of weighted average restricted shares, performance shares, and options as they were anti-dilutive. The Basic weighted average shares outstanding and net loss for the year ended December 31, 2016 were utilized for the Diluted Earnings Per Share calculation.

**Table of Contents**

CIT ANNUAL REPORT 2016 177

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 — NON-INTEREST INCOME

The following table sets forth the components of non-interest income:

**Non-interest Income** (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
Rental income on operating leases	\$1,031.6	\$1,018.1	\$ 949.6
Other Income:			
Fee revenues	111.6	105.7	92.4
Factoring commissions	105.0	116.5	120.2
Net gains (losses) on derivatives and foreign currency exchange	55.9	(37.9)	(51.8)
Gains on sales of leasing equipment	51.1	57.0	59.6
Gains on investments	34.6	0.9	38.3
Gains (losses) on loan and portfolio sales	34.2	(47.2)	34.3
Gains (losses) on OREO sales	10.2	(5.4)	—
Impairment on assets held for sale	(36.6)	(55.9)	(81.2)
Termination fees on Canadian total return swap	(280.8)	—	—
Other revenues	65.4	15.9	52.1
Total other income	150.6	149.6	263.9
Total non-interest income	\$1,182.2	\$1,167.7	\$1,213.5

NOTE 18 — NON-INTEREST EXPENSES

Edgar Filing: CIT GROUP INC - Form 10-K

The following table sets forth the components of Non-interest expenses:

**Non-interest Expense** (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
Depreciation on operating lease equipment	\$ (261.1)	\$ (229.2)	\$ (229.8)
Maintenance and other operating lease expenses	(213.6)	(185.1)	(171.7)
Operating expenses:			
Compensation and benefits	(585.5)	(549.6)	(495.1)
Professional fees	(175.8)	(135.0)	(75.3)
Technology	(133.7)	(109.2)	(84.5)
Insurance	(96.5)	(61.6)	(45.3)
Net occupancy expense	(71.9)	(49.1)	(33.7)
Advertising and marketing	(20.5)	(30.4)	(33.2)
Other	(137.8)	(114.6)	(100.2)
Operating expenses, excluding restructuring costs and intangible asset amortization	(1,221.7)	(1,049.5)	(867.3)
Intangible assets amortization	(25.6)	(13.3)	(1.4)
Provision for severance and facilities exiting activities	(36.2)	(58.3)	(31.4)
Total operating expenses	(1,283.5)	(1,121.1)	(900.1)
Goodwill impairment	(354.2)	-	-
Loss on debt extinguishments and deposit redemptions	(12.5)	(1.5)	(3.5)
Total non-interest expenses	\$ (2,124.9)	\$ (1,536.9)	\$ (1,305.1)

NOTE 19 — INCOME TAXES

The following table presents the U.S. and non-U.S. components of income/ (loss) before (benefit)/ provision for income taxes:

**Income (Loss) From Continuing Operations Before Benefit (Provision) for Income Taxes** (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
U.S. operations	\$ 157.5	\$ 227.6	\$ 270.3
Non-U.S. operations	(136.6)	(41.6)	(25.8)
Income from continuing operations before benefit / (provision) for income taxes	\$ 20.9	\$ 186.0	\$ 244.5

**Item 8:** Financial Statements and Supplementary Data

**Table of Contents**



Edgar Filing: CIT GROUP INC - Form 10-K

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The (benefit) provision for income taxes is comprised of the following:

**(Benefit) Provision for Income Taxes** (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
Current U.S. federal income tax provision	\$ 0.3	\$ 0.3	\$ 0.9
Deferred U.S. federal income tax provision / (benefit)	906.9	(566.3)	(412.4)
Total federal income tax (benefit) / provision	907.2	(566.0)	(411.5)
Current state and local income tax provision	14.6	5.8	6.9
Deferred state and local income tax (benefit) / provision	1.8	(21.0)	2.0
Total state and local income tax (benefit) / provision	16.4	(15.2)	8.9
Total non-U.S. income tax provision	90.8	82.4	1.2
Total (benefit) / provision for income taxes	\$ 1,014.4	\$ (498.8)	\$ (401.4)
Continuing operations	\$ 203.5	\$ (538.0)	\$ (432.4)
Discontinued operations	810.9	39.2	31.0
Total (benefit) / provision for income taxes	\$ 1,014.4	\$ (498.8)	\$ (401.4)

A reconciliation from the U.S. Federal statutory rate to the Company's actual effective income tax rate is as follows:

**Percentage of Pretax Income Years Ended December 31** (dollars in millions)

	Effective Tax Rate								
	2016			2015			2014		
	Pretax Income	Income tax expense (benefit)	Percent of pretax income	Pretax Income	Income tax expense (benefit)	Percent of pretax Income	Pretax Income	Income tax expense (benefit)	P of in
<b>Continuing Operations</b>									
Federal income tax rate	\$ 20.9	\$ 7.3	35.0%	\$ 186.0	\$ 65.1	35.0%	\$ 244.5	\$ 85.6	35
<b>Increase (decrease) due to:</b>									
State and local income taxes, net of federal income tax benefit	—	21.0	101.0	—	(10.8)	(5.9)	—	6.3	2
Non-deductible goodwill	—	126.2	606.6	—	8.3	4.5	—	—	
Domestic tax credits	—	(18.1)	(87.0)	—	(7.5)	(4.0)	—	—	
Lower tax rates applicable to non-U.S. earnings	—	(10.3)	(49.6)	—	0.6	0.3	—	(15.9)	(6
International income subject to U.S. tax	—	29.2	140.3	—	42.1	22.6	—	33.1	13
Unrecognized tax expense (benefit)	—	(14.4)	69.3	—	4.5	2.4	—	(269.2)	(110
Deferred income taxes on international unremitted earnings	—	41.8	200.7	—	30.2	16.2	—	(7.9)	(3
Valuation allowances	—	14.7	70.6	—	(693.8)	(373.0)	—	(264.8)	(108
International tax settlements	—	(0.6)	(2.7)	—	(3.5)	(1.9)	—	(1.1)	(0
Other	—	6.7	32.4	—	26.8	14.6	—	1.5	0

Edgar Filing: CIT GROUP INC - Form 10-K

Effective Tax Rate

Effective Tax Rate — Continuing operations	\$ 203.5	978.0%		\$ (538.0)	(289.2)%		\$ (432.4)	(176.0)%	
<b>Discontinued Operation</b>									
Federal income tax rate	\$ 145.5	\$ 50.9	35.0%	\$ 349.2	\$ 122.2	35.0%	\$ 474.4	\$ 166.0	35.0%
<b>Increase (decrease) due to:</b>									
State and local income taxes, net of federal income tax benefit	—	(9.5)	(6.5)	—	0.6	0.2	—	2.6	0.2
Non-deductible penalties	—	16.6	11.4	—	—	—	—	—	—
Lower tax rates applicable to non-U.S. earnings	—	(110.8)	(76.1)	—	(89.3)	(25.6)	—	(82.3)	(17.2)
International income subject to U.S. tax	—	16.7	11.5	—	8.1	2.3	—	10.3	2.3
Deferred income taxes on international unremitted earnings		847.3	582.1		—	—		—	—
Valuation Allowances	—	—	—	—	—	—	—	(64.0)	(13.2)
Other	—	(0.3)	(0.3)	—	(2.4)	(0.7)	—	(1.6)	(0.3)
Effective Tax Rate — Discontinued operation	\$ 810.9	557.1%		\$ 39.2	11.2%		\$ 31.0	6.0%	
Total Effective Tax Rate	\$ 1,014.4	609.7%		\$ (498.8)	(93.2)%		\$ (401.4)	(55.0)%	

Table of Contents

CIT ANNUAL REPORT 2016 179

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tax effects of temporary differences that give rise to deferred income tax assets and liabilities are presented below:

**Components of Deferred Income Tax Assets and Liabilities** (dollars in millions)

	December 31,	
	2016	2015
<b>Deferred Tax Assets:</b>		
Net operating loss (NOL) carry forwards	\$ 2,528.3	\$ 2,414.8
Basis difference in loans	281.4	291.6
Provision for credit losses	185.7	164.3
Accrued liabilities and reserves	274.9	196.5
FSA adjustments — aircraft and rail contracts	24.2	27.1
Deferred stock-based compensation	34.5	46.1
Domestic tax credits	40.5	14.5
Other	79.1	96.0

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31,	
Total gross deferred tax assets	3,448.6	3,250.9
<b>Deferred Tax Liabilities:</b>		
Operating leases	(1,818.5)	(1,486.5)
Loans and direct financing leases	(100.3)	13.3
Basis difference in mortgage backed securities	(100.0)	(145.4)
Basis difference in federal home loan bank stock	(28.1)	(33.0)
Non-U.S. unremitted earnings	(1,032.6)	(145.9)
Unrealized foreign exchange gains	(27.7)	(47.3)
Goodwill and intangibles	(116.7)	(123.8)
Other	(21.6)	(35.0)
Total deferred tax liabilities	(3,245.5)	(2,003.6)
Total net deferred tax asset before valuation allowances	203.1	1,247.3
Less: Valuation allowances	(278.4)	(340.8)
Net deferred tax asset (liability) after valuation allowances	\$ (75.3)	\$ 906.5

Net Operating Loss Carry-forwards

CIT's reorganization in 2009 constituted an ownership change under Section 382 of the Internal Revenue Code, which placed an annual dollar limit on the use of the remaining pre-bankruptcy NOLs. In general, the Company's annual limitation on use of pre-bankruptcy NOLs is approximately \$265 million per annum. NOLs arising in post-emergence years are not subject to this limitation absent another ownership change as defined by Section 382. The OneWest Transaction created no further annual dollar limit under Section 382.

As of December 31, 2016, CIT has deferred tax assets ("DTAs") from continuing operations totaling \$2.5 billion on its global NOLs. This includes: (1) a DTA of \$2.1 billion relating to its cumulative U.S. federal NOLs of \$6.0 billion; (2) DTAs of \$0.4 billion relating to cumulative state NOLs of \$8.0 billion, including amounts of reporting entities that file in multiple jurisdictions, and (3) DTAs of \$58 million relating to cumulative non-U.S. NOLs of \$195 million.

Of the \$6.0 billion U.S. federal NOLs, approximately \$2.8 billion relate to the pre-emergence bankruptcy period and are subject to the Section 382 limitation discussed above, of which approximately \$1.5 billion is no longer subject to the limitation. There was an increase in the U.S. federal NOLs from the prior year as a result of a taxable loss for the current year, primarily due to one-time costs associated with the termination of the Canadian TRS along with accelerated tax depreciation on the operating lease portfolios. The U.S. federal NOLs will expire beginning in 2027 through 2036. Approximately \$120 million of state NOLs will expire in 2017. While most of the non-U.S. NOLs have no expiration date, a small portion will expire over various periods, including an insignificant amount expiring in 2017.

The determination of whether or not to maintain the valuation allowances on certain reporting entities' DTAs requires significant judgment and an analysis of all positive and negative evidence to determine whether it is more likely than not that these future benefits will be realized. ASC 740-10-30-18 states that "future realization of the tax benefit of an existing deductible temporary difference or NOL carry-forward ultimately depends on the existence of sufficient taxable income within the carryback and carry-forward periods available under the tax law." As such, the Company considered the following potential sources of taxable income in its assessment of a reporting entity's ability to recognize its net DTA:

- Taxable income in carryback years,
- Future reversals of existing taxable temporary differences (deferred tax liabilities),
- Prudent and feasible tax planning strategies, and
- Future taxable income forecasts.

---

**Table of Contents**180 CIT ANNUAL REPORT 2016

---

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Through the second quarter of 2014, the Company generally maintained a full valuation allowance against its net DTAs. During the third quarter of 2014, management concluded that it was more likely than not that the Company will generate sufficient future taxable income within the applicable carry-forward periods to realize \$375 million of its U.S. net federal DTAs. This conclusion was reached after weighing all of the evidence and determining that the positive evidence outweighed the negative evidence, which included consideration of:

- The U.S. group transitioned into a 3-year (12 quarter) cumulative normalized income position in the third quarter of 2014, resulting in the Company's ability to significantly increase the reliance on future taxable income forecasts.
- Management's long-term forecast of future U.S. taxable income supporting partial utilization of the U.S. federal NOLs prior to their expiration, and
- U.S. federal NOLs not expiring until 2027 through 2033.

The forecast of future taxable income for the Company reflects a long-term view of growth and returns that management believes is more likely than not of being realized.

For the U.S. state valuation allowance, the Company analyzed the state net operating loss carry-forwards for each reporting entity to determine the amounts that are expected to expire unused. Based on this analysis, it was determined that the existing valuation allowance was still required on the U.S. state DTAs on net operating loss carry-forwards. Accordingly, no discrete adjustment was made to the U.S. State valuation allowance in 2014. The negative evidence supporting this conclusion was as follows:

- Certain separate U.S. state filing entities remaining in a three year cumulative loss, and
- State NOLs expiration periods varying in time.

Additionally, during 2014, the Company reduced the U.S. federal and state valuation allowances in the normal course as the Company recognized U.S. taxable income. This taxable income reduced the DTA on NOLs, and, when combined with a concurrent increase in net deferred tax liabilities, which are mainly related to accelerated tax depreciation on the operating lease portfolios, resulted in a reduction in the net DTA and corresponding reduction in the valuation allowance. This net reduction was further offset by favorable IRS audit adjustments and the favorable resolution of an uncertain tax position related to the computation of cancellation of debt income ("CODI") coming out of the 2009 bankruptcy, which resulted in adjustments to the NOLs. As of December 31, 2014, the Company retained a valuation allowance of \$1.0 billion against its U.S. net DTAs, of which approximately \$0.7 billion was against its DTA on the U.S. federal NOLs and \$0.3 billion was against its DTA on the U.S. state NOLs.

During the third quarter of 2015, Management updated the Company's long-term forecast of future U.S. federal taxable income to include the anticipated impact of the OneWest Bank acquisition. The updated long-term forecast supports the utilization of all of the U.S. federal DTAs (including those relating to the NOLs prior to their expiration). Accordingly, Management concluded that it is more likely than not that the Company will generate sufficient future taxable income within the applicable carry-forward periods to enable the Company to reverse the remaining \$690 million of U.S. federal valuation allowance, \$647 million of which was recorded as a discrete item in the third quarter, and the remainder of which was included in determining the annual effective tax rate as normal course in the third and fourth quarters of 2015 as the Company recognized additional U.S. taxable income related to the OneWest Bank acquisition.

The Company also evaluated the impact of the OneWest Bank acquisition on its ability to utilize the NOLs of its state income tax reporting entities and concluded that no additional reduction to the U.S. state valuation allowance was required in 2015. These state income tax reporting entities include both combined unitary state income tax reporting entities and separate state income tax reporting entities in various jurisdictions. The Company analyzed the state net operating loss carry-forwards for each of these reporting entities to determine the amounts that are expected to expire unused. Based on this analysis, it was determined that the valuation allowance was still required on U.S. state DTAs on certain net operating loss carry-forwards. The Company retained a valuation allowance of \$250 million against the DTA on the U.S. state NOLs at December 31, 2015.

