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CIT GROUP INC

Form 10-Q

May 03, 2019

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

IXI Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2019

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

Commission File Number: 001-31369

CIT GROUP INC.

(Exact name of Registrant as specified in its charter)

Delaware 65-1051192
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification Number)

11 West 42nd Street New York, New York 10036
(Address of Registrant's principal executive offices) (Zip Code)

(212) 461-5200
(Registrant's telephone number)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	CIT	New York Stock Exchange

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

Yes No

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

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

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

Yes No

As of April 30, 2019, there were 96,355,938 shares of the registrant's common stock outstanding.

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Part One — Financial Information

Item 1. Financial Statements

CIT GROUP INC. AND SUBSIDIARIES

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

	March 31, 2019	December 31, 2018
Assets		
Cash and due from banks, including restricted balances of \$22.9 at March 31, 2019 and \$25.5 at December 31, 2018 (see Note 8 for amounts pledged)	\$ 130.1	\$ 198.8
Interest bearing cash, including restricted balances of \$2.3 at March 31, 2019 and \$2.5 at December 31, 2018 (see Note 8 for amounts pledged)	1,190.1	1,596.8
Securities purchased under agreement to resell	600.0	400.0
Investment securities, including securities carried at fair value with changes recorded in net income of \$45.3 at March 31, 2019 and \$44.6 at December 31, 2018 (see Note 8 for amounts pledged)	7,844.1	6,233.8
Assets held for sale	79.4	88.4
Loans (see Note 8 for amounts pledged)	31,247.0	30,795.4
Allowance for loan losses	(487.5)	(489.7)
Total loans, net of allowance for loan losses	30,759.5	30,305.7
Operating lease equipment, net (see Note 8 for amounts pledged)	6,989.5	6,970.6
Bank-owned life insurance	975.5	814.1
Goodwill	369.9	369.9
Other assets, including \$118.8 at March 31, 2019 and \$119.9 at December 31, 2018, at fair value	1,635.2	1,309.5
Assets of discontinued operations	208.2	249.8

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Total Assets	\$50,781.5	\$48,537.4
Liabilities		
Deposits	\$34,949.0	\$31,239.5
Credit balances of factoring clients	1,651.3	1,674.4
Other liabilities, including \$152.1 at March 31, 2019 and \$146.6 at December 31, 2018, at fair value	1,427.0	1,261.1
Borrowings, including \$0.9 at March 31, 2019 and \$0.9 at December 31, 2018 contractually due within twelve months	6,570.9	8,118.8
Liabilities of discontinued operations	273.8	297.0
Total Liabilities	44,872.0	42,590.8
Stockholders' Equity		
Preferred Stock: \$0.01 par value, 100,000,000 shares authorized, 325,000 shares issued and outstanding	325.0	325.0
Common Stock: \$0.01 par value, 600,000,000 shares authorized		
Issued: 162,075,643 at March 31, 2019 and 161,073,078 at December 31, 2018	1.6	1.6
Outstanding: 97,895,105 at March 31, 2019 and 100,919,707 at December 31, 2018		
Paid-in capital	6,825.2	6,810.8
Retained earnings	2,017.6	1,924.4
Accumulated other comprehensive loss	(125.2)	(178.3)
Treasury stock: 64,180,538 shares at March 31, 2019 and 60,153,371 shares at December 31, 2018 at cost	(3,134.7)	(2,936.9)
Total Common Stockholders' Equity	5,584.5	5,621.6
Total Equity	5,909.5	5,946.6
Total Liabilities and Equity	\$50,781.5	\$48,537.4

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

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CIT GROUP INC. AND SUBSIDIARIES

