CIT GROUP INC
Form 10-K
March 01, 2007

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

FORM 10-K

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

or

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

Commission File Number: 001-31369

CIT GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**65-1051192** (IRS Employer Identification No.)
505 Fifth Avenue, New York, New York (Address of Registrant s principal executive offices)	**10017** (Zip Code)

(212) 771-0505
Registrant s telephone number including area code:

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

Title of each class	**Name of each exchange on which registered**
Preferred Stock, Series A par value $0.01 per share	New York Stock Exchange
Common Stock, par value $0.01 per share	New York Stock Exchange
5 7/8% Notes due October 15, 2008	

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 |X| 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 |X|.

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

See pages 115 to 117 for the exhibit index.

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Part One

ITEM 1. Business

OVERVIEW

BUSINESS DESCRIPTION

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

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

Our principal product and service offerings include:

Products

Asset based loans

Secured lines of credit

Leases operating, capital and leveraged

Vendor finance programs

Import and export financing

Debtor-in-possession / turnaround financing

Acquisition and expansion financing

Project financing

Mortgage loans

Small business loans

Student loans

Letters of credit / trade acceptances

Services

Financial risk management

Asset management and servicing

Merger and acquisition advisory services

Debt restructuring

Credit protection

Accounts receivable collection

Commercial real estate advisory services

Debt underwriting and syndication

Insurance

Capital markets structuring

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

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

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

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

BUSINESS SEGMENTS

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

CIT Group Inc.

Commercial Finance Group	**Corporate Finance** Lending, leasing and other financial services to middle-market companies, through industry focused sales teams, including Healthcare, Communications, Media and Entertainment, and Energy and Infrastructure.
	Transportation Finance Large ticket equipment leases and other secured financing to companies in aerospace, rail and defense industries.
	Trade Finance Factoring, lending, credit protection, receivables management and other trade products to retail supply chain companies.
Specialty Finance Group	**Vendor Finance** Innovative financing and leasing solutions to manufacturers, distributors and customer end-users around the globe, including major global relationships.
	Consumer and Small Business Lending Secured, guaranteed and private loans to consumers, including home lending and student loans, as well as to small businesses, through broker and intermediary relationships.

Managed Assets by Segment
At December 31, 2006 (dollars in billions)

Managed Assets by Region
At December 31, 2006

COMMERCIAL FINANCE GROUP

Corporate Finance

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

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

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

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

Transportation Finance

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

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

The commercial aerospace customers include leading U.S. and foreign commercial airlines. As of December 31, 2006, our commercial aerospace financing and leasing portfolio was $7.1 billion, consisting of 237 aircraft with a weighted average age of approximately 5 years placed with 92 clients. We have strong relationships across the entire aerospace industry, including the major manufacturers, parts suppliers and carriers. These relationships provide us with access to technical information, which enhances our customer service and provides opportunities to finance new business. In 2005, we opened our international aerospace servicing center in Dublin, Ireland, putting us closer to our growing international client base and providing us with favorable tax treatment for certain aircraft leasing operations conducted offshore. See Concentrations section of *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* and Note 16 Commitments and Contingencies of *Item 8. Financial Statements and Supplementary Data* for further discussion of our aerospace portfolio.

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

Trade Finance

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

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

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

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

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

SPECIALTY FINANCE GROUP

Vendor Finance

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

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

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

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

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

Consumer and Small Business Lending

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

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

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

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

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

CIT Bank, with assets of $2.8 billion and deposits of $2.3 billion, is located in Salt Lake City, Utah and provides favorable funding rates for various consumer and small business financing programs in both the local and national marketplace. CIT Bank also originates certain loans generated by bank affiliation programs with manufacturers and distributors of consumer products. The Bank is chartered by the state of Utah as an industrial bank and is subject to regulation and examination by the Federal Deposit Insurance Corporation and the Utah Department of Financial Institutions.

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

2006 SEGMENT PERFORMANCE

Earnings and Return Summary (dollars in millions)

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

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

EMPLOYEES

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

COMPETITION

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

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

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

REGULATION

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

- regulate credit granting activities, including establishing licensing requirements, if any, in various jurisdictions,
- establish maximum interest rates, finance charges and other charges,
- regulate customers insurance coverages,
- require disclosures to customers,
- govern secured transactions,
- set collection, foreclosure, repossession and claims handling procedures and other trade practices,
- prohibit discrimination in the extension of credit and administration of loans, and
- regulate the use and reporting of information related to a borrower s credit experience and other data collection.

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

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

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1A. Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OUR LIQUIDITY OR ABILITY TO RAISE CAPITAL MAY BE LIMITED.

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

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

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

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

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

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

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

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

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

OTHER REVENUE MAY BE MORE VOLATILE THAN NET FINANCE REVENUE.

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

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

ITEM 1B. Unresolved Staff Comments

There are no unresolved SEC staff comments.

ITEM 2. Properties

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

ITEM 3. Legal Proceedings

NORVERGENCE RELATED LITIGATION

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

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

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

OTHER LITIGATION

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

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

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

Part Two

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

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

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

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

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

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

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

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

(1) Excludes 263,523 unvested restricted shares and 2,434,281 unvested performance shares outstanding under the Long-Term Equity Compensation Plan.

We had no equity compensation plans that were not approved by shareholders. For further information on our equity compensation plans, including the weighted average exercise price, see *Item 8. Financial Statements and Supplementary Data*, Note 15.

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

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
Balance at September 30, 2006	15,078,794			1,271,597