During 2016, Management updated the Company's long term forecast of future U.S. federal taxable income incorporating recent actions including its decision to sell Commercial Air, which is targeted to close by the end of the first quarter of 2017. The updated forecasts continue to support no valuation allowance on the U.S. federal DTAs on NOLs but valuation allowance of \$240 million was retained on U.S. state DTAs on certain NOLs as of December 31, 2016.

The Company maintained a valuation allowance of \$39 million against certain non-U.S. reporting entities' net DTAs at December 30, 2016, down from \$91 million at December 31, 2015. In January 2016, the Company sold its U.K. equipment finance business. Thus, there was a reduction of approximately \$70 million to the respective U.K. reporting entities' net DTAs along with their associated valuation allowances. During the third quarter of 2016, the Company established \$16 million valuation allowance on the China reporting entities' net DTAs. In the evaluation process related to the net DTAs of the Company's other international reporting entities, uncertainties surrounding the future international business operations have made it challenging to reliably project future taxable income. Management will continue to assess the forecast of future taxable income as the business plans for these international reporting entities evolve and evaluate potential tax planning strategies to utilize these net DTAs.

The Company's ability to recognize DTAs will be evaluated on a quarterly basis to determine if there are any significant events that would affect our ability to utilize existing DTAs. If events are identified that affect our ability to utilize our DTAs, valuation allowances may be adjusted accordingly.

---

## **Table of Contents**

CIT ANNUAL REPORT 2016 181

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Indefinite Reinvestment Assertion

As of December 31, 2016, the Company decided to no longer assert that it would indefinitely reinvest the unremitted earnings of its Commercial Air business. Up until the fourth quarter of 2016, the Company had been pursuing a possible sale or non-taxable spin-off of this business. However, on October 6, 2016, it entered into a definitive sale agreement with Avolon to sell the business. As a result of this signed agreement, the Company moved its Commercial Air business into discontinued operations, thus triggering a change in the Company's intent to indefinitely reinvest its unremitted earnings.

Additionally, during the fourth quarter of 2016, Management determined that it could no longer assert its intent to indefinitely reinvest its unremitted earnings in the remaining subsidiaries in Canada. As a result of the sale of the Canadian Equipment Finance and Corporate Finance businesses in 2016, Management reviewed the activities and capital structure of the remaining entities in Canada with the objective of creating and maintaining maximum flexibility. Therefore, the Company can no longer assert the intent to indefinitely reinvestment its unremitted earnings in Canada.

As of December 31, 2016, Management no longer asserts its intent to indefinitely reinvest the unremitted earnings of any of its international subsidiaries and as a result increased the U.S. Federal and State deferred income tax liabilities by \$838 million and increased its deferred tax liabilities for international withholding taxes by \$49 million. The net change in the U.S. Federal and State deferred income tax liabilities included \$847 million of deferred tax liabilities, with the associated income tax expense allocated to discontinued operations, related to the change in assertion with respect to the Commercial Air business, which are expected to reverse at the closing of the Commercial Air sale transaction. The net change in the deferred tax liabilities also included \$54 million for the establishment of deferred tax liabilities for withholding and income taxes due to Management's decision to no longer assert its intent to indefinitely reinvest its unremitted earnings in Canada. As of December 31, 2016, the Company has a deferred tax

## Edgar Filing: CIT GROUP INC - Form 10-K

liability of \$1.0 billion for U.S. and non-U.S. taxes associated with the potential future tax on the undistributed earnings of non-U.S. subsidiaries.

### Liabilities for Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

#### Unrecognized Tax Benefits (dollars in millions)

	<b>Liabilities for Unrecognized Tax Benefits</b>	<b>Interest / Penalties</b>	<b>Grand Total</b>
Balance at December 31, 2015	\$46.7	\$18.0	\$ 64.7
Additions for tax positions related to current years	2.7	0.8	3.5
Additions for tax positions related to prior years	0.9	1.7	2.6
Reductions for tax positions of prior years	(8.2)	(7.6)	(15.8)
Income Tax Audit Settlements	(4.0)	(0.6)	(4.6)
Expiration of statutes of limitations	(2.0)	(0.8)	(2.8)
Foreign currency revaluation	0.3	0.2	0.5
Balance at December 31, 2016	\$36.4	\$11.7	\$ 48.1

During the year ended December 31, 2016, the Company recorded a net \$16.6 million reduction on uncertain tax positions, including interest, penalties, and net of a \$0.5 million increase attributable to foreign currency revaluation. The majority of the net reduction related to a \$7 million decrease resulting from the resolution of certain tax matters by the tax authorities on certain prior year non-U.S. income tax returns.

During the year ended December 31, 2016, the Company recognized \$6.3 million net income tax expense relating to interest and penalties on its uncertain tax positions, net of a \$0.2 million increase attributable to foreign currency translation. The change in balance is mainly related to the interest and penalties associated with the above mentioned uncertain tax position taken on certain prior-year non-U.S. income tax returns. As of December 31, 2016, the accrued liability for interest and penalties is \$11.7 million. The Company recognizes accrued interest and penalties on unrecognized tax benefits in income tax expense.

The entire \$48.1 million of unrecognized tax benefits including interest and penalties at December 31, 2016 would lower the Company's effective tax rate, if realized. The Company believes that the total unrecognized tax benefits before interest and penalties may decrease, in the range of \$0 to \$5 million, from resolution of open tax matters, settlements of audits, and the expiration of various statutes of limitations prior to December 31, 2017.

### Income Tax Audits

On February 13, 2015, the Company and the Internal Revenue Service (IRS) concluded the audit examination of the Company's U.S. federal income tax returns for the taxable years ended December 31, 2008 through December 31, 2010. The audit settlement resulted in no additional regular or alternative minimum tax liability. The Company has not received notification from the IRS of commencement of a new exam.

On January 27, 2016 and June 13, 2016, the Company and the IRS concluded the audit examination of IMB Holdco LLC, the parent company of OneWest Bank, and its subsidiaries, which was acquired on August 3, 2015 by CIT, for taxable years ended

**Item 8:** Financial Statements and Supplementary Data

### Table of Contents

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and December 31, 2013, respectively. The audit settlement resulted in no additional regular or alternative minimum tax liability but resulted in a significant cash tax refund, which was reflected in the acquisition date balance sheet.

IMB Holdco LLC and its subsidiaries are also under examination by the California Franchise Tax Board (“FTB”) for tax years 2009 through 2013. The FTB has completed its audit of the 2009 return and has issued a notice of proposed assessment. The Company, working with its outside advisors, is currently in negotiations to agree to a final Closing Agreement that would settle all outstanding issues for 2009 through 2013. The Company expects final resolution and favorable settlement of the issues in 2017. The issues raised by California were anticipated by the Company, and the Company believes it has provided adequate reserves in accordance with ASC 740 for any potential adjustments.

The Company and its subsidiaries are under examination in various states, provinces and countries for years ranging from 2004 through 2015. Management does not anticipate that these examination results will have any material financial impact.

**NOTE 20 — RETIREMENT, POSTRETIREMENT AND OTHER BENEFIT PLANS**

CIT provides various benefit programs, including defined benefit retirement and postretirement plans, and defined contribution savings incentive plans. A summary of major plans is provided below.

**Retirement and Postretirement Benefit Plans****Retirement Benefits**

CIT has both funded and unfunded noncontributory defined benefit pension plans covering certain U.S. and non-U.S. employees, each of which is designed in accordance with practices and regulations in the related countries. Retirement benefits under defined benefit pension plans are based on an employee’s age, years of service and qualifying compensation.

The Company’s largest plan is the CIT Group Inc. Retirement Plan (the “Plan”), which accounts for 81% of the Company’s total pension projected benefit obligation at December 31, 2016.

The Company also maintains a U.S. noncontributory supplemental retirement plan, the CIT Group Inc. Supplemental Retirement Plan (the “Supplemental Plan”), for participants whose benefit in the Plan is subject to Internal Revenue Code limitations, and an Executive Retirement Plan, which has been closed to new members since 2006. In aggregate, these two plans account for 18% of the total pension projected benefit obligation at December 31, 2016.

The Company amended the Plan and the Supplemental Plan to freeze benefits earned, and future service cost accruals and credits for services have been discontinued under both plans. However, accumulated balances under the cash balance formula continue to receive periodic interest, subject to certain government limits. The interest credit was 2.61%, 2.55%, and 3.63% for the years ended December 31, 2016, 2015, and 2014, respectively.

As of December 31, 2016, all Plan participants are vested in both plans. Upon termination or retirement, participants under the “cash balance” formula have the option of receiving their benefit in a lump sum, deferring their payment to age 65 or converting their vested benefit to an annuity. Traditional formula participants can only receive an annuity upon a qualifying retirement.

**Postretirement Benefits**

CIT provides healthcare and life insurance benefits to eligible retired employees. U.S. retiree healthcare and life insurance benefits account for 38% and 58% of the total postretirement benefit obligation, respectively. For most eligible retirees, healthcare is contributory and life insurance is non-contributory. The U.S. retiree healthcare plan pays a stated percentage of most medical expenses, reduced by a deductible and any payments made by the government and other programs. The U.S. retiree healthcare benefit includes a maximum limit on CIT’s share of costs for employees who retired after January 31, 2002. All postretirement benefit plans are funded on a pay-as-you-go basis.

The Company amended CIT's postretirement benefit plans to discontinue benefits, which reduced future service cost accruals. CIT no longer offers retiree medical, dental and life insurance benefits to those who did not meet the eligibility criteria for these benefits by December 31, 2013. Employees who met the eligibility requirements for retiree health insurance by December 31, 2013 will be offered retiree medical and dental coverage upon retirement. To receive retiree life insurance, employees must have met the eligibility criteria for retiree life insurance by, and must have retired from CIT on or before, December 31, 2013.

## Table of Contents

CIT ANNUAL REPORT 2016 183

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Obligations and Funded Status

The following tables set forth changes in benefit obligation, plan assets, funded status and net periodic benefit cost of the retirement plans and postretirement plans:

#### Obligations and Funded Status (dollars in millions)

	Retirement Benefits		Post-Retirement Benefits	
	2016	2015	2016	2015
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 445.5	\$ 463.6	\$ 35.1	\$ 38.6
Service cost	0.1	0.2	—	—
Interest cost	17.1	16.9	1.4	1.4
Plan amendments, curtailments, and settlements	(1.8)	(2.4)	—	—
Actuarial (gain) / loss	4.7	(10.9)	0.2	(1.6)
Benefits paid	(21.8)	(21.3)	(3.6)	(4.9)
Other <sup>(1)</sup>	(0.2)	(0.6)	2.1	1.6
Benefit obligation at end of year	443.6	445.5	35.2	35.1
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of period	337.9	359.9	—	—
Actual return on plan assets	28.2	(12.3)	—	—
Employer contributions	13.2	12.8	1.5	3.3
Plan settlements	(1.8)	(1.1)	—	—
Benefits paid	(21.8)	(21.3)	(3.6)	(4.9)
Other <sup>(1)</sup>	(0.2)	(0.1)	2.1	1.6
Fair value of plan assets at end of period	355.5	337.9	—	—
Funded status at end of year <sup>(2)(3)</sup>	\$ (88.1)	\$ (107.6)	\$ (35.2)	\$ (35.1)

<sup>(1)</sup> Consists of the following: plan participants' contributions and currency translation adjustments.

<sup>(2)</sup> These amounts were recognized as liabilities in the Consolidated Balance Sheet at December 31, 2016 and 2015.

<sup>(3)</sup> Company assets of \$86.1 million and \$85.9 million as of December 31, 2016 and December 31, 2015, respectively, related to the non-qualified U.S. executive retirement plan obligation are not included in plan assets but related liabilities are in the benefit obligation.



## Edgar Filing: CIT GROUP INC - Form 10-K

During 2015, the Company entered into a buy-in/buy-out transaction in Germany with an insurance company that is expected to result in a full buy-out of the related pension plan in 2017. This contract did not meet the settlement requirements in ASC 715, *Compensation — Retirement Benefits* as of the year ended December 31, 2015 and resulted in a \$1.2 million actuarial loss that is included in the net actuarial gain of \$10.9 million as of December 31, 2015, as the plan's pension liabilities were valued at their buy-in value basis. The loss has been recognized in the Statement of Income over the period from which the contract was entered in 2015 and during 2016. The total loss recognized in 2016 and 2015 was \$1.3 million and \$1.4 million, respectively. The remaining unamortized loss at December 31, 2016 of \$0.2 million will be recognized in 2017 when full-settlement is expected to be met.

The accumulated benefit obligation for all defined benefit pension plans was \$443.6 million and \$445.5 million, at December 31, 2016 and 2015, respectively. Information for those defined benefit plans with an accumulated benefit obligation in excess of plan assets is as follows:

### Defined Benefit Plans with an Accumulated Benefit Obligation in Excess of Plan Assets (dollars in millions)

	December 31,	
	2016	2015
Projected benefit obligation	\$ 437.4	\$ 439.3
Accumulated benefit obligation	437.4	439.3
Fair value of plan assets	349.3	331.7

### Item 8: Financial Statements and Supplementary Data

#### Table of Contents

184 CIT ANNUAL REPORT 2016

#### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The net periodic benefit cost and other amounts recognized in AOCI consisted of the following:

#### Net Periodic Benefit Costs and Other Amounts (dollars in millions)

	Retirement Benefits			Post-Retirement Benefits		
	2016	2015	2014	2016	2015	2014
Service cost	\$ 0.1	\$ 0.2	\$ 0.2	\$ —	\$ —	\$ —
Interest cost	17.1	16.9	20.2	1.4	1.4	1.6
Expected return on plan assets	(18.5)	(20.1)	(20.8)	—	—	—
Amortization of prior service cost	—	—	—	(0.5)	(0.5)	(0.5)
Amortization of net loss/(gain)	2.9	2.6	7.5	(0.7)	(0.3)	(0.7)
Settlement and curtailment (gain)/loss	—	—	2.9	—	—	—
Net periodic benefit cost (credit)	1.6	(0.4)	10.0	0.2	0.6	0.4
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income						
Net loss/(gain)	(5.0)	20.9	42.6	0.9	(1.5)	1.0
	(2.9)	(2.6)	(10.4)	0.7	0.3	0.7

Edgar Filing: CIT GROUP INC - Form 10-K

	Retirement Benefits			Post-Retirement Benefits		
Amortization, settlement or curtailment recognition of net (loss)/gain						
Amortization, settlement or curtailment recognition of prior service credit	—	—	—	0.5	0.5	0.5
Total recognized in OCI	(7.9)	18.3	32.2	2.1	(0.7)	2.2
Total recognized in net periodic benefit cost and OCI	\$ (6.3)	\$ 17.9	\$ 42.2	\$ 2.3	\$ (0.1)	\$ 2.6

The amounts recognized in AOCI during the year ended December 31, 2016 were net gains (before taxes) of \$7.9 million for retirement benefits. The net gains (before taxes) included asset gains of \$9.5 million, and gains of \$5.7 million due to the adoption of the new Society of Actuaries' improvement scale MP-2016 for the U.S. benefit plans. Additionally, \$2.9 million of net loss was amortized from AOCI into net periodic benefit cost during 2016. These gains were partially offset by losses on retirement benefits of \$10.2 million. The losses were primarily driven by a 25 basis point decrease in the U.S. benefit plans' discount rate from 4.00% at December 31, 2015 to 3.75% at December 31, 2016. The estimated net loss for CIT's retirement benefits that will be amortized from AOCI into net periodic benefit cost over the next fiscal year is \$1.5 million.