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

	Quarters Ended	
	March 31,	
	2019	2018
Interest income		
Interest and fees on loans	\$451.3	\$400.9
Other interest and dividends	65.2	50.3
Interest income	516.5	451.2
Interest expense		
Interest on borrowings	81.8	83.4
Interest on deposits	153.8	97.1
Interest expense	235.6	180.5
Net interest revenue	280.9	270.7
Provision for credit losses	33.0	68.8
Net interest revenue, after credit provision	247.9	201.9
Non-interest income		
Rental income on operating leases	217.7	253.6
Other non-interest income	96.8	104.7
Total non-interest income	314.5	358.3
Total revenue, net of interest expense and credit provision	562.4	560.2
Non-interest expenses		
Depreciation on operating lease equipment	79.4	76.4
Maintenance and other operating lease expenses	49.8	57.4
Operating expenses	276.1	281.3
Loss on debt extinguishment and deposit redemption	0.1	0.1
Total non-interest expenses	405.4	415.2
Income from continuing operations before provision for income taxes	157.0	145.0
Provision for income taxes	37.8	41.3
Income from continuing operations	119.2	103.7
Discontinued Operations		
Total loss from discontinued operations, net of taxes	(0.3)	(6.7)
Net income	\$118.9	\$97.0
Net income available to common shareholders	\$118.9	\$97.0
Income from continuing operations available to common shareholders	\$119.2	\$103.7
Basic income per common share		
Income from continuing operations	\$1.19	\$0.79
Loss from discontinued operations	(0.01)	(0.05)
Basic income per share	\$1.18	\$0.74
Diluted income per common share		
Income from continuing operations	\$1.18	\$0.79

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Income (loss) from discontinued operations	-	(0.05)
Diluted income per share	\$1.18	\$0.74
Average number of common shares (thousands)		
Basic	100,420	130,483
Diluted	101,096	131,588

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

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CIT GROUP INC. AND SUBSIDIARIES

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

	Quarters Ended	
	March 31,	
	2019	2018
Net income	\$118.9	\$97.0
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	5.7	(2.4)
Net unrealized gains (losses) on available for sale securities	45.2	(63.9)
Changes in benefit plans net gain (loss) and prior service (cost)/credit	2.2	3.4
Other comprehensive income (loss), net of tax	53.1	(62.9)
Comprehensive income	\$172.0	\$34.1

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

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CIT GROUP INC. AND SUBSIDIARIES

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

	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock, at cost	Total Equity
December 31, 2018	\$ 325.0	\$ 1.6	\$6,810.8	\$ 1,924.4	\$ (178.3)	\$(2,936.9)	\$5,946.6
Net income	—	—	—	118.9	—	—	118.9
Other comprehensive income, net of tax	—	—	—	—	53.1	—	53.1
Dividends paid (\$0.25 per Common Share)	—	—	—	(25.7)	—	—	(25.7)
Share repurchases	—	—	—	—	—	(179.7)	(179.7)
Amortization of stock compensation expenses	—	—	13.7	—	—	(18.1)	(4.4)
Employee stock purchase plan	—	—	0.7	—	—	—	0.7
March 31, 2019	\$ 325.0	\$ 1.6	\$6,825.2	\$ 2,017.6	\$ (125.2)	\$(3,134.7)	\$5,909.5
December 31, 2017	\$ 325.0	\$ 2.1	\$8,798.1	\$ 1,906.5	\$ (86.5)	\$(3,625.2)	\$7,320.0
Adoption of Accounting Standard Updates 2016-01, 2016-16, and 2018-02	—	—	—	0.7	(0.5)	—	0.2
Net income	—	—	—	97.0	—	—	97.0
Other comprehensive loss, net of tax	—	—	—	—	(62.9)	—	(62.9)
Dividends paid (\$0.16 per Common Share)	—	—	—	(21.5)	—	—	(21.5)
Share repurchases	—	—	—	—	—	(194.9)	(194.9)
Amortization of stock compensation expenses	—	—	13.0	—	—	(24.8)	(11.8)
Employee stock purchase plan	—	—	0.7	—	—	—	0.7
March 31, 2018	\$ 325.0	\$ 2.1	\$8,811.8	\$ 1,982.7	\$ (149.9)	\$(3,844.9)	\$7,126.8

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

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CIT GROUP INC. AND SUBSIDIARIES