The amounts recognized in AOCI for post-retirement benefits during the year ended December 31, 2016 were net losses (before taxes) of \$2.1 million. This amount includes the net impact of assumption changes of \$0.9 million, which is primarily driven by a 25 basis point decrease in the U.S. benefit plans' discount rate from 4.00% at December 31, 2015 to 3.75% at December 31, 2016. Additionally, \$1.2 million of net gains and prior service credits were amortized from AOCI into net periodic benefit cost. The estimated prior service credit and net gain for CIT's post-retirement benefits that will be amortized from AOCI into net periodic benefit cost over the next fiscal year is \$0.5 million and \$0.8 million, respectively.

The amounts recognized in AOCI during the year ended December 31, 2015 were net losses (before taxes) of \$18.3 million for retirement benefits. The net losses (before taxes) include losses of \$39.5 million, netted by gains of \$18.6 million. The losses include asset losses of \$32.4 million, demographic experience losses of \$3.4 million; losses of \$2.5 million due to the US retirement benefit plans' interest crediting rate's 25 basis points increase to 2.75% at December 31, 2015, and the actuarial loss related to the German plan buy-in transaction of \$1.2 million. The gains were primarily driven by the impacts of the 25 basis point increase in the U.S. benefit plans' discount rate from 3.75% to 4.00% at December 31, 2015 resulting in a gain of \$11.9 million, and the adoption of the new Society of Actuaries' improvement scale MP-2015 for the U.S. benefit plans resulting in a gain of \$6.0 million.

The post retirement AOCI net gains (before taxes) of \$0.7 million during the year ended December 31, 2015 include gains of \$2.5 million, netted by losses of \$0.9 million. The gains were primarily driven by the impacts of the updated healthcare assumptions of \$1.1 million and the 25 basis points increase in the post retirement plans' discount rate from 3.75% to 4.00% at December 31, 2015 resulting in a gain of \$1.0 million. The losses were primarily driven by actuarial losses on benefit payments.

The amounts recognized in AOCI during the year ended December 31, 2014 were net losses (before taxes) of \$32.2 million for retirement benefits. Changes in assumptions, primarily the discount rate and mortality tables, accounted for \$46.8 million of the overall net retirement benefits AOCI losses. The discount rate for the Plan and the Supplemental Plan decreased 100 basis points to 3.75% at December 31, 2014, and the rate for the executive retirement plan decreased 75 basis points to 3.75% at December 31, 2014. This decline in the discount rate accounted for \$33.5 million of the net AOCI loss for retirement benefits. Additionally, the adoption of the new Society of Actuaries' mortality table and improvement scale RP-2014/SP-2014 resulted in an increase in retirement benefit obligations of \$10.2 million. Partially offsetting these losses were the settlement of the U.K. pension scheme, which resulted in \$8.0 million of loss amortization and settlement charges recorded during 2014, and

**Table of Contents**

## Edgar Filing: CIT GROUP INC - Form 10-K

U.S. asset gains of \$7.7 million. The postretirement AOCI net losses (before taxes) of \$2.2 million during the year ended December 31, 2014 were primarily driven by a 75 basis point decrease in the U.S. postretirement plan discount rate from 4.50% at December 31, 2013 to 3.75% at December 31, 2014.

### Assumptions

Discount rate assumptions used for pension and post-retirement benefit plan accounting reflect prevailing rates available on high-quality, fixed-income debt instruments with maturities that match the benefit obligation.

Expected long-term rate of return assumptions on assets are based on projected asset allocation and historical and expected future returns for each asset class. Independent analysis of historical and projected asset returns, inflation, and interest rates are provided by the Company's investment consultants and actuaries as part of the Company's assumptions process.

The weighted average assumptions used in the measurement of benefit obligations are as follows:

### Weighted Average Assumptions

	Retirement Benefits		Post-Retirement Benefits	
	2016	2015	2016	2015
Discount rate	3.73%	3.97%	3.75%	3.99%
Rate of compensation increases	–	–	(1)	(1)
Health care cost trend rate				
Pre-65	(1)	(1)	6.50%	6.70%
Post-65	(1)	(1)	7.80%	8.20%
Ultimate health care cost trend rate	(1)	(1)	4.50%	4.50%
Year ultimate reached	(1)	(1)	2037	2037

The weighted average assumptions used to determine net periodic benefit costs are as follows:

### Weighted Average Assumptions

	Retirement Benefits		Post-Retirement Benefits	
	2016	2015	2016	2015
Discount rate	3.97%	3.74%	3.99%	3.74%
Expected long-term return on plan assets	5.68%	5.75%	(1)	(1)
Rate of compensation increases	0.00%	0.09%	(1)	(1)

(1) Not applicable

Healthcare rate trends have a significant effect on healthcare plan costs. The Company uses both external and historical data to determine healthcare rate trends. An increase (decrease) of one-percentage point in assumed healthcare rate trends would increase (decrease) the postretirement benefit obligation by \$0.7 million and (\$0.7 million), respectively. The service and interest cost are not material.

### Plan Assets

CIT maintains a "Statement of Investment Policies and Objectives" which specifies guidelines for the investment, supervision and monitoring of pension assets in order to manage the Company's objective of ensuring sufficient funds to finance future retirement benefits. The asset allocation policy allows assets to be invested between 15% to 35% in Equities, 35% to 65% in Fixed-Income,

## Edgar Filing: CIT GROUP INC - Form 10-K

15% to 25% in Global Asset Allocation, and 5% to 10% in Alternative Investments. The asset allocation follows a Liability Driven Investing ("LDI") strategy. The objective of LDI is to allocate assets in a manner that their movement will more closely track the movement in the benefit liability. The policy provides specific guidance on asset class objectives, fund manager guidelines and identification of prohibited and restricted transactions. It is reviewed periodically by the Company's Investment Committee and external investment consultants.

The members of the Investment Committee are appointed by the CEO and shall continue until such member's removal or resignation from the Investment Committee in accordance with the provisions of the charter.

There were no direct investments in equity securities of CIT or its subsidiaries included in pension plan assets in any of the years presented.

Plan investments are stated at fair value. Common stock traded on security exchanges as well as mutual funds, exchange traded funds and short term investment funds are valued at closing market prices. Such investments are considered Level 1 per ASC 820 fair value hierarchy. Investments in Common Collective Trusts and Alternative Investment Funds are carried at fair value based upon reported net asset values ("NAV"). ASU 2015-07 removes the requirements to categorize investments for which fair value is measured using the NAV per share as practical expedient from the fair value hierarchy.

There were no transfers of assets between Levels during 2016 and 2015. The tables below set forth asset fair value measurements.

### Item 8: Financial Statements and Supplementary Data

#### Table of Contents

186 CIT ANNUAL REPORT 2016

#### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

##### Fair Value Measurements (dollars in millions)

	Level 1	Level 2	Level 3	Not Classified <sup>1</sup>	Total Fair Value
<b>December 31, 2016</b>					
Cash	\$ 5.8	\$ —	\$ —	\$ —	\$ 5.8
Mutual Fund	69.9	—	—	—	69.9
Exchange Traded Funds	26.1	—	—	—	26.1
Common Stock	16.0	—	—	—	16.0
Short Term Investment Fund, measured at NAV	1.4	—	—	—	1.4
Insurance Contracts, measured at NAV	—	—	6.1	—	6.1
Common Collective Trust, measured at NAV	—	—	—	195.2	195.2
Partnership, measured at NAV	—	—	—	8.6	8.6
Hedge Fund, measured at NAV	—	—	—	26.4	26.4
	\$119.2	\$ —	\$ 6.1	\$230.2	\$355.5
<b>December 31, 2015</b>					
Cash	\$ 1.7	\$ —	\$ —	\$ —	\$ 1.7
Mutual Fund	67.9	—	—	—	67.9
Exchange Traded Funds	24.6	—	—	—	24.6
Common Stock	19.7	—	—	—	19.7
Short Term Investment Fund, measured at NAV	1.7	—	—	—	1.7

Edgar Filing: CIT GROUP INC - Form 10-K

	Level 1	Level 2	Level 3	Not Classified <sup>1</sup>	Total Fair Value
<b>December 31, 2016</b>					
Insurance Contracts, measured at NAV	–	–	6.2	–	6.2
Common Collective Trust, measured at NAV	–	–	–	183.1	183.1
Partnership, measured at NAV	–	–	–	7.7	7.7
Hedge Fund, measured at NAV	–	–	–	25.3	25.3
	\$115.6	\$ –	\$ 6.2	\$216.1	\$337.9

<sup>(1)</sup> These investments have been measured using the net asset value per share practical expedient and are not required to be classified in the table above, in accordance with ASU 2015-07.

The table below sets forth changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2016:

**Fair Value of Level 3 Assets** (dollars in millions)

	Insurance Contracts
<b>December 31, 2015</b>	\$ 6.2
Realized and Unrealized losses	(0.1)
<b>December 31, 2016</b>	\$ 6.1
Change in Unrealized Losses for investments still held at December 31, 2016	\$(0.1)

Contributions

The Company's policy is to make contributions so that they exceed the minimum required by laws and regulations, are consistent with the Company's objective of ensuring sufficient funds to finance future retirement benefits and are tax deductible. CIT currently does not expect to have a required minimum contribution to the U.S. Retirement Plan during 2017. For all other plans, CIT currently expects to contribute \$8.8 million during 2017.

Estimated Future Benefit Payments

The following table depicts benefits projected to be paid from plan assets or from the Company's general assets calculated using current actuarial assumptions. Actual benefit payments may differ from projected benefit payments.

**Projected Benefits** (dollars in millions)

	Retirement Benefits	Gross Postretirement Benefits	Medicare Subsidy Receipts
<b>For the years ended December 31,</b>			
2017	\$ 26.2	\$ 3.0	\$0.3
2018	26.4	3.0	0.3
2019	26.5	2.9	0.3
2020	28.5	2.8	0.3
2021	28.2	2.7	0.3
2022 – 2026	137.4	11.9	0.8

---

**Table of Contents**CIT ANNUAL REPORT 2016 187

---

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Savings Incentive Plan

CIT has a number of defined contribution retirement plans covering certain of its U.S. and non-U.S. employees designed in accordance with conditions and practices in the respective countries. The U.S. plan, which qualifies under section 401(k) of the Internal Revenue Code, is the largest and accounts for 94% of the Company's total defined contribution retirement expense for the year ended December 31, 2016. Generally, employees may contribute a portion of their eligible compensation, as defined, subject to regulatory limits and plan provisions, and the Company matches these contributions up to a threshold. During 2015, the Board of Directors of the Company approved amendments to reduce the Company match on eligible contributions effective January 1, 2016. Participants are also eligible for an additional discretionary company contribution. The cost of these plans totaled \$15.8 million, \$19.0 million and \$21.6 million for the years ended December 31, 2016, 2015, and 2014, respectively.

## Stock-Based Compensation

In February 2016, the Company adopted the CIT Group Inc. 2016 Omnibus Incentive Plan (the "2016 Plan"), which provides for grants of stock-based awards to employees, executive officers and directors, and replaced the Amended and Restated CIT Group Inc. Long-Term Incentive Plan (the "Prior Plan"). The number of shares of common stock that may be issued for all purposes under the 2016 Plan is (1) 5 million shares plus (2) the number of authorized Shares remaining available under the Prior Plan plus (3) the number of Shares relating to awards granted under the Prior Plan that subsequently are forfeited, expire, terminate or otherwise lapse or are settled for cash, in whole or in part, as provided by the 2016 Plan — 6,284,699 at December 31, 2016 (excludes the number of securities to be issued upon exercise of outstanding options and 3,286,786 shares underlying outstanding awards granted to employees and/or directors that are unvested and/or unsettled.) Currently under the 2016 Plan, the issued and unvested awards consist mainly of Restricted Stock Units ("RSUs") and Performance Stock Units ("PSUs").

Compensation expense related to equity-based awards are measured and recorded in accordance with ASC 718, *Stock Compensation*. The fair value of RSUs and PSUs are based on the fair market value of CIT's common stock on the date of grant. Compensation expense is recognized over the vesting period (requisite service period), which is generally three years for restricted stock/units, under the graded vesting method, whereby each vesting tranche of the award is amortized separately as if each were a separate award. Compensation expenses for PSUs that cliff vest are recognized over the vesting period, which is generally three years, and on a straight-line basis.

Operating expenses includes \$36.6 million of compensation expense related to equity-based awards granted to employees or members of the Board of Directors for the year ended December 31, 2016, including \$36.4 million related to restricted and retention stock and unit awards and the remaining related to stock purchases. Compensation expense related to equity-based awards included \$63.4 million in 2015 and \$41.6 million in 2014. Total unrecognized compensation cost related to nonvested awards was \$23.7 million at December 31, 2016. That cost is expected to be recognized over a weighted average period of 1.95 years.

## Employee Stock Purchase Plan

In December 2010, the Company adopted the CIT Group Inc. 2011 Employee Stock Purchase Plan (the "ESPP"), which was approved by shareholders in May 2011. Eligibility for participation in the ESPP includes employees of CIT and its participating subsidiaries, except that any employees designated as highly compensated are not eligible to participate in the ESPP. The ESPP is available to employees in the United States and to certain international employees. Under the ESPP, CIT is authorized to issue up to 2,000,000 shares of common stock to eligible employees. Eligible employees can choose to have between 1% and 10% of their base salary withheld to purchase shares quarterly, at a purchase price equal to 85% of the fair market value of CIT common stock on the last business day of the quarterly offering period. The amount of common stock that may be purchased by a participant through the ESPP is generally limited to \$25,000 per year. A total of 72,325, 46,770, and 31,497 shares were purchased under the plan in 2016, 2015 and 2014, respectively.

Restricted Stock Units and Performance Stock Units

Under the 2016 Plan, RSUs and PSUs are awarded at no cost to the recipient upon grant. RSUs are generally granted annually at the discretion of the Company, but may also be granted during the year to new hires or for retention or other purposes. RSUs granted to employees and members of the Board during 2016 and 2015 generally were scheduled to vest either one third per year for three years or 100% after three years. During 2015, retention RSUs scheduled to vest 100% after nine months were granted to certain key employees in connection with the acquisition of OneWest Bank. Beginning in 2014, RSUs granted to employees were also subject to performance-based vesting based on the Company's pre-tax income results or beginning in 2016, for certain employees, a minimum Tier 1 Capital ratio. A limited number of vested stock awards are scheduled to remain subject to transfer restrictions through the first anniversary of the grant date for members of the Board who elected to receive stock in lieu of cash compensation for their retainer. Certain RSUs granted to directors, and in limited instances to employees, are designed to settle in cash and are accounted for as "liability" awards as prescribed by ASC 718. The values of these cash-settled RSUs are re-measured at the end of each reporting period until the award is settled.

Certain senior executives receive long-term incentive (LTI) awards, which are generally granted at the discretion of the Company annually in the form of Performance Share Units (PSUs). During 2016, The Company changed the mix of LTI awards to include 50% performance-based RSUs (described above) and 50% PSUs based on after-tax Return on Tangible Common Stockholder's Equity (ROTCE). During 2015, LTI was awarded by the Company as two forms of PSUs.

The 2016 PSUs, "2016 PSUs- After-Tax ROTCE," may be earned at the end of a three-year performance period (2016 — 2018) from 0% to 150% of target based on after-tax ROTCE. The first form of 2015 PSUs, "2015 PSUs-Return on Average Earnings Assets (ROA) / Earnings Per Share (EPS)," may also be earned at the end of a three-year performance period (2015 – 2017) from 0% to

**Item 8:** Financial Statements and Supplementary Data

**Table of Contents**

**188** CIT ANNUAL REPORT 2016

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

150% of target based on performance against two pre-established performance measures: fully diluted EPS (weighted 75%) and pre-tax ROA (weighted 25%). The second form of 2015 PSUs, "2015 PSUs-PreTax ROTCE," are earned in each year during a three-year performance period (2015 – 2017) from 0% to a maximum of 150% of target based on pre-tax ROTCE as follows: (1) one-third based on the pre-tax ROTCE for the first year of the performance period; (2) one-third based on the average pre-tax ROTCE for the first two years of the performance period; and (3) one-third based on the three-year average ROTCE during the performance period. Performance measures for all PSU awards have a minimum threshold level of performance that must be achieved to trigger any payout; if the threshold level of performance is not achieved, then no portion of the PSU target will be payable.

The fair value of RSUs and PSUs that vested and settled in stock during 2016, 2015 and 2014 was \$52.4 million, \$56.2 million and \$42.8 million, respectively. The fair value of RSUs that vested and settled in cash during 2016, 2015 and 2014 was \$0.2 million, \$0.2 million and \$0.2 million, respectively.

The following tables summarize restricted stock and RSU activity for 2016 and 2015:

**Stock and Cash — Settled Awards Outstanding**

	Stock-Settled Awards		Cash-Settled Awards	
	Number of Shares	Weighted Average Grant Date Value	Number of Shares	Weighted Average Grant Date Value
December 31, 2016				

Edgar Filing: CIT GROUP INC - Form 10-K

	Stock-Settled Awards		Cash-Settled Awards	
Unvested at beginning of period	3,384,297	\$45.55	9,623	\$44.97
Vested / unsettled awards at beginning of period	39,626	40.46	—	—
PSUs — granted to employees	284,640	32.80	—	—
PSUs — incremental for performance above 2012-14 targets	19,938	42.21	—	—
RSUs — granted to employees	1,429,554	30.32	—	—
RSUs — granted to directors	38,957	33.37	7,496	33.35
Forfeited / cancelled	(276,627)	38.61	—	—
Vested / settled awards	(1,633,599)	45.28	(5,047)	44.83
Vested / unsettled awards	(243,335)	46.10	—	—
Unvested at end of period	3,043,451	\$37.70	12,072	\$37.81
<b>December 31, 2015</b>				
Unvested at beginning of period	2,268,484	\$44.22	6,353	\$41.99
Vested / unsettled Stock Salary at beginning of period	25,255	40.38	1,082	39.05
PSUs — granted to employees	445,020	45.88	—	—
PSUs — incremental for performance above 2012-14 targets	102,881	45.88	—	—
RSUs — granted to employees	2,001,931	45.36	—	—
RSUs — granted to directors	28,216	46.22	6,166	46.42
Forfeited / cancelled	(173,903)	45.30	—	—
Vested / settled awards	(1,273,961)	42.50	(3,978)	40.85
Vested / unsettled Stock Salary Awards	(39,626)	40.46	—	—
Unvested at end of period	3,384,297	\$45.55	9,623	\$44.97

**Table of Contents**

CIT ANNUAL REPORT 2016 189

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 — COMMITMENTS

The accompanying table summarizes credit-related commitments, as well as purchase and funding commitments:

**Commitments** (dollars in millions)

December 31, 2016			December 31, 2015
Due to Expire		Total Outstanding	
Within One Year	After One Year		



Edgar Filing: CIT GROUP INC - Form 10-K

December 31, 2016

<b>Financing Commitments</b>				
Financing assets	\$ 1,003.6	\$ 5,004.5	\$ 6,008.1	\$ 7,385.6
<b>Letters of credit</b>				
Standby letters of credit	37.2	195.0	232.2	315.3
Other letters of credit	14.0	–	14.0	18.3
<b>Guarantees</b>				
Deferred purchase agreements	2,060.5	–	2,060.5	1,806.5
Guarantees, acceptances and other recourse obligations	1.6	–	1.6	0.7
<b>Purchase and Funding Commitments</b>				
Aerospace purchase commitments <sup>(1)</sup>	607.9	8,075.6	8,683.5	9,618.1
Rail and other purchase commitments	272.9	27.8	300.7	898.2

<sup>(1)</sup> Aerospace purchase commitments are associated with Aerospace discontinued operations.

Discontinued operations

The Aerospace purchase commitments in the table above are associated with Aerospace discontinued operations. Financing Commitments include HECM reverse mortgage loan commitments associated with Financial Freedom discontinued operations of \$42 million at December 31, 2016 and \$50 million at December 31, 2015. Financing Commitments also include commitments associated with the TC-CIT Aviation joint venture in Aerospace discontinued operations of \$3 million at December 31, 2016 and \$18 million at December 31, 2015.

Financing Commitments

*Commercial*

Financing commitments, referred to as loan commitments or lines of credit, reflect CIT's agreements to lend to its customers, subject to the customers' compliance with contractual obligations. Included in the table above are commitments that have been extended to and accepted by customers, clients or agents, but on which the criteria for funding have not been completed of \$572 million at December 31, 2016 and \$859 million at December 31, 2015. Financing commitments also include credit line agreements to Business Capital clients that are cancellable by us only after a notice period. The notice period is typically 90 days or less. The amount available under these credit lines, net of the amount of receivables assigned to us, was \$335 million at December 31, 2016 and \$406 million at December 31, 2015. As financing commitments may not be fully drawn, may expire unused, may be reduced or cancelled at the customer's request, and may require the customer to be in compliance with certain conditions, total commitment amounts do not necessarily reflect actual future cash flow requirements.

The table above includes approximately \$1.7 billion of undrawn financing commitments at both December 31, 2016 and December 31, 2015 for instances where the customer is not in compliance with contractual obligations or does not have adequate collateral to borrow against the unused facility, and therefore CIT does not have the contractual obligation to lend.

At December 31, 2016, substantially all undrawn financing commitments were senior facilities. Most of the Company's undrawn and available financing commitments are in the Commercial Banking segment.

The table above excludes uncommitted revolving credit facilities extended by Business Capital to its clients for working capital purposes. In connection with these facilities, Business Capital has the sole discretion throughout the duration of these facilities to determine the amount of credit that may be made available to its clients at any time and whether to honor any specific advance requests made by its clients under these credit facilities.

*Consumer*

In conjunction with the OneWest Transaction, the Company is committed to fund draws on certain reverse mortgages in conjunction with loss sharing agreements with the FDIC. The FDIC agreed to indemnify the Company for losses on the first \$200

## Edgar Filing: CIT GROUP INC - Form 10-K

million of draws that occur subsequent to the date OneWest Bank originally purchased the applicable loans. In addition, the FDIC agreed to fund any other draws in excess of the \$200 million. The Company's net exposure for loan commitments on the reverse mortgage draws on those purchased loans was \$55 million at December 31, 2016 and \$48 million at December 31, 2015. See *Note 5 — Indemnification Assets* for further discussion on loss sharing agreements with the FDIC. In addition, as servicer of HECM loans, the Company is required to repurchase the loan out of the GNMA HMBS securitization pools once the outstanding principal balance is equal to or greater than 98% of the maximum claim amount.

Also included was the Company's commitment to fund draws on certain home equity lines of credit ("HELOCs"). Under the

### Item 8: Financial Statements and Supplementary Data

---

#### Table of Contents

190 CIT ANNUAL REPORT 2016

---

#### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HELOC participation and servicing agreement entered into with the FDIC, the FDIC agreed to reimburse the Company for a portion of the draws that the Company made on the purchased HELOCs.

#### Letters of Credit

In the normal course of meeting the needs of clients, CIT sometimes enters into agreements to provide financing and letters of credit. Standby letters of credit obligate the issuer of the letter of credit to pay the beneficiary if a client on whose behalf the letter of credit was issued does not meet its obligation. These financial instruments generate fees and involve, to varying degrees, elements of credit risk in excess of amounts recognized in the Consolidated Balance Sheets. To minimize potential credit risk, CIT generally requires collateral and in some cases additional forms of credit support from the client.

#### Deferred Purchase Agreements

A Deferred Purchase Agreement ("DPA") is provided in conjunction with factoring, whereby CIT provides a client with credit protection for trade receivables without purchasing the receivables. The trade receivable terms are generally ninety days or less. If the client's customer is unable to pay an undisputed receivable solely as the result of credit risk, then CIT purchases the receivable from the client. The outstanding amount in the table above is the maximum potential exposure that CIT would be required to pay under all DPAs. This maximum amount would only occur if all receivables subject to DPAs default in the manner described above, thereby requiring CIT to purchase all such receivables from the DPA clients.

The table above includes \$1,962 million and \$1,720 million of DPA credit protection at December 31, 2016 and December 31, 2015, respectively, related to receivables which have been presented to us for credit protection after shipment of goods has occurred and the customer has been invoiced. The table also includes \$99 million and \$87 million available under DPA credit line agreements, net of the amount of DPA credit protection provided at December 31, 2016 and December 31, 2015, respectively. The DPA credit line agreements specify a contractually committed amount of DPA credit protection and are cancellable by us only after a notice period. The notice period is typically 90 days or less.

The methodology used to determine the DPA liability is similar to the methodology used to determine the allowance for loan losses associated with the finance receivables, which reflects embedded losses based on various factors, including expected losses reflecting the Company's internal customer and facility credit ratings. The liability recorded in Other Liabilities related to the DPAs totaled \$6.1 million and \$4.4 million at December 31, 2016 and December 31, 2015, respectively.

#### Purchase and Funding Commitments

CIT's purchase commitments relate primarily to purchases of commercial aircraft and rail equipment.

## Edgar Filing: CIT GROUP INC - Form 10-K

Commitments to purchase new commercial aircraft are predominantly with Airbus Industries (“Airbus”) and The Boeing Company (“Boeing”). CIT may also commit to purchase an aircraft directly from an airline. Aerospace equipment purchases are contracted for specific models, using baseline aircraft specifications at fixed prices, which reflect discounts from fair market purchase prices prevailing at the time of commitment. The delivery price of an aircraft may change depending on final specifications. Equipment purchases are recorded at the delivery date. The estimated commitment amounts in the preceding table are based on contracted purchase prices, including estimated contractual cost escalations, reduced for pre-delivery payments to date and exclude buyer furnished equipment selected by the lessee. Prior to obtaining a lease commitment and lessee aircraft specifications, cost escalation is based upon an average delivery date by aircraft type and order, which ranges from 0 to 21 months from estimated future delivery date. When a lessee commitment is obtained, cost escalation is based on the expected delivery date. Pursuant to existing contractual commitments, 128 aircraft remain to be purchased from Airbus and Boeing at December 31, 2016. Aircraft deliveries are scheduled periodically through 2020. Commitments exclude unexercised options to order additional aircraft.

The Company’s rail business entered into commitments to purchase railcars from multiple manufacturers. At December 31, 2016, approximately 2,400 railcars remain to be purchased from manufacturers with deliveries through 2018. Rail equipment purchase commitments are at fixed prices subject to price increases for certain materials.

Other purchase commitments primarily relate to Equipment Finance.

### Other Commitments

The Company has commitments to invest in affordable housing investments, and other investments qualifying for community reinvestment tax credits. These commitments were \$62 million at December 31, 2016 and \$16 million at December 31, 2015. These commitments are payable on demand and are recorded in Other liabilities.

In addition, as servicer of HECM loans, the Company is required to repurchase loans out of the GNMA HMBS securitization pools once the outstanding principal balance is equal to or greater than 98% of the maximum claim amount. Refer to *Note 3 — Loans* for further detail regarding the purchased HECM loans due to this servicer obligation.

### NOTE 22 — CONTINGENCIES

#### Litigation

CIT is involved, and from time to time in the future may be involved, in a number of pending and threatened judicial, regulatory, and arbitration proceedings relating to matters that arise in connection with the conduct of its business (collectively, “Litigation”). In view of the inherent difficulty of predicting the outcome of Litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages, CIT cannot state with confidence what the eventual outcome of the pending Litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter will be, if any. In accordance with applicable accounting guidance, CIT

---

### Table of Contents

CIT ANNUAL REPORT 2016 191

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

establishes reserves for Litigation when those matters present loss contingencies as to which it is both probable that a loss will occur and the amount of such loss can be reasonably estimated. Based on currently available information, CIT believes that the results of Litigation that is currently pending, taken together, will not have a material adverse effect on the Company’s financial condition, but may be material to the Company’s operating results or cash flows for any particular period, depending in part on its operating results for that period. The actual results of resolving such matters may be substantially higher than the amounts reserved.

## Edgar Filing: CIT GROUP INC - Form 10-K

For certain Litigation matters in which the Company is involved, the Company is able to estimate a range of reasonably possible losses in excess of established reserves and insurance. For other matters for which a loss is probable or reasonably possible, such an estimate cannot be determined. For Litigation where losses are reasonably possible, management currently estimates the aggregate range of reasonably possible losses as up to \$55 million in excess of established reserves and insurance related to those matters, if any. This estimate represents reasonably possible losses (in excess of established reserves and insurance) over the life of such Litigation, which may span a currently indeterminable number of years, and is based on information currently available as of December 31, 2016. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from this estimate.

Those Litigation matters for which an estimate is not reasonably possible or as to which a loss does not appear to be reasonably possible, based on current information, are not included within this estimated range and, therefore, this estimated range does not represent the Company's maximum loss exposure.

The foregoing statements about CIT's Litigation are based on the Company's judgments, assumptions, and estimates and are necessarily subjective and uncertain. The Company has several hundred threatened and pending judicial, regulatory and arbitration proceedings at various stages. Several of the Company's significant Litigation matters are described below.

### BRAZILIAN TAX MATTER

Banco Commercial Investment Trust do Brasil S.A. ("Banco CIT"), CIT's Brazilian bank subsidiary, was sold in a stock sale in the fourth quarter of 2015, thereby transferring the legal liabilities of Banco CIT to the buyer. Under the terms of the stock sale, CIT remains liable for indemnification to the buyer for any losses resulting from certain Imposto Sobre Circulacao de Mercadorias e Servicos ("ICMS") tax appeals relating to disputed local tax assessments on leasing services and importation of equipment (the "ICMS Tax Appeals").