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

	Quarters Ended	
	March 31,	
	2019	2018
Cash Flows From Operations		
Net income	\$118.9	\$97.0
Adjustments to reconcile net income to net cash flows from operations:		
Provision for credit losses	33.0	68.8
Depreciation on operating lease equipment	79.4	76.4
Amortization of stock compensation expenses	13.7	13.0
Net gain on asset sales and impairments on assets held for sale	(21.6)	(20.9)
Loss on debt extinguishment and deposit redemption	0.1	0.1
Provision for deferred income taxes	23.0	25.4
Decrease in finance receivables held for sale	28.9	7.6
Increase in other assets	(116.7)	(33.4)
Decrease in other liabilities	(71.9)	(112.7)
Other operating activities	18.8	5.8
Net cash flows provided by operations	105.6	127.1
Cash Flows From Investing Activities		
Changes in loans, net	(651.9)	(412.7)
Purchases of investment securities	(2,546.2)	(662.4)
Proceeds from sales and maturities of investment securities	790.4	1,067.0
Proceeds from asset and receivable sales	126.3	175.6
Purchases of assets to be leased and other equipment	(102.4)	(148.3)
Proceeds from sale of OREO, net of repurchases	12.3	19.9
Purchase of bank owned life insurance	(155.0)	—
Other investing activities	11.2	16.1
Net cash flows (used in) provided by investing activities	(2,515.3)	55.2
Cash Flows From Financing Activities		
Proceeds from the issuance of term debt and FHLB advances	-	3,061.6
Repayments of term debt, FHLB advances, and net settlements	(1,552.6)	(1,636.6)
Net increase in deposits	3,708.9	1,023.3
Repurchase of common stock	(179.7)	(194.9)
Dividends paid	(25.7)	(21.5)
Other financing activities	(18.5)	(35.0)
Net cash flows provided by financing activities	1,932.4	2,196.9

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Effect of exchange rate changes on cash and cash equivalents	1.9	0.5
(Decrease) increase in cash, cash equivalents and restricted cash	(475.4)	2,379.7
Cash, cash equivalents, and restricted cash beginning of period	1,795.6	1,726.4
Cash, cash equivalents, and restricted cash end of period	\$1,320.2	\$4,106.1
Supplementary Cash Flow Disclosures		
Interest paid	\$(277.8)	\$(200.8)
Federal, foreign, state and local income taxes refunded (paid), net	0.9	(3.2)
Supplementary Non Cash Flow Disclosure		
Transfer of assets from held for investment to held for sale	98.0	150.2
Transfer of assets from held for sale to held for investment	0.7	20.8
Transfers of assets to OREO	9.0	9.6
Commitments extended during the period on affordable housing investment credits	20.0	15.0

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

	Quarters Ended March 31,	
	2019	2018
Cash and due from banks, including restricted balances of \$22.9 and \$34.7 at March 31, 2019 and March 31, 2018, respectively	\$130.1	\$200.9
Interest bearing deposits, including restricted balances of \$2.3 and \$82.3 at March 31, 2019 and March 31, 2018, respectively	1,190.1	3,895.4
Cash included in assets of discontinued operations	—	9.8
Total cash, cash equivalents, and restricted cash shown in the Statements of Cash Flows	\$1,320.2	\$4,106.1

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

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

NOTE 1 — BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CIT Group Inc., together with its subsidiaries (collectively "we", "our", "CIT" or the "Company"), is a bank holding company ("BHC") and a financial holding company ("FHC"). CIT was formed in 1908 and provides financing, leasing and advisory services principally to middle-market companies in a wide variety of industries, primarily in North America. We also provide banking and related services to commercial and individual customers through our banking subsidiary, CIT Bank, N.A. ("CIT Bank" or the "Bank"), which includes over 60 branches located in Southern California and its online bank, *cit.com/cit-bank/*.

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

BASIS OF PRESENTATION

Basis of Financial Information

These consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial information and accordingly do not include all information and note disclosures required by generally accepted accounting principles in the United States of America ("GAAP") for complete financial statements. The financial statements in this Form 10-Q, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of CIT's financial position, results of operations and cash flows in accordance with GAAP. These consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2018 ("2018 Form 10-K").

The accounting and financial reporting policies of CIT conform to GAAP 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 and loan impairment, realizability of deferred tax assets, and goodwill. Additionally, where applicable, the policies conform to accounting and reporting guidelines prescribed by bank regulatory authorities.

Principles of Consolidation

The accompanying consolidated financial statements include financial information related to CIT and its majority-owned subsidiaries and those 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 current period's results of operations do not necessarily indicate the results that may be expected for any other interim period or for the full year as a whole.

Discontinued Operations

Discontinued Operations as of March 31, 2019 and December 31, 2018 included certain assets and liabilities of (i) the Business Air business and (ii) the Financial Freedom reverse mortgage servicing business.

Income (loss) from discontinued operations reflects the activities of the Business Air and Financial Freedom businesses for the quarters ended March 31, 2019 and 2018.

The Financial Freedom business ("Financial Freedom") was acquired in conjunction with the acquisition of OneWest Bank, N.A. (the "OneWest Transaction") in 2015 and was sold on May 31, 2018 and the economic benefit and risk of Financial Freedom has been transferred to the buyer. The sale included all the operations, mortgage servicing rights, and related servicing assets and liabilities. At March 31, 2019, certain assets and liabilities of the Financial Freedom business remained in discontinued operations, and will continue to be held until the required investor consent is received. See further discussion in *Note 2 - Discontinued Operations*.

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are included in the Company's 2018 Form 10-K. Effective January 1, 2019, CIT changed its accounting policy for leases resulting from the adoption of Accounting Standards Codification ("ASC") 842, *Leases* and subsequent related Accounting Standards Updates ("ASUs"). There were no other material changes to policies during the quarter ended March 31, 2019. In addition to the Company's adoption of the new leasing standard outlined below, refer to the *Other Newly Adopted Accounting Standards* section for other ASUs adopted in 2019.

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

Leases

On January 1, 2019, CIT adopted ASU 2016-02, *Leases (Topic 842)*, and subsequent related ASUs using January 1, 2019 as the date of initial application. The new leasing standard modifies the accounting, presentation, and disclosures for both lessees and lessors. We elected the modified retrospective transition option which allows for application of the Topic 842 guidance at the adoption date. Therefore, comparative prior period financial information was not adjusted and will continue to be reported under the previous accounting guidance of ASC 840, *Leases*. No cumulative-effect adjustment to retained earnings as of January 1, 2019 was necessary as a result of adopting the new standard. CIT elected the “package of practical expedients” permitted under the transition guidance which allows the Company not to reassess its prior conclusions regarding lease identification, lease classification of existing leases, and treatment of initial direct costs on existing leases. Any lease arrangements and significant modifications entered into subsequent to the adoption date (January 1, 2019) are accounted for in accordance with the new standard.

Lessee Topic 842 Accounting

The new leasing standard requires recognition of leases on the consolidated balance sheets as right-of-use (“ROU”) assets and lease liabilities. ROU assets represent our right to use underlying assets for the lease terms and lease liabilities represent our obligation to make lease payments arising from the leases. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. We use our estimated incremental borrowing rate in determining the present value of lease payments.

CIT recognized lease liabilities, with corresponding ROU assets, based on the present value of unpaid lease payments for existing operating leases longer than twelve months as of January 1, 2019. The ROU assets were adjusted per Topic 842 transition guidance for existing lease-related balances of accrued and prepaid rent, unamortized lease incentives provided by lessors, and restructuring liabilities. As a result, CIT recognized ROU assets of approximately \$210 million in Other Assets and corresponding lease liabilities of approximately \$260 million in Other liabilities as of January 1, 2019. The January 1, 2019 incremental borrowing rates determined on a collateralized basis for the remaining lease terms were utilized when determining the present value of lease payments at the date of initial adoption.

The Company elected the lessee practical expedient to not separate lease and non-lease components. The Company also elected the short-term lease recognition exemption and will not recognize ROU assets or lease liabilities for leases with a term less than 12 months.

Operating lease cost is recognized as a single lease cost on a straight-line basis over the lease term and is recorded in Operating Expenses. Variable lease payments for common area maintenance, property taxes and other operating expenses are recognized as expense in the period when the changes in facts and circumstances on which the variable lease payments are based occur.

Lessee Accounting for Periods Prior to Adoption of Topic 842 (Prior to January 1, 2019)

Under ASC 840, lessee operating lease arrangements were recorded off balance sheet and ROU assets and lease liabilities were not recognized. Operating lease rent expense was recognized on a straight-line basis over the lease term and recorded in Operating Expenses. Common area maintenance, property taxes, and other operating expenses related to leased premises were also recognized in Operating Expenses, consistent with similar costs for owned locations.