Notices of infraction were issued to Banco CIT relating to the payment of Imposto sobre Circulacao de Mercadorias e Servicos ("ICMS") taxes charged by Brazilian states in connection with the importation of equipment. The state of São Paulo claims that Banco CIT should have paid its ICMS taxes for tax years 2006 – 2009 because Banco CIT, the purchaser, was located in São Paulo. Instead, the ICMS taxes were paid to the state of Espirito Santo where the imported equipment arrived. A regulation issued by São Paulo in December 2013 reaffirms a 2009 agreement by São Paulo to conditionally recognize ICMS tax payments made to Espirito Santo. An assessment related to taxes paid to Espirito Santo was upheld in a ruling issued by the administrative court in May 2014. That ruling has been appealed. Another assessment related to taxes paid to Espirito Santo remains pending. Petitions seeking São Paulo's recognition of the taxes paid to Espirito Santo have been filed in a general amnesty program. In conjunction with the stock sale, the Company posted a letter of credit in the amount of 71 million Reais (\$22 million USD) to secure the indemnity obligation for the ICMS Tax Appeals.

### HUD OIG INVESTIGATION

In 2009, OneWest Bank acquired the reverse mortgage loan portfolio and related servicing rights of Financial Freedom Senior Funding Corporation, including HECM loans, from the FDIC as Receiver for IndyMac Federal Bank. HECM loans are insured by the FHA, and administered by HUD. Subject to certain requirements, the loans acquired from the FDIC are covered by indemnification agreements. In addition, Financial Freedom is the servicer of HECM loans owned by third party investors. Beginning in the third quarter of 2015, the Office of the Inspector General for HUD (the "HUD OIG"), served a series of subpoenas on the Company regarding HECM loans. The subpoenas request documents and other information related to Financial Freedom's HECM loan origination and servicing business, including the curtailment of interest payments on HECM insurance claims. The Company continues to cooperate with the investigation and is engaged in discussions with the HUD OIG regarding resolution of the matter. We do not expect the outcome of the investigation to have a material adverse effect on the Company's financial condition or results of operations in light of existing reserves.

### Forward Mortgage Obligations

As owner and servicer of forward residential mortgage loans, the Company is exposed to contingent obligations for breaches of servicer and other contractual obligations as set forth in industry regulations, in servicing agreements and other agreements with the applicable counterparties, such as the FDIC, Fannie Mae and other third party investors.

The Company has established reserves for contingent liabilities associated with continuing forward mortgage operations. While the Company believes that such accrued liabilities are adequate, management currently estimates the aggregate range of reasonably possible losses as up to \$5 million in excess of established reserves and insurance, if any, as of December 31, 2016. This estimate is based on information currently available as of December 31, 2016. The obligations underlying the estimated range will change from time to time, and actual results may vary significantly from this estimate.

## Indemnification Obligations

In connection with the OneWest acquisition, CIT assumed the obligation to indemnify Ocwen Loan Servicing, LLC ("Ocwen") against certain claims that may arise from servicing errors which are deemed attributable to the period prior to June 2013, when OneWest sold its servicing business to Ocwen, such as repurchase demands, non-recoverable servicing advances and compensatory fees imposed by the GSEs for servicer delays in completing the foreclosure process within the prescribed

**Item 8:** Financial Statements and Supplementary Data**Table of Contents**

## 192 CIT ANNUAL REPORT 2016

## CIT GROUP AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

timeframe established by the servicer guides or agreements, exclusive of losses or repurchase obligations and certain agency fees, and which are limited to an aggregate amount of \$150 million and expire three years from closing (February 28, 2017). Ocwen is responsible for liabilities arising from servicer obligations following the service transfer date because substantially all risks and rewards of ownership have been transferred; except for certain Agency fees or loan repurchase amounts. As of December 31, 2016, the cumulative indemnification obligation totaled approximately \$56 million, which reduced the Company's \$150 million maximum potential indemnity obligation to Ocwen. Because of the uncertainty in the ultimate resolution and estimated amount of the indemnification obligation, it is reasonably possible that the obligation could exceed the Company's recorded liability by up to approximately \$25 million as of December 31, 2016.

In addition, CIT assumed OneWest Bank's obligations to indemnify Specialized Loan Servicing, LLC (SLS) against certain claims that may arise that are attributable to the period prior to September 2013, the servicing transfer date, when OneWest sold a portion of its servicing business to SLS, such as repurchase demands and non-recoverable servicing advances. SLS is responsible for substantially all liabilities arising from servicer obligations following the service transfer date.

**Mortgage Servicing Consent Orders**

As a result of CIT Group Inc.'s acquisition of OneWest Bank, CIT (as successor to IMB Holdco LLC) is subject to a Consent Order with the FRB related to residential mortgage servicing operations. The original consent order was entered into with IMB Holdco LLC and the Office of Thrift Supervision in April 2011. Following IMB Holdco's conversion to a bank holding company the Consent Order was amended in March 2014 to name the FRB as the appropriate regulator to administer the Order. A similar Consent Order had been entered into with the OCC, but in July 2015, immediately prior to completion of CIT's acquisition of OneWest Bank the OCC terminated its Consent Order. However, the FRB continued its Consent Order in place and oversight was transferred to the Federal Reserve Board New York and CIT succeeded to the Consent Order obligations. The FRB's Consent Order remains outstanding although improvements required by the Consent Order have been implemented including the completion of an Independent Foreclosure Review in 2014, resulting in approximately \$12.7 million of remediation payments being made payable to borrowers.

## NOTE 23 LEASE COMMITMENTS

**Lease Commitments**

The following table presents future minimum rental payments under non-cancellable long-term lease agreements for premises and equipment at December 31, 2016:

**Future Minimum Rentals** (dollars in millions)

Years Ended December 31,	
2017	\$ 49.3
2018	46.6
2019	44.8

## Edgar Filing: CIT GROUP INC - Form 10-K

2020	38.7
2021	27.0
Thereafter	77.4
Total	\$ 283.8

The future minimum rentals in the table above includes \$3.8 million (\$1.4 million for 2017) associated with discontinued operations.

In addition to fixed lease rentals, leases generally require payment of maintenance expenses and real estate taxes, both of which are subject to escalation provisions. Minimum payments include \$57.7 million (\$14.2 million for 2017) which will be recorded against the facility exiting liability when paid and therefore will not be recorded as rental expense in future periods. Minimum payments have not been reduced by minimum sublease rentals of \$48.4 million due in the future under non-cancellable subleases which will be recorded against the facility exiting liability when received. See *Note 27 Severance and Facility Exiting Liabilities* for the liability related to closing facilities.

Rental expense for premises and equipment, was as follows. The 2015 balances include five months of activity related to OneWest Bank.

(dollars in millions)	Years Ended December 31,		
	2016	2015 <sup>(1)</sup>	2014 <sup>(1)</sup>
Premises	\$ 42.1	\$ 28.7	\$ 16.9
Equipment	1.7	1.8	2.3
Total	\$ 43.8	\$ 30.5	\$ 19.2

<sup>(1)</sup> In preparing the year-end financial statements as of December 31, 2016, the Company discovered and corrected an immaterial error impacting the amount of rental expense disclosed in the table above which resulted in decreases to rental expense of \$6 million and \$4 million for the years ended December 31, 2015 and December 31, 2014, respectively.

### NOTE 24 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the third quarter of 2015, Strategic Credit Partners Holdings LLC (the *JV*), a joint venture between CIT Group Inc. (*CIT*) and TPG Special Situations Partners (*TSSP*), was formed. The *JV* extends credit in senior-secured, middle-market corporate term loans, and, in certain circumstances, is a participant to such loans. Participation could be in corporate loans originated by CIT. The *JV* may acquire other types of loans, such as subordinate corporate loans, second lien loans, revolving loans, asset backed loans and real estate loans. During the year ended December 31, 2016, loans of \$122.8 million were sold to the joint venture. CIT also maintains an equity interest of 10% in the *JV*, and our investment was \$5.4 million and \$4.6 million at December 31, 2016 and 2015, respectively.

During 2014, the Company formed two joint ventures (collectively *TC-CIT Aviation*) between CIT Aerospace and Century Tokyo Leasing Corporation (*CTL*). CIT records its net investment under the equity method of accounting. Under the terms of the agreements, *TC-CIT Aviation* will acquire commercial aircraft that will be leased to airlines around the globe. CIT Aerospace is responsible for arranging future aircraft acquisitions, negotiating leases, servicing the portfolio and administering the entities. Initially, CIT Aerospace sold 14 commercial aircraft to *TC-CIT Aviation* in transactions with an aggregate value of approximately \$0.6 billion, including nine aircraft sold in 2014 and five aircraft sold in the first quarter of 2015 (these five aircraft were sold at an aggregate amount of \$240 million). In addition to the initial 14 commercial aircraft, CIT sold 5 commercial aircraft with an

### Table of Contents

CIT ANNUAL REPORT 2016 193

aggregate value of \$226 million in the year ended December 31, 2015. There were no aircraft sold to TC-CIT Aviation for the year ended December 31, 2016. In 2016, servicing fees of \$9.8 million were billed by CIT to TC-CIT Aviation for the year ended December 31, 2016. CIT also made and maintains a minority equity investment in TC-CIT Aviation in the amount of approximately \$81 million and \$50 million, which is included in discontinued operations at December 31, 2016 and 2015, respectively. CTL made and maintains a majority equity interest in the joint venture and is a lender to the companies. See *Note 31 Subsequent Events* for announced sale of the Company's ownership stake in TC-CIT Aviation.

CIT invests in various trusts, partnerships, and limited liability corporations established in conjunction with structured financing transactions of equipment, power and infrastructure projects. CIT's interests in these entities were entered into in the ordinary course of business. Other assets included approximately \$220 million and \$175 million at December 31, 2016, and 2015, respectively, of investments in non-consolidated entities relating to such transactions that are accounted for under the equity or cost methods.

The combination of investments in and loans to non-consolidated entities represents the Company's maximum exposure to loss, as the Company does not provide guarantees or other forms of indemnification to non-consolidated entities.

As of December 31, 2016 and 2015, a wholly-owned subsidiary of the Company subserviced loans for a related party with unpaid principal balances of \$7.6 million, and \$204.5 million, respectively. During 2016, substantially all of the serviced loans were sold to a third party.

#### NOTE 25 BUSINESS SEGMENT INFORMATION

##### **Management's Policy in Identifying Reportable Segments**

CIT's reportable segments are primarily based upon industry categories, geography, target markets and customers served, and, to a lesser extent, the core competencies relating to product origination, distribution methods, operations and servicing and the nature of their regulatory environment. This segment reporting is reflective of the Company's internal reporting structure and is consistent with the presentation of financial information to the chief operating decision maker.

##### Summary of Changes to Reportable Segments

Due to changes in our business, our segments have been realigned since our 2015 Annual Report. As of December 31, 2016, CIT manages its business and reports its financial results in three operating segments: Commercial Banking, Consumer Banking, and Non-Strategic Portfolios (NSP), and a non-operating segment, Corporate and Other.

The following summarizes changes to our segment reporting from December 31, 2015. All prior period data presented in this Annual Report on Form 10-K were conformed to reflect the following changes

- Commercial Banking (formerly North America Banking or NAB) no longer includes the Consumer Banking division or the Canadian Corporate and Equipment Finance business. Commercial Banking is comprised of Commercial Finance, Real Estate Finance, and Business Capital. Business Capital includes the former Equipment Finance and Commercial Services divisions, which had been discrete divisions in the year ago filing. In the fourth quarter of 2016 we further realigned our segments and included Rail as a fourth division. Also part of the fourth quarter realignment, Commercial Finance includes the Maritime Finance portfolio along with the remaining Commercial Air loans not part of discontinued operations. Rail, Maritime Finance and Commercial Air loans not part of discontinued operations were all part of the former Transportation Finance Segment.
- Transportation Finance (formerly Transportation & International Finance or TIF) no longer exists as a separate business segment. In our initial realignment early in 2016, we transferred the international business in China and the U.K. to NSP, such that Transportation Finance was then comprised of three divisions, Aerospace (composed of Commercial Air and Business Air), Rail and Maritime Finance. Based on the definitive sale agreement with respect to Commercial Air that we executed on October 6, 2016, the activity of the Commercial Air business that is subject to the sale agreement, as well as activity associated with the Business Air assets, are reported as discontinued operations. As mentioned above, Rail, Maritime Finance and commercial air loans not part of discontinued operations were transferred to Commercial Banking.
- Consumer Banking includes Legacy Consumer Mortgages (the former LCM segment) and Other Consumer Banking divisions that were included in the former NAB segment (Retail Banking, Consumer Lending, and SBA Lending).
- NSP includes businesses that we no longer consider strategic and as of December 31, 2016, essentially all of the remaining portfolio was in China. Historic data also includes the businesses and portfolios that have been sold, in countries such as Canada, the U.K., Mexico, and Brazil.

Types of Products and Services

## Edgar Filing: CIT GROUP INC - Form 10-K

Commercial Banking consists of four divisions. Through its Commercial Finance, Real Estate Finance, and Business Capital divisions, Commercial Banking provides lending, leasing and other financial and advisory services, primarily to small and middle-market companies across select industries. Business Capital also provides factoring, receivables management products and secured financing to the retail supply chain. The fourth division, Rail, provides equipment leasing and secured financing to the rail industry. Revenue is generated from interest earned on loans, rents on equipment leased, fees and other revenue from lending and leasing activities, capital markets transactions and banking services, commissions earned on factoring and related activities, and to a lesser extent, interest and dividends on investments. Revenue is also generated from gains on asset sales.

Consumer Banking includes Other Consumer Banking and Legacy Consumer Mortgages.

*Other Consumer Banking* offers mortgage loans, deposits and private banking services to its consumer customers. The division offers jumbo residential mortgage loans and conforming residential mortgage loans, primarily in Southern California. Mortgage loans are originated directly through leads generated from the

Item 8: Financial Statements and Supplementary Data

---

### Table of Contents

194 CIT ANNUAL REPORT 2016

---

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

retail branch network, private bankers, the commercial business units, as well as indirectly through institutional intermediaries. Mortgage lending includes product specialists, internal sales support and origination processing, structuring and closing. Retail banking is the primary deposit gathering business of CIT Bank and operates through 70 retail branches in Southern California and an online direct channel. We offer a broad range of deposit and lending products to meet the needs of our customers, including: checking, savings, certificates of deposit, residential mortgage loans, and fiduciary services. The division also originates qualified Small Business Administration (SBA) 504 loans (generally, the financing provides growing small businesses with long-term, fixed-rate financing for major fixed assets, such as land and building) and 7(a) (generally, for purchase/refinance of owner occupied commercial real estate, working capital, acquisition of inventory, machinery, equipment, furniture, and fixtures, the refinance of outstanding debt subject to any program guidelines, and acquisition of businesses, including partnership buyouts).

LCM holds the reverse mortgage and SFR mortgage portfolios acquired in the OneWest Transaction. Certain of these assets and related receivables include loss sharing arrangements with the FDIC, which will continue to reimburse CIT Bank, N.A. for certain losses realized due to foreclosure, short-sale, charge-offs or a restructuring of a single family residential mortgage loan pursuant to an agreed upon loan modification framework.