Lessor Topic 842 Accounting

We determine lease classification at commencement date. Leases not classified as sales-type or direct financing leases are classified as operating leases. The primary accounting criteria we use for lease classification are (a) review to determine if the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, (b) review to determine if the lease grants the lessee a purchase option that the lessee is reasonably certain to exercise, (c) determine, using a seventy-five percent or more threshold, if the lease term is for a major part of the remaining economic life of the underlying asset (however, we do not use this classification criterion when the lease commencement date falls within the last 25 percent of the total economic life of the underlying asset) and (d) determine, using a ninety percent or more threshold, if the present value of the sum of the lease payments and any residual value guarantees equal or exceeds substantially all of the fair value of the underlying asset. We do not lease equipment of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

Lease components are separated from non-lease components that transfer a good or service to the customer; and the non-lease components in our lease contracts are accounted for in accordance with loan accounting guidance. However, the Company elected the operating lease practical expedient for its Rail portfolio leases to not separate non-lease components of railcar maintenance services from associated lease components. This practical expedient is available when both of the following are met: (i) the timing and pattern of transfer of the non-lease components and associated lease component are the same and (ii) the lease component, if accounted for separately, would be classified as an operating lease.

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. The residual realization risk varies by transaction type. Finance leases bear the least risk because contractual payments usually cover approximately 90% of the equipment's cost at the inception of the lease. A significant portion of our leasing portfolios are comprised of operating leases which have higher risk because a smaller percentage of the equipment's value is covered by contractual cash flows over the term of the lease. 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

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

equipment. CIT seeks to mitigate these risks by maintaining relatively young fleet assets with wide operator bases, which can facilitate attractive lease and utilization rates. CIT manages and evaluates residual risk by performing periodic reviews of estimated residual values and monitoring levels of residual realizations. A change in estimated operating lease residual values would result in a change in future depreciation expense. A change in estimated finance lease residual values during the lease term impacts the loss allowance as the lessor considers both the lease receivable and the unguaranteed residual asset when determining the finance lease net investment loss allowance.

Incremental costs of a lease that would not have been incurred if the lease had not been obtained are capitalized as initial direct costs.

Property taxes paid by the lessor which are reimbursed by the lessee are considered to be lessor costs of owning the asset, and are recorded gross with revenue included in Other non-interest income and expense recorded in Operating expenses.

The Company elected a lessor accounting policy election to exclude from revenue and expenses sales taxes and other similar taxes assessed by a governmental authority on lease revenue-producing transactions and collected by the lessor from a lessee.

Operating Leases - 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. Equipment received at the end of the lease, which will be sold, is marked to the lower of cost or fair value with the adjustment recorded in other noninterest income. Initial direct costs are amortized over the lease term.

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

Finance Leases - CIT’s finance leases are classified as sales-type leases; other than instances when a third party residual value guarantee is obtained causing the lease to be classified as a direct financing lease under ASC 842. CIT’s finance lease activity primarily relates to leasing of new equipment with the equipment purchase price equal to fair value and therefore there is no selling profit or loss at lease commencement. When there is no selling profit or loss, initial direct costs are deferred at the commencement date and included in the measurement of the net investment in the lease.

A lease receivable and unguaranteed residual asset, if any, are recorded for finance leases at present value discounted using the rate implicit in the lease. The lease receivable includes lease payments not yet paid and guarantee of the residual value by the lessee or unrelated third party. Interest income is recognized over the lease term at a constant periodic discount rate on the remaining balance of the lease net investment using the rate implicit in the lease. After

the commencement date, lease payments collected are applied to reduce net investment, and net investment is increased for interest income recorded.

Variable lease payments that are not included in the lease net investment are recognized as income in profit or loss in the period when the changes in facts and circumstances on which the variable lease payments are based occur.

The recognition of interest income 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 income accruals, as well as amortization of deferred fees, costs, and purchase premiums or discounts are suspended. To the extent the estimated cash flows, including fair value of collateral, does not satisfy the net investment balance, accrued but uncollected interest at the date an account is placed on non-accrual status is reversed and charged against interest income. Subsequent lease payments received are applied to the outstanding net investment balance until such time as the account is collected, charged-off or returned to accrual status. Finance leases that are on cash basis nonaccrual do not accrue interest income; however, payments designated by the borrower as interest payments may be recorded as interest income. To qualify for this treatment, the remaining recorded investment in the lease must be deemed fully collectable.

The recognition of interest income (including accretion) on small ticket finance leases is suspended, and all previously accrued but uncollected revenue is reversed, when lease payments are 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 lease receivables are reasonably assured, and there is a sustained period of repayment performance, generally for a minimum of six months.