NSP includes businesses and portfolios that we no longer consider strategic. The China portfolio was predominately the remaining operation at December 31, 2016. Historic data will also include other businesses and portfolios that have been sold, such as Canada, the U.K., Mexico, and Brazil.

On a limited basis, the remaining businesses offer equipment financing, secured lending and leasing and advisory services to small and middle-market businesses and all the portfolios were included in assets held for sale at December 31, 2016.

#### Corporate and Other

Certain items are not allocated to operating segments and are included in Corporate & Other. Some of the more significant items include interest income on investment securities, a portion of interest expense, primarily related to corporate liquidity costs (interest expense), mark-to-market adjustments on non-qualifying derivatives (other income), restructuring charges for severance and facilities exit activities (operating expenses), certain intangible asset amortization expenses (other expenses) and loss on debt extinguishments.



**Table of Contents**

CIT ANNUAL REPORT 2016 195

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Segment Profit and Assets

The following table presents segment data. The 2015 include results of OneWest Bank's operations for approximately five months compared to a full year in 2016.

**Segment Pre-tax Income (Loss)** (dollars in millions)

	Commercial Banking	Consumer Banking	Non-Strategic Portfolios	Corporate & Other	Total CIT
<b>For the year ended December 31, 2016</b>					
Interest income	\$ 1,287.9	\$ 420.8	\$ 80.8	\$ 122.0	\$ 1,911.5
Interest expense	(519.1)	(10.2)	(47.2)	(176.7)	(753.2)
Provision for credit losses	(183.1)	(11.7)	0.1	—	(194.7)
Rental income on operating leases	1,020.0	—	11.6	—	1,031.6
Other income	293.8	40.0	52.1	(235.3)	150.6
Depreciation on operating lease equipment	(261.1)	—	—	—	(261.1)
Maintenance and other operating lease expenses	(213.6)	—	—	—	(213.6)
Goodwill impairment	(34.8)	(319.4)	—	—	(354.2)
Operating expenses / loss on debt extinguishment	(761.6)	(380.9)	(42.2)	(111.3)	(1,296.0)
Income (loss) from continuing operations before (provision) benefit for income taxes	\$ 628.4	\$ (261.4)	\$ 55.2	\$ (401.3)	\$ 20.9
<b>Select Period End Balances</b>					
Loans	\$22,562.3	\$6,973.6	\$ —	\$ —	\$29,535.9
Credit balances of factoring clients	(1,292.0)	—	—	—	(1,292.0)
Assets held for sale	357.7	68.2	210.1	—	636.0
Operating lease equipment, net	7,486.1	—	—	—	7,486.1
<b>For the year ended December 31, 2015</b>					
Interest income	\$ 1,029.1	\$ 176.1	\$ 184.8	\$ 55.2	\$ 1,445.2
Interest expense	(481.4)	(24.9)	(121.4)	(103.7)	(731.4)
Provision for credit losses	(143.7)	(8.7)	(6.2)	—	(158.6)
Rental income on operating leases	981.4	—	36.7	—	1,018.1
Other income	302.6	5.4	(96.8)	(61.6)	149.6
Depreciation on operating lease equipment	(218.3)	—	(10.9)	—	(229.2)
Maintenance and other operating lease expenses	(185.1)	—	—	—	(185.1)
Operating expenses / loss on debt extinguishment	(727.4)	(158.4)	(123.9)	(112.9)	(1,122.6)
Income (loss) from continuing operations before (provision) benefit for income taxes	\$ 557.2	\$ (10.5)	\$ (137.7)	\$ (223.0)	\$ 186.0
<b>Select Period End Balances</b>					
Loans	\$23,332.4	\$7,186.3	\$ —	\$ —	\$30,518.7
Credit balances of factoring clients	(1,344.0)	—	—	—	(1,344.0)

Edgar Filing: CIT GROUP INC - Form 10-K

	Commercial Banking	Consumer Banking	Non-Strategic Portfolios	Corporate & Other	Total CIT
<b>For the year ended December 31, 2016</b>					
Assets held for sale	435.1	45.1	1,577.5	–	2,057.7
Operating lease equipment, net	6,851.7	–	–	–	6,851.7

**Item 8: Financial Statements and Supplementary Data**

**Table of Contents**

196 CIT ANNUAL REPORT 2016

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Segment Pre-tax Income (Loss)** (dollars in millions) (continued)

	Commercial Banking	Consumer Banking	Non-Strategic Portfolios	Corporate & Other	Total CIT
<b>For the year ended December 31, 2014</b>					
Interest income	\$ 845.8	\$ –	\$ 295.6	\$ 14.2	\$ 1,155.6
Interest expense	(441.9)	–	(218.4)	(54.8)	(715.1)
Provision for credit losses	(73.3)	–	(30.9)	(0.2)	(104.4)
Rental income on operating leases	896.0	–	53.6	–	949.6
Other income	327.7	–	(27.5)	(36.3)	263.9
Depreciation on operating lease equipment	(201.0)	–	(28.8)	–	(229.8)
Maintenance and other operating lease costs	(171.7)	–	–	–	(171.7)
Operating expenses / loss on debt extinguishment	(642.3)	–	(180.9)	(80.4)	(903.6)
Income (loss) from continuing operations before (provisions) benefit for income taxes	\$ 539.3	\$ –	\$ (137.3)	\$ (157.5)	\$ 244.5
<b>Select Period End Balances</b>					
Loans	\$ 16,727.8	\$ –	\$ 1,532.8	\$ –	\$ 18,260.6
Credit balances of factoring clients	(1,622.1)	–	–	–	(1,622.1)
Assets held for sale	43.7	–	782.8	–	826.5
Operating lease equipment, net	5,937.1	–	43.8	–	5,980.9

Geographic Information

The following table presents information by major geographic region based upon the location of the Company's legal entities.

**Geographic Region** (dollars in millions)

	Total Revenue from continuing operations	(Loss) income from continuing operations before (provision) benefit for income taxes	(Loss) income from continuing operations before attribution of noncontrolling interests
<b>Total Assets<sup>(1)</sup></b>			

		Total Assets <sup>(1)</sup>	Total Revenue from continuing operations	(Loss) income from continuing operations before (provision) benefit for income taxes	(Loss) income from continuing operations before attribution of noncontrolling interests
U.S.	2016	\$53,252.9	\$2,755.6	\$ 157.5	\$ 99.3
	2015	\$55,491.1	\$2,084.5	\$ 227.6	\$ 876.7
	2014	\$34,924.8	\$1,713.5	\$ 270.3	\$ 730.9
Europe	2016	\$ 8,575.7	\$ 139.7	\$(189.2)	\$(246.8)
	2015	\$ 8,351.8	\$ 125.0	\$(227.6)	\$(304.6)
	2014	\$ 7,898.7	\$ 192.5	\$(209.2)	\$(221.6)
Other foreign	2016	\$ 2,341.6	\$ 198.4	\$ 52.6	\$ (35.1)
	2015	\$ 3,549.0	\$ 403.4	\$ 186.0	\$ 151.9
	2014	\$ 4,932.0	\$ 463.1	\$ 183.4	\$ 167.6
Total consolidated	2016	\$64,170.2	\$3,093.7	\$ 20.9	\$(182.6)
	2015	\$67,391.9	\$2,612.9	\$ 186.0	\$ 724.0
	2014	\$47,755.5	\$2,369.1	\$ 244.5	\$ 676.9

<sup>(1)</sup> Includes Assets of discontinued operation of \$13,220.7 million at December 31, 2016, \$13,059.6 million at December 31, 2015 and \$12,493.7 million at December 31, 2014.

## Table of Contents

CIT ANNUAL REPORT 2016 197

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 26 — GOODWILL AND INTANGIBLE ASSETS

The following table summarizes goodwill balances by segment. Total goodwill for prior periods has not changed; however, goodwill balances allocated to the segments have been updated from amounts originally reported due to the changes to the segments as described in *Note 25 — Business Segment Information*.

#### Goodwill (dollars in millions)

	Commercial Banking	Consumer Banking	Non-Strategic Portfolios	Total
December 31, 2014	\$403.3	\$	\$ 29.0	\$ 432.3
Additions	288.8	374.2		663.0
Other activity <sup>(1)</sup>	(3.1)		(29.0)	(32.1)
December 31, 2015 <sup>(2)</sup>	689.0	374.2		1,063.2
Impairment <sup>(3)</sup>	(34.8)	(319.4)		(354.2)
Other Activity <sup>(4)</sup>	(12.0)	(11.6)		(23.6)
December 31, 2016	\$642.2	\$ 43.2	\$	\$ 685.4

<sup>(1)</sup> Includes adjustments related to transfer to held for sale and foreign exchange translation.

## Edgar Filing: CIT GROUP INC - Form 10-K

- (2) *In preparing the interim financial statements for the quarter ended June 30, 2016, the Company discovered and corrected an immaterial error impacting the December 31, 2015 goodwill allocation among Consumer Banking and Commercial Banking in the amount of \$23.2 million. The reclassification had no impact on the Company's Balance Sheet and Statements of Income or Cash Flows for any period.*
- (3) *The impairment charges exclude goodwill impairment recorded upon transfer of assets to held for sale of \$4 million and \$15 million for the years ended December 31, 2016 and 2015, respectively.*
- (4) *Includes measurement period adjustments related to the OneWest transaction, as described below, and foreign exchange translation.*

The December 31, 2014 goodwill included amounts from CIT's emergence from bankruptcy in 2009, and its 2014 acquisitions of Capital Direct Group and its subsidiaries ("Direct Capital"), and Nacco, an independent full service railcar lessor. On January 31, 2014, CIT acquired 100% of the outstanding shares of Paris-based Nacco, an independent full service railcar lessor in Europe. The purchase price was approximately \$250 million and the acquired assets and liabilities were recorded at their estimated fair values as of the acquisition date, resulting in \$77 million of goodwill. On August 1, 2014, CIT Bank acquired 100% of Direct Capital, a U.S. based lender providing equipment financing to small and mid-sized businesses operating across a range of industries. The purchase price was approximately \$230 million and the acquired assets and liabilities were recorded at their estimated fair values as of the acquisition date resulting in approximately \$170 million of goodwill. In addition, intangible assets of approximately \$12 million were recorded relating mainly to the valuation of existing customer relationships and trade names.

The 2015 addition relates to the OneWest Transaction. On August 3, 2015 CIT acquired 100% of IMB HoldCo LLC, the parent company of OneWest Bank. The purchase price was approximately \$3.4 billion and the acquired assets and liabilities were recorded during the third quarter 2015 at their estimated fair value as of the acquisition date resulting in \$598 million of goodwill recorded in the third quarter of 2015, which was ultimately adjusted to \$642.5 million as a result of measurement period adjustments. The determination of estimated fair values required management to make certain estimates about discount rates, future expected cash flows (that may reflect collateral values), market conditions and other future events that are highly subjective in nature and may require adjustments, which can be updated throughout the year following the acquisition. Subsequent to the acquisition, management continued to review information relating to events or circumstances existing at the acquisition date. This review resulted in adjustments to the acquisition date valuation amounts, which decreased the goodwill balance from \$663 million as of December 31, 2015, to \$642.5 million as of the end of the measurement period in the third quarter of 2016. Prior to the impairment charge of \$319.4 million taken during the fourth quarter of 2016, as discussed below, \$362.6 million of the goodwill balance was associated with the Consumer Banking business segment. The remaining goodwill was allocated to the Commercial Finance and Real Estate Finance reporting units in Commercial Banking. Additionally, intangible assets of approximately \$165 million were recorded relating mainly to the valuation of core deposit intangibles, trade name and customer relationships, as detailed in the table below.

The table above does not include approximately \$136 million of goodwill that was transferred to discontinued operations as a result of the movement of the Commercial Air and Business Air businesses to discontinued operations.

Once goodwill has been assigned, it no longer retains its association with a particular event or acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of goodwill.

In accordance with ASC 350, Intangibles — Goodwill and other, goodwill is assessed for impairment at least annually, or more often if events or circumstances have changed significantly from the annual test date that would indicate a potential reduction in the fair value of the reporting unit below its carrying value. CIT defines its reporting units as Commercial Finance, Real Estate Finance, Equipment Finance, Commercial Services, Rail and Consumer Banking.

The Company performs its annual goodwill impairment test during the fourth quarter of each year or more often if events or circumstances have changed significantly from the annual test date, utilizing data as of September 30 to perform the test.

### Item 8: Financial Statements and Supplementary Data

---

#### Table of Contents

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accordingly, during the fourth quarter of 2016, the Company performed its annual goodwill impairment test.

ASC 350 requires a two-step impairment test to be used to identify potential goodwill impairment and to measure the amount of goodwill impairment. Companies can also choose to perform qualitative assessments to conclude on whether it is more likely or not that a company's carrying amount including goodwill is greater than its fair value, commonly referred to as Step 0, before applying the two-step approach.

For 2016, we performed the first step ("Step 1") of the analysis for all Reporting Units (RUs), including Commercial Finance, Commercial Services, Equipment Finance, Rail, Real Estate Finance and Consumer Banking.

### Fair Value

Determining the value of the RU's as part of the Step 1 analysis involves significant judgment. For Step 1, the Company used a combination of the Income Approach (i.e. discounted cash flow method) and the Market Approach (i.e. Guideline Public Company (GPC) and, where applicable, Guideline Merged and Acquired Company (GMAC) methods) to determine the fair value.

In the application of the Income Approach, the Company determined the fair value of the RU using a discounted cash flow (DCF) analysis. The DCF model uses earnings projections and respective capitalization assumptions based on three-year financial plans approved by the Board of Directors. Beyond the initial three-year period, the projections converge toward a constant long-term growth rate of up to 3% based on the projected revenues of the RU, as well as expectations for the development of gross domestic product and inflation, which are captured in the terminal value. Estimating future earnings and capital requirements involves judgment and the consideration of past and current performance and overall macroeconomic and regulatory environments.

The cash flows determined based on the process described above are discounted to their present value. The discount rate (cost of equity) applied is comprised of a risk-free interest rate, an equity risk premium, a size premium and a factor covering the systematic market risk (RU-specific beta) and, where applicable, accompany specific risk premiums. The values for the factors applied are determined primarily using external sources of information. The RU-specific betas are determined based on a group of peer companies. The discount rates applied to the RU's ranged from 10% to 12.5%.

In our application of the market approach, for the GPC Method, the Company applied market based multiples derived from the stock prices of companies considered by management to be comparable to each of the RUs, to various financial metrics for each of the Reporting Units, as determined applicable to those reporting units, including tangible book or book value, earnings and projected earnings. In addition, the Company applied a 25% control premium based on our review of transactions observable in the market place that we determined were comparable. The control premium is management's estimate of how much a market participant would be willing to pay over the market fair value for control of the business.

With respect to the application of the GMAC method, the Company used actual prices paid in merger and acquisition transactions for similar public and private companies in the banking industry. The multiples were then applied to relevant financial metrics of the RUs.

A weighting is ascribed to each of the results of the Income and Market approaches to determine the concluded fair value of each RU. The weighting is judgmental and is based on the perceived level of appropriateness of the valuation methodology for each specific RU.

Estimating the fair value of reporting units involves the use of estimates and significant judgments that are based on a number of factors including actual operating results. If current conditions change from those expected, it is reasonably possible that the judgments and estimates described above could change in future periods.

### Carrying Amount

The carrying amount of the RUs is determined using a capital allocation methodology. The allocation uses the Company's total equity at the date of valuation, which is allocated to each of the Company's businesses, including the RUs, and to the other areas of the Company not included in the RUs. The allocation is informed by internal analysis and the current target regulatory capital of the Company, to determine the allocated capital.

## Step 2

Based on the Step 1 review, as described above, the Company concluded that the carrying amount of the Consumer Banking and Commercial Services RUs exceeded their estimated fair value and thus the Company performed the second step ("Step 2") to quantify the goodwill impairment, if any, for those two RUs. In this step, the estimated fair value for the RU is allocated to its respective assets and liabilities in order to determine an implied value of goodwill, in a manner similar to the calculations and approach performed in accounting for a business combination. Significant judgment and estimates are involved in the determination of the fair value of the assets (including intangible assets) and liabilities of the RUs, and therefore directly impact the fair value of the implied goodwill determined as part of Step 2.

Based on our assessments under both Step 1 and Step 2, the Company recorded an impairment of the Consumer Banking and Commercial Services RUs of \$319.4 million and \$34.8 million, respectively.

As described above, Consumer Banking's goodwill was recorded in August of 2015 as a result of the OneWest Bank acquisition based upon a purchase price that reflected several factors, including the US taxable earnings that were expected to allow CIT to realize the benefit of the NOL prior to expiry. The acquisition resulted in total goodwill of \$643 million, of which \$363 million was allocated to Consumer Banking. The impairment of approximately \$320 million in 2016 was primarily the result of lower forecasted earnings reflecting higher costs, in large part related to being a SIFI bank and higher internally allocated capital.

---

**Table of Contents**

CIT ANNUAL REPORT 2016 199

---

**CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Goodwill for Commercial Services of approximately \$40 million was attributed at the time of emergence from bankruptcy in 2009. Since then, the fundamentals of the factoring business have come under increasing pressure from a challenging retail environment and tighter pricing on factoring commissions. Although we have seen factoring volumes stabilize, we expect commissions to remain under pressure in comparison to their historical levels, and given the impact this has on our forecasted earnings, goodwill was impaired by \$34.8 million.

*Intangible Assets*

The following table presents the gross carrying value and accumulated amortization for intangible assets, excluding fully amortized intangible assets.

**Intangible Assets** (dollars in millions)

	December 31, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles	\$126.3	\$(25.4)	\$100.9	\$126.3	\$(7.5)	\$118.8
Trade names	27.4	(6.1)	21.3	27.4	(3.0)	24.4
Operating lease rental intangibles	7.6	(6.7)	0.9	9.6	(8.9)	0.7
Customer relationships	23.9	(7.1)	16.8	23.9	(3.2)	20.7
Other	2.1	(1.3)	0.8	2.1	(0.6)	1.5
Total intangible assets	\$187.3	\$(46.6)	\$140.7	\$189.3	\$(23.2)	\$166.1

## Edgar Filing: CIT GROUP INC - Form 10-K

The following table presents the changes in intangible assets:

### Intangible Assets Rollforward (dollars in millions)

	Customer Relationships	Core Deposit Intangibles	Trade Names	Operating Lease Rental Intangibles	Other	Total
December 31, 2014	\$ 6.8	\$ —	\$ 6.9	\$ 2.2	\$ 0.5	\$ 16.4
Additions <sup>(1)</sup>	16.6	126.3	20.1	—	1.7	164.7
Amortization <sup>(2)</sup>	(2.7)	(7.5)	(2.4)	(1.5)	(0.7)	(14.8)
Other <sup>(3)</sup>	—	—	(0.2)	—	—	(0.2)
December 31, 2015	\$20.7	\$118.8	\$24.4	\$ 0.7	\$ 1.5	\$166.1
Additions	—	—	—	1.8	—	1.8
Amortization <sup>(2)</sup>	(3.9)	(17.9)	(3.1)	(1.6)	(0.7)	(27.2)
December 31, 2016	\$16.8	\$100.9	\$21.3	\$ 0.9	\$ 0.8	\$140.7

<sup>(1)</sup> Includes measurement period adjustments related to the OneWest Transaction.

<sup>(2)</sup> Includes amortization recorded in operating expenses and operating lease rental income.

<sup>(3)</sup> Includes foreign exchange translation.

The addition to intangible assets in 2015 reflects the OneWest Bank Transaction. The largest component related to the valuation of core deposits. Core deposit intangibles (“CDIs”) represent future benefits arising from non-contractual customer relationships (e.g., account relationships with the depositors) acquired from the purchase of demand deposit accounts, including interest and non-interest bearing checking accounts, money market and savings accounts. The Company’s CDI has a finite life and is amortized on a straight line basis over the estimated useful life of seven years. Amortization expense for the intangible assets is primarily recorded in Operating expenses.

Intangible assets prior to the OneWest Transaction included the operating lease rental intangible assets comprised of amounts related to net favorable (above current market rates) operating leases. The net intangible assets have been fully amortized by the end of 2016. The intangible assets also include approximately \$7.7 million, net, related to the valuation of existing customer relationships and trade names recorded in conjunction with the acquisition of Direct Capital in 2014.

Accumulated amortization totaled \$46.6 million at December 31, 2016. Projected amortization for the years ended December 31, 2017 through December 31, 2021, is approximately \$25.5 million, \$24.5 million, \$23.7 million, \$23.1 million, and \$22.2 million, respectively.

### Item 8: Financial Statements and Supplementary Data

#### Table of Contents

200 CIT ANNUAL REPORT 2016

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27 — SEVERANCE AND FACILITY EXITING LIABILITIES

The following table summarizes liabilities (pre-tax) related to closing facilities and employee severance:

**Severance and Facility Exiting Liabilities** (dollars in millions)

	Severance		Facilities		Total Liabilities
	Number of Employees	Liability	Number of Facilities	Liability	
December 31, 2014	47	\$ 8.7	12	\$23.7	\$ 32.4
Additions and adjustments	74	38.7	2	1.6	40.3
Utilization	(68)	(10.5)	(6)	(6.2)	(16.7)
December 31, 2015	53	36.9	8	19.1	56.0
Additions and adjustments	165	28.6	5	(0.6)	28.0
Utilization	(183)	(62.3)	(2)	(3.4)	(65.7)
December 31, 2016	35	\$ 3.2	11	\$15.1	\$ 18.3

CIT continued to implement various organization efficiency and cost reduction initiatives, such as our international rationalization activities and CIT announced a reorganization of management in the 2015 fourth quarter. The severance additions primarily relate to employee termination benefits incurred in conjunction with these initiatives. The facility additions primarily relate to location closings and consolidations in connection with these initiatives. These additions, along with charges related to accelerated vesting of equity and other benefits, were recorded as part of the \$36.2 million and \$58.3 million provisions for the years ended December 31, 2016 and 2015, respectively.

## NOTE 28 — PARENT COMPANY FINANCIAL STATEMENTS

The following tables present the Parent Company only financial statements:

**Condensed Parent Company Only Balance Sheets** (dollars in millions)

	December 31, 2016	December 31, 2015
<b>Assets:</b>		
Cash and deposits	\$ 1,172.8	\$ 1,014.5
Cash held at bank subsidiary	15.4	15.3
Investment securities	400.3	300.1
Receivables from nonbank subsidiaries	9,172.9	8,951.4
Receivables from bank subsidiaries	34.7	35.6
Investment in nonbank subsidiaries	3,597.4	4,989.7
Investment in bank subsidiaries	5,187.9	5,582.1
Goodwill	261.4	319.6
Other assets	2,217.7	2,158.9
<b>Total Assets</b>	<b>\$ 22,060.5</b>	<b>\$ 23,367.2</b>
<b>Liabilities and Equity:</b>		
Borrowings	\$ 10,599.0	\$ 10,677.7
Liabilities to nonbank subsidiaries	907.9	1,029.9
Liabilities to bank subsidiaries	4.6	19.8
Other liabilities	546.3	695.1
<b>Total Liabilities</b>	<b>\$ 12,057.8</b>	<b>\$ 12,422.5</b>
Total Stockholders' Equity	10,002.7	10,944.7
<b>Total Liabilities and Equity</b>	<b>\$ 22,060.5</b>	<b>\$ 23,367.2</b>



**Table of Contents**CIT ANNUAL REPORT 2016 **201**

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Condensed Parent Company Only Statements of Income and Comprehensive Income** (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
<b>Income</b>			
Interest income from nonbank subsidiaries	\$ 488.3	\$ 435.1	\$ 560.3
Interest and dividends on interest bearing deposits and investments	2.7	3.2	1.4
Dividends from nonbank subsidiaries	399.9	630.3	526.8
Dividends from bank subsidiaries	223.0	459.2	39.4
Other income from subsidiaries	146.3	(138.8)	(62.4)
Other income	21.0	128.8	103.8
Total income	1,281.2	1,517.8	1,169.3
<b>Expenses</b>			
Interest expense	(548.2)	(570.7)	(649.6)
Interest expense on liabilities to subsidiaries	(51.1)	(43.9)	(166.4)
Other expenses	(565.0)	(267.2)	(199.4)
Total expenses	(1,164.3)	(881.8)	(1,015.4)
<b>Income before income taxes and equity in undistributed net income of subsidiaries</b>	116.9	636.0	153.9
Benefit for income taxes	308.5	827.2	769.6
<b>Income before equity in undistributed net income of subsidiaries</b>	425.4	1,463.2	923.5
Equity in undistributed net income of bank subsidiaries	(349.8)	(265.1)	76.5
Equity in undistributed net income of nonbank subsidiaries	(923.6)	(164.0)	119.1
<b>Net (loss) income</b>	(848.0)	1,034.1	1,119.1
Other Comprehensive income (loss) income, net of tax	2.0	(8.2)	(60.3)
<b>Comprehensive (loss) income</b>	\$ (846.0)	\$ 1,025.9	\$ 1,058.8

**Condensed Parent Company Only Statements of Cash Flows** (dollars in millions)

	Years Ended December 31,		
	2016	2015	2014
<b>Cash Flows From Operating Activities:</b>			
Net (loss) income	\$ (848.0)	\$ 1,034.1	\$ 1,119.1
Equity in undistributed earnings of subsidiaries	650.4	429.1	(195.6)
Other operating activities, net	47.1	(588.6)	(735.4)
Net cash flows (used in) provided by operations	(150.5)	874.6	188.1

Years Ended December 31,

**Cash Flows From Investing Activities:**

Decrease (increase) in investments and advances to subsidiaries	1,023.1	620.1	(92.6)
Acquisitions	–	(1,559.5)	–
Decrease (increase) in Investment securities and securities purchased under agreements to resell	(100.2)	1,454.1	342.3
Net cash flows provided by investing activities	922.9	514.7	249.7

**Cash Flows From Financing Activities:**

Proceeds from the issuance of term debt	–	–	991.3
Repayments of term debt	(359.5)	(1,256.7)	(1,603.0)
Repurchase of common stock	–	(531.8)	(775.5)
Dividends paid	(123.0)	(114.9)	(95.3)
Net change in advances (to) from subsidiaries	(131.5)	91.0	902.1
Net cash flows used in financing activities	(614.0)	(1,812.4)	(580.4)
Net (decrease) increase in unrestricted cash and cash equivalents	158.4	(423.1)	(142.6)
Unrestricted cash and cash equivalents, beginning of period	1,029.8	1,452.9	1,595.5
Unrestricted cash and cash equivalents, end of period	\$ 1,188.2	\$ 1,029.8	\$ 1,452.9

**Item 8: Financial Statements and Supplementary Data****Table of Contents****202 CIT ANNUAL REPORT 2016**

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 29 — SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following presents quarterly data:

**Selected Quarterly Financial Data** (dollars in millions)

	Unaudited			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
<b>For the year ended December 31, 2016</b>				
Interest income	\$ 474.1	\$ 475.8	\$ 478.7	\$ 482.9
Interest expense	(178.3)	(188.3)	(191.6)	(195.0)
Provision for credit losses	(36.7)	(45.2)	(23.3)	(89.5)
Rental income on operating leases	252.2	254.3	261.0	264.1
Other income	(117.6)	83.6	99.8	84.8
Depreciation on operating lease equipment	(69.8)	(66.9)	(63.1)	(61.3)
Maintenance and other operating lease expenses	(57.5)	(56.6)	(50.6)	(48.9)
Goodwill impairment	(354.2)	–	–	–

Edgar Filing: CIT GROUP INC - Form 10-K

	Unaudited			
Operating expenses	(341.3)	(302.8)	(309.3)	(330.1)
Loss on debt extinguishment and deposit redemption	(3.3)	(5.2)	(2.4)	(1.6)
Benefit (provision) for income taxes	6.6	(54.5)	(111.2)	(44.4)
(Loss) income from discontinued operations, net of taxes	(716.7)	37.3	(71.0)	85.0
Net (loss) income	\$ (1,142.5)	\$ 131.5	\$ 17.0	\$ 146.0
Net (loss) income per diluted share	\$ (5.65)	\$ 0.65	\$ 0.08	\$ 0.72
<b>For the year ended December 31, 2015</b>				
Interest income	\$ 492.4	418.5	\$ 269.5	\$ 264.8
Interest expense	(197.6)	(193.3)	(168.8)	(171.7)
Provision for credit losses	(59.2)	(50.3)	(18.7)	(30.4)
Rental income on operating leases	255.9	259.5	255.1	247.6
Other income	21.7	24.9	51.2	51.8
Depreciation on operating lease equipment	(57.2)	(58.8)	(57.6)	(55.6)
Maintenance and other operating lease expenses	(53.9)	(49.0)	(42.6)	(39.6)
Operating expenses	(351.8)	(327.5)	(219.2)	(222.6)
Loss on debt extinguishment and deposit redemption	(1.1)	(0.3)	(0.1)	—
Benefit (provision) for income taxes	15.8	581.9	(36.9)	(22.8)
Income attributable to noncontrolling interest, after tax	—	—	—	0.1
Income from discontinued operation, net of taxes	75.0	72.0	81.9	81.1
Net income	\$ 140.0	\$ 677.6	\$ 113.8	\$ 102.7
Net income per diluted share	\$ 0.70	\$ 3.53	\$ 0.65	\$ 0.58

Presented below are As Reported and As Revised quarterly and year to date interim financial statements.

In preparing the financial statements for the quarter and year ended December 31, 2016, management identified errors that were not material to any individual prior period or to the full year Consolidated Statements of Income.

In evaluating the impact of errors within the interim financial statements, management considered the guidance set forth in SEC Staff Accounting Bulletin 99, *Materiality* ( SAB 99 ), SEC Staff Accounting Bulletin 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB 108 ), and the FASB's Accounting Standards Codification Topic 250 *Accounting Changes and Error Corrections*.

In assessing these errors, management concluded that the corrections did not, individually or in the aggregate, result in a material misstatement of the Company's consolidated financial statements for any prior period.