Lessor Accounting for Periods Prior to Adoption of Topic 842 (Prior to January 1, 2019)

Lessor accounting was not fundamentally changed by ASC 842 and remains similar to the prior accounting model, with updates to align with certain changes to the lessee model (e.g., certain definitions, such as initial direct costs, have been updated) and the new revenue recognition standard. The new rules did not have a significant impact on our classification of leases as finance or operating. Under ASC 840 our finance leases typically met criteria for classification as direct financings leases; however due to a change in lease guidance similar leases are classified as sales-type leases under ASC 842 although there continues to be no selling profit or loss at lease commencement. The primary impact to the Company related to initial direct costs and certain property taxes. The new lease guidance has a narrower definition of initial direct costs that may be capitalized and allocated internal costs and professional fees to negotiate and arrange the lease agreement that would have been incurred regardless of lease execution no longer qualify as initial direct cost. On January 1, 2019, we began to record gross operating expenses and other non-interest income for property taxes paid by CIT as lessor that are reimbursed by the lessees.

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

Revenue Recognition

ASC 606, *Revenue from Contracts with Customers* establishes principles to apply in determining the amount and timing of revenue recognition. "Interest Income" and "Rental Income on Operating Leases", CIT's two largest revenue items, are out of scope of ASC 606 guidance, as are many other revenues relating to other financial assets and liabilities, including loans, leases, securities, and derivatives. As a result, the Company's application of recognition and measurement principles of ASC 606 is limited to certain revenue streams within Non-Interest Income, including some immaterial bank related fees and gains or losses related to the sale and disposition of leased equipment and OREO.

Other Newly Adopted Accounting Standards

In addition to ASC 842, *Leases* noted above, the following pronouncements were issued by the Financial Accounting Standards Board ("FASB") and adopted by CIT as of January 1, 2019:

Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities

ASU 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities* shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The new guidance applies to all entities that hold investments in callable debt securities for which the amortized cost basis exceeds the amount repayable by the issuer at the earliest call date (i.e., at a premium). This guidance should be adopted on a modified retrospective basis through a cumulative-effect adjustment to retained earnings.

CIT adopted this guidance as of January 1, 2019 using a modified retrospective transition approach. The adoption of this standard did not have a material impact on CIT's consolidated financial statements and disclosures as unamortized premiums on debt securities are immaterial.

Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Base Payment Accounting

ASU 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Base Payment Accounting* supersedes ASC 505-50, *Equity-Equity-Based Payments to Non-Employees*, and expands the scope of ASC 718 to include all share-based payment arrangements related to the acquisition of goods and services from both nonemployees and employees. As a result, most of the guidance in ASC 718 associated with employee share-based payments, including most of its requirements related to classification and measurement, applies to nonemployee share-based payment arrangements. Entities should use a modified retrospective transition approach, with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year, for all: (1) liability-classified nonemployee awards that have not been settled as of the adoption date and (2) equity-classified nonemployee awards for which a measurement date has not been established.

CIT adopted this guidance as of January 1, 2019 using a modified retrospective transition approach. The adoption of this standard did not have a material impact on CIT's consolidated financial statements and disclosures as CIT's current accounting for nonemployee share-based payment is consistent with the requirements for employee share-based awards.

Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes

ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes* permits the use of the OIS rate based on the SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to the UST, the LIBOR swap rate, the OIS rate based on the Fed Funds Effective Rate, and the SIFMA Municipal Swap Rate. Including the OIS rate based on SOFR as an eligible benchmark interest rate during the early stages of the marketplace transition will facilitate the LIBOR to SOFR transition and provide sufficient lead time for entities to prepare for changes to interest rate risk hedging strategies for both risk management and hedge accounting purposes. Entities should adopt this guidance on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the date of adoption.

CIT adopted this guidance as of January 1, 2019. The adoption of this standard did not have a material impact on CIT's consolidated financial statements and disclosures as this amendment requires adoption on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the date of adoption.