Although the errors were not material individually or in the aggregate to any reporting period, Management has decided to record the errors in the applicable prior periods and revised the previously reported balances in the interim consolidated financial statements.

The Company will revise in subsequent quarterly filings on Form 10-Q its results for the quarters ended September 30, June 30, and March 31, 2016. As detailed in Note 30 Revisions of Previously Reported Annual Financial Statements, revisions to previously reported Balance Sheet, Statements of Income and Statements of Cash Flows as of and for the years ended December 31, 2015 and 2014 are presented.

**Table of Contents**

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables reflect the previously reported balances and revised amounts impacting the statements of operations, balance sheets, and statement of cash flows along with descriptions of the more significant corrections.

## Balance Sheets

The revisions to the presented interim consolidated balance sheets were not significant in any period.

**Consolidated Balance Sheets** (dollars in millions) (unaudited)

	March 31, 2016		June 30, 2016		September 30, 2016	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
<b>Assets</b>						
Total cash and deposits	\$ 7,489.4	\$ 7,489.4	\$ 7,435.5	\$ 7,435.5	\$ 6,752.5	\$ 6,752.5
Investment securities	2,896.8	2,896.8	3,229.1	3,229.1	3,592.4	3,592.4
Assets held for sale <sup>(1)</sup>	1,487.4	1,487.4	1,639.1	1,639.1	1,406.7	1,406.7
Loans	30,953.5	30,948.7	30,104.2	30,093.8	29,906.8	29,897.0
Allowance for loan losses	(400.8)	(400.8)	(397.5)	(393.1)	(421.7)	(415.0)
Total loans, net of allowance for loan losses <sup>(1)</sup>	30,552.7	30,547.9	29,706.7	29,700.7	29,485.1	29,482.0
Operating lease equipment, net <sup>(1)</sup>	7,071.4	7,071.4	7,179.1	7,179.1	7,383.1	7,383.1
Indemnification assets	389.4	381.4	375.5	386.0	362.2	362.4
Unsecured counterparty receivable	556.3	556.3	570.2	570.2	560.2	560.2
Goodwill	1,060.0	1,060.0	1,044.1	1,044.1	1,043.7	1,043.7
Intangible assets	160.9	160.9	154.2	154.2	147.6	147.6
Other assets	2,481.6	2,485.4	2,406.0	2,407.4	2,258.6	2,277.1
Assets of discontinued operations	12,951.7	12,951.7	12,960.8	12,960.8	12,973.4	12,973.4
<b>Total Assets</b>	<b>\$67,097.6</b>	<b>\$67,088.6</b>	<b>\$66,700.3</b>	<b>\$66,706.2</b>	<b>\$65,965.5</b>	<b>\$65,981.1</b>
<b>Liabilities</b>						
Deposits	\$32,877.8	\$32,877.8	\$32,862.5	\$32,862.5	\$32,851.7	\$32,851.7
Credit balances of factoring clients	1,361.0	1,361.0	1,215.2	1,215.2	1,228.9	1,228.9
Other liabilities	1,555.8	1,581.0	1,529.9	1,557.6	1,598.0	1,623.3
Borrowings	15,981.6	15,981.6	15,583.6	15,583.6	14,683.9	14,684.0
Liabilities of discontinued operations	4,195.1	4,195.1	4,384.4	4,394.0	4,365.5	4,388.3

Edgar Filing: CIT GROUP INC - Form 10-K

	March 31, 2016		June 30, 2016		September 30, 2016	
<b>Total Liabilities</b>	55,971.3	55,996.5	55,575.6	55,612.9	54,728.0	54,776.2
<b>Stockholders' Equity</b>						
Common stock	2.1	2.1	2.1	2.1	2.1	2.1
Paid-in capital	8,739.4	8,739.4	8,749.8	8,749.8	8,758.2	8,758.2
Retained earnings	2,673.7	2,639.5	2,656.9	2,625.5	2,758.9	2,726.3
Accumulated other comprehensive loss	(117.4)	(117.4)	(107.6)	(107.6)	(104.2)	(104.2)
Treasury stock	(172.0)	(172.0)	(177.0)	(177.0)	(178.0)	(178.0)
<b>Total Common Stockholders' Equity</b>	11,125.8	11,091.6	11,124.2	11,092.8	11,237.0	11,204.4
Noncontrolling minority interests	0.5	0.5	0.5	0.5	0.5	0.5
<b>Total Equity</b>	11,126.3	11,092.1	11,124.7	11,093.3	11,237.5	11,204.9
<b>Total Liabilities and Equity</b>	\$67,097.6	\$67,088.6	\$66,700.3	\$66,706.2	\$65,965.5	\$65,981.1

(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.

Item 8: Financial Statements and Supplementary Data

Table of Contents

204 CIT ANNUAL REPORT 2016

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Consolidated Balance Sheets** (dollars in millions) (unaudited) (continued)

<b>Assets</b>						
Cash and interest bearing deposits, restricted	\$ 242.5	\$ 242.5	\$ 213.8	\$ 213.8	\$ 237.5	\$ 237.5
Assets held for sale	240.5	240.5	212.5	212.5	—	—
Total loans, net of allowance for loan losses	2,283.7	2,283.7	1,945.2	1,945.2	2,061.6	2,061.6
Operating lease equipment, net	791.8	791.8	785.3	785.3	780.6	780.6
Other	11.1	11.1	11.0	11.0	—	—
Assets of discontinued operations	3,168.1	3,369.1	3,069.4	3,267.7	2,973.7	3,223.8
<b>Total Assets</b>	\$6,737.7	\$6,938.7	\$6,237.2	\$6,435.5	\$6,053.4	\$6,303.5
<b>Liabilities</b>						
Beneficial interests issued by consolidated VIEs (classified as long-term borrowings)	\$1,696.8	\$1,696.8	\$1,487.9	\$1,487.9	\$1,196.5	\$1,196.5
Liabilities of discontinued operations	2,021.5	2,021.5	1,926.4	1,926.4	1,864.7	1,864.7

Edgar Filing: CIT GROUP INC - Form 10-K

**Total Liabilities** \$3,718.3 \$3,718.3 \$3,414.3 \$3,414.3 \$3,061.2 \$3,061.2  
 Assets of the VIEs that are consolidated by the Company were revised primarily to include assets pledged to the underlying secured borrowing facilities that were omitted from this disclosure.

**Table of Contents**

CIT ANNUAL REPORT 2016 205

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Consolidated Balance Sheets** (dollars in millions) (unaudited) (continued)

	March 31, 2015		June 30, 2015		September 30, 2015	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
<b>Assets</b>						
Total cash and deposits	\$ 5,551.6	\$ 5,551.6	\$ 4,767.9	\$ 4,767.9	\$ 7,631.9	\$ 7,631.9
Securities purchased under agreements to resell	450.0	450.0	750.0	750.0	100.0	100.0
Investment securities	1,347.4	1,347.4	1,692.9	1,692.9	3,618.8	3,618.8
Assets held for sale <sup>(1)</sup>	817.4	817.4	843.0	843.0	2,051.9	2,051.9
Loans	18,212.4	18,212.4	18,439.8	18,439.8	31,248.1	31,248.4
Allowance for loan losses	(340.2)	(340.2)	(334.9)	(334.9)	(320.9)	(320.9)
Total loans, net of allowance for loan losses <sup>(1)</sup>	17,872.2	17,872.2	18,104.9	18,104.9	30,927.2	30,927.5
Operating lease equipment, net <sup>(1)</sup>	6,063.8	6,065.1	6,292.9	6,292.9	6,493.0	6,493.0
Indemnification assets	—	—	—	—	465.0	462.9
Unsecured counterparty receivable	537.1	537.1	538.2	538.2	529.5	529.5
Goodwill	424.6	424.6	426.9	426.9	999.0	999.0
Intangible assets	14.8	14.8	14.1	14.1	194.8	194.8
Other assets	1,218.2	1,225.6	1,111.9	1,120.4	2,497.8	2,494.4
Assets of discontinued operations	11,997.7	11,996.4	12,002.4	12,002.4	12,510.1	12,510.1
<b>Total Assets</b>	<b>\$46,294.8</b>	<b>\$46,302.2</b>	<b>\$46,545.1</b>	<b>\$46,553.6</b>	<b>\$68,019.0</b>	<b>\$68,013.8</b>
<b>Liabilities</b>						
Deposits	\$16,739.9	\$16,739.9	\$17,256.3	\$17,256.3	\$32,317.0	\$32,317.0
Credit balances of factoring clients	1,505.3	1,505.3	1,373.3	1,373.3	1,609.3	1,609.3
Other liabilities	1,308.4	1,327.7	1,304.6	1,326.4	1,968.7	1,988.7
Borrowings	14,243.6	14,243.6	14,098.2	14,098.2	17,043.8	17,043.8
	3,738.5	3,738.5	3,705.1	3,705.1	4,281.0	4,281.0

Edgar Filing: CIT GROUP INC - Form 10-K

	March 31, 2015		June 30, 2015		September 30, 2015	
Liabilities of discontinued operations						
<b>Total Liabilities</b>	37,535.7	37,555.0	37,737.5	37,759.3	57,219.8	57,239.8
<b>Stockholders' Equity</b>						
Common stock	2.0	2.0	2.0	2.0	2.0	2.0
Paid-in capital	8,598.0	8,598.0	8,615.6	8,615.6	8,683.5	8,683.4
Retained earnings	1,692.3	1,680.4	1,781.1	1,767.7	2,443.4	2,414.6
Accumulated other comprehensive loss	(163.1)	(163.1)	(158.8)	(158.7)	(174.3)	(170.6)
Treasury stock	(1,370.6)	(1,370.6)	(1,432.8)	(1,432.8)	(155.9)	(155.9)
<b>Total Common Stockholders' Equity</b>	8,758.6	8,746.7	8,807.1	8,793.8	10,798.7	10,773.5
Noncontrolling minority interests	0.5	0.5	0.5	0.5	0.5	0.5
<b>Total Equity</b>	8,759.1	8,747.2	8,807.6	8,794.3	10,799.2	10,774.0
<b>Total Liabilities and Equity</b>	\$46,294.8	\$46,302.2	\$46,545.1	\$46,553.6	\$68,019.0	\$68,013.8

(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.

<b>Assets</b>						
Cash and interest bearing deposits, restricted	\$ 340.2	\$ 340.2	\$ 309.2	\$ 309.2	\$ 302.5	\$ 302.5
Assets held for sale	132.5	132.5	122.5	122.5	431.5	431.5
Total loans, net of allowance for loan losses	3,397.9	3,397.9	3,048.1	3,048.1	2,729.0	2,729.0
Operating lease equipment, net	945.0	945.0	938.1	938.1	929.2	929.2
Other	6.5	6.5	5.9	5.9	14.0	14.0
Assets of discontinued operations	3,361.6	3,481.5	3,301.1	3,515.1	3,260.1	3,465.6
<b>Total Assets</b>	\$8,183.7	\$8,303.6	\$7,724.9	\$7,938.9	\$7,666.3	\$7,871.8
<b>Liabilities</b>						
Beneficial interests issued by consolidated VIEs (classified as long-term borrowings)	\$2,620.1	\$2,620.1	\$2,443.1	\$2,443.1	\$2,425.1	\$2,425.1
Liabilities of discontinued operations	2,281.6	2,281.6	2,220.8	2,220.8	2,159.4	2,159.4
<b>Total Liabilities</b>	\$4,901.7	\$4,901.7	\$4,663.9	\$4,663.9	\$4,584.5	\$4,584.5

Assets of the VIEs that are consolidated by the Company were revised primarily to include assets pledged to the underlying secured borrowing facilities that were omitted from this disclosure.

**Table of Contents**

206 CIT ANNUAL REPORT 2016

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Statements of Income

The following table summarizes the revisions to the statement of income.

The most significant of the revision items related to two operating expense items, \$25 million in sales taxes related to our Commercial Banking segment is now recorded in various quarters dating back to 2014, and a write-off of \$8 million of servicing advances included in the Consumer Banking segment, mostly related to the third quarter of 2015.

In addition, approximately \$3 million for each of the quarters ended March 31 and June 30, 2015, derivative-related expenses were included in interest expense, but are now included in other income.

In discontinued operations, \$23 million recorded for curtailment reserves related to the mortgage servicing business was corrected and is now reflected in the third quarter of 2016.

**Statement of Income** (dollars in millions) (unaudited)

	Quarter Ended March 31, 2016		Quarter Ended June 30, 2016		Quarter Ended September 30, 2016	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
<i>Interest income</i>						
Interest and fees on loans	\$ 448.5	\$ 451.9	\$ 448.3	\$ 447.6	\$ 440.6	\$ 443.9
Other interest and dividends	30.9	31.0	31.2	31.1	31.9	31.9
Interest income	479.4	482.9	479.5	478.7	472.5	475.8
<i>Interest expense</i>						
Interest on borrowings	(95.5)	(95.5)	(92.1)	(92.2)	(88.8)	(88.8)
Interest on deposits	(99.5)	(99.5)	(99.5)	(99.4)	(99.4)	(99.5)
Interest expense	(195.0)	(195.0)	(191.6)	(191.6)	(188.2)	(188.3)
Net interest revenue	284.4	287.9	287.9	287.1	284.3	287.5
Provision for credit losses	(89.5)	(89.5)	(23.3)	(23.3)	(45.2)	(45.2)
Net interest revenue, after credit provision	194.9	198.4	264.6	263.8	239.1	242.3
<i>Non-interest income</i>						
Rental income on operating leases	264.0	264.1	261.1	261.0	254.3	254.3
Other income	85.0	84.8	99.8	99.8	77.4	83.6
Total non-interest income	349.0	348.9	360.9	360.8	331.7	337.9
<b>Total revenue, net of interest expense and credit provision</b>	<b>543.9</b>	<b>547.3</b>	<b>625.5</b>	<b>624.6</b>	<b>570.8</b>	<b>580.2</b>
<i>Non-interest expenses</i>						
Depreciation on operating lease equipment	(61.3)	(61.3)	(63.1)	(63.1)	(66.9)	(66.9)
Maintenance and other operating lease expenses	(49.0)	(48.9)	(50.6)	(50.6)	(56.5)	(56.6)
Operating expenses	(325.1)	(330.1)	(313.9)	(309.3)	(304.3)	(302.8)
Loss on debt extinguishment and deposit redemption	(1.6)	(1.6)	(2.4)	(2.4)	(5.2)	(5.2)



Edgar Filing: CIT GROUP INC - Form 10-K

	Quarter Ended March 31, 2016		Quarter Ended June 30, 2016		Quarter Ended September 30, 2016	
Total other expenses	(437.0)	(441.9)	(430.0)	(425.4)	(432.9)	(431.5)
Income from continuing operations before provision for income taxes	106.9	105.4	195.5	199.2	137.9	148.7
Provision for income taxes	(45.0)	(44.4)	(109.8)	(111.2)	(56.8)	(54.5)
Income from continuing operations before attribution of noncontrolling interests	61.9	61.0	85.7	88.0	81.1	94.2
<b>Income from continuing operations</b>	61.9	61.0	85.7	88.0	81.1	94.2