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

Recent Accounting Pronouncements

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

Standard	Summary of Guidance	Effect on CIT's Financial Statements
ASU 2016-13, <i>Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i> Issued June 2016	<p>•ASU 2016-13 introduces a forward-looking “expected loss” model (the “Current Expected Credit Losses” (“CECL”) model) to estimate credit losses over the full remaining expected life of the portfolio upon adoption, rather than the incurred loss model under current U.S. GAAP. Estimates of expected credit losses under the new model will be based on relevant information about past events, current conditions, and reasonable and supportable forecasts regarding the collectability of reported amounts. Generally, the new model requires that an allowance for credit losses (“ACL”) be estimated and recognized for financial assets measured at amortized cost within its scope.</p> <p>•The amendments in this standard eliminates existing guidance for Purchase Credit Impaired (“PCI”) loans, and requires recognition of an allowance for expected credit losses on financial assets purchased with more than insignificant credit deterioration since origination (purchased credit deteriorated (“PCD”) loans).</p> <p>•Loans previously classified as PCI will be considered PCD at adoption, with credit related discount reflected in the ACL and loan balance.</p> <p>•ASU 2016-13 amends existing impairment guidance for Available-for-sale (“AFS”) securities to incorporate an allowance, which will allow for reversals of impairment losses in</p>	<p>•Effective for CIT as of January 1, 2020. Early adoption is permitted; however, CIT does not intend to early adopt the guidance.</p> <p>•CIT is developing, validating and implementing models and methodologies used to develop the CECL allowance. The parallel run in advance of the January 1, 2020 effective date will focus on technical functionality of the CECL calculation, operational execution of the end-to-end process as well as disclosure requirements. CIT management has established a project team and a steering committee to provide cross-functional governance over, and make key decisions relating to, the project plan and the parallel run.</p> <p>•Although CIT is currently in the process of evaluating the impact of the amended guidance on its Consolidated Financial Statements, it currently expects the ACL to increase upon adoption because the allowance will be required to cover the full remaining expected life of the portfolio, rather than the incurred loss model under current U.S. GAAP. In addition, a significant portion of the increase will be due to PCI loans that will be reclassified as PCD loans with the credit related discount resulting in an increase to both allowance and loan balance, but not retained earnings. The extent of the overall increase, including the portion related to the current PCI portfolio, is still being evaluated and will depend on</p>

the event that the credit of an issuer improves economic conditions and the composition of CIT's loan and lease portfolios at adoption date.

- In addition, ASU 2016-13 expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the ACL.

- 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).

ASU 2018-19,
*Codification
Improvements to
Topic 326:
Financial
Instruments
Credit Losses*

- The amendment clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, Leases.

- Effective for CIT as of January 1, 2020 in conjunction with ASU 2016-13. Early adoption is permitted; however, CIT does not intend to early adopt the guidance.

- The adoption of this standard is not expected to have a material impact on CIT's consolidated financial statements and disclosures.

Issued November
2018

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

<p>ASU 2018-17, <i>Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities</i></p> <p>Issued October 2018</p>	<ul style="list-style-type: none"> •The amendments in this guidance change how entities that apply the VIE guidance evaluate decision-making fees. To determine whether decision-making fees represent a variable interest, an entity will consider indirect interests held through related parties under common control on a proportional basis rather than in their entirety, as currently required by GAAP. •Entities should adopt this standard retrospectively with cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. 	<ul style="list-style-type: none"> •Effective for CIT as of January 1, 2020. Early adoption is permitted. •The adoption of this standard is not expected to have a material impact on CIT's consolidated financial statements and disclosures.
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NOTE 2 — DISCONTINUED OPERATIONS

Discontinued operations was comprised of Business Air and residual activity of the Financial Freedom servicing business (“Financial Freedom”), a former division of CIT Bank that serviced reverse mortgage loans. The following condensed financial information includes the combination of the Company’s discontinued operations for the quarters ended March 31, 2019 and 2018, and as of March 31, 2019 and December 31, 2018. See the Company’s 2018 Form 10-K Note 2 – Discontinued Operations, for further information.

Condensed Combined Balance Sheet (dollars in millions)

	March 31, 2019	December 31, 2018
Net loans ⁽¹⁾	\$205.9	\$ 248.1
Other assets	2.3	1.7
Assets of discontinued operations	\$208.2	\$ 249.8
Secured borrowings ⁽¹⁾	\$174.5	\$ 195.0
Other liabilities ⁽²⁾	99.3	102.0
Liabilities of discontinued operations	\$273.8	\$ 297.0

⁽¹⁾Net loans primarily include \$156.9 million and \$175.9 million of securitized balances, related to Financial Freedom, at March 31, 2019 and December 31, 2018, respectively. Secured borrowings primarily relate to those receivables.

⁽²⁾Other liabilities primarily include liabilities related to Financial Freedom.

Condensed Combined Statement of Income (dollars in millions)

Quarters
Ended March

	31,	
	2019	2018
Interest income ⁽¹⁾	\$1.8	\$4.2
Interest expense ⁽¹⁾	1.6	3.1
Rental income on operating leases	—	0.5
Other income	1.7	5.7
Operating expenses ⁽²⁾	2.3	16.4
Loss from discontinued operations before benefit for income taxes	(0.4)	(9.1)
Benefit for income taxes ⁽³⁾	(0.1)	(2.4)
Loss from discontinued operations, net of taxes	\$(0.3)	\$(6.7)

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

⁽²⁾For the quarter ended March 31, 2019, operating expense is insignificant. For the quarter ended March 31, 2018, operating expense is comprised of \$4 million in salaries and benefits, \$1 million in professional and legal services, and \$11 million for other expenses such as data processing, premises and equipment, and miscellaneous charges.

⁽³⁾For the quarters ended March 31, 2019 and 2018, the Company's tax rate for discontinued operations was 26% and 27%, respectively.

Condensed Combined Statement of Cash Flows (dollars in millions)

	Quarters Ended	
	March 31,	
	2019	2018
Net cash flows (used in) provided by operations	\$(5.1)	\$10.3
Net cash flows provided by investing activities	23.4	42.2

Reverse Mortgage Servicing

Certain assets and liabilities of Financial Freedom remained in discontinued operations as a financing transaction due to the pending investor consent from the Government National Mortgage Association (“GNMA”). As the servicer of home equity conversion mortgage (“HECM”) loans, the Company is obligated to fund future borrower advances for taxes and insurance, and line of credit draws. In addition, the Company is required to repurchase the HECM loans out of GNMA HECM mortgage-backed securities (“HMBS”) securitization pools 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. As the economic benefit and risk of Financial Freedom has been transferred to the buyer, the servicing of the loans and payments for servicer advances and required repurchase are performed by the buyer. HECM loan commitments associated with the servicer obligation to fund

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

future advances totaled \$21 million at March 31, 2019 and \$23 million at December 31, 2018 (included as part of the Financing commitments table presented in Note 13 – Commitments). Additionally, the Company services \$116.4 million and \$122.5 million of HMBS outstanding principal balance at March 31, 2019 and December 31, 2018, respectively, for transferred loans securitized by IndyMac for which OneWest Bank had purchased the mortgage servicing rights (“MSRs”) prior to the acquisition in connection with the acquisition by OneWest bank from the FDIC of certain assets of IndyMac Federal Bank, FSB (“IndyMac”) (the “IndyMac Transaction”). As the HECM loans are federally insured by the FHA and the secured borrowing guaranteed to the investors by GNMA, the Company does not believe maximum loss exposure as a result of its involvement is material. Upon receiving the required consent from GNMA, CIT shall no longer have this servicer obligation and related assets and liabilities will qualify for derecognition.

NOTE 3 — LOANS

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

Loans by Product (dollars in millions)

	March 31, 2019	December 31, 2018
Commercial loans	\$22,751.3	\$22,285.7
Financing Leases and Leverage Leases	2,412.4	2,489.4
Total commercial	25,163.7	24,775.1
Consumer loans	6,083.3	6,020.3
Total loans	31,247.0	30,795.4
Loans held for sale ⁽¹⁾	75.6	88.4
Loans and held for sale loans ⁽¹⁾	\$31,322.6	\$30,883.8

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

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

Loans (dollars in millions)

	March 31, 2019			December 31, 2018		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Commercial Banking	\$23,100.1	\$1,541.2	\$24,641.3	\$22,732.8	\$1,530.6	\$24,263.4
Consumer Banking ⁽¹⁾	6,605.7	—	6,605.7	6,532.0	—	6,532.0
Total	\$29,705.8	\$1,541.2	\$31,247.0	\$29,264.8	\$1,530.6	\$30,795.4

⁽¹⁾The Consumer Banking segment includes certain commercial loans, primarily consisting of a portfolio of Small

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Business Administration ("SBA") loans. These loans are excluded from the Consumer loan balances and included in the Commercial loan balances in the tables throughout this note.

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

Components of Net Investment ⁽¹⁾ (dollars in millions)

	March 31, 2019	December 31, 2018
Unearned income	\$ (437.2)	\$ (778.8)
Net unamortized premiums	22.8	20.6
Accretable yield on PCI loans	(863.6)	(903.8)
Net unamortized deferred costs ⁽¹⁾	 	