CIT GROUP INC
Form 10-Q
November 13, 2015

Table of Contents

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

FORM 10-Q

|X| Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2015

| | 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 Number)
11 West 42nd Street New York, New York (Address of Registrant s principal executive offices)	**10036** (Zip Code)
(212) 461-5200 (Registrant s telephone number)	

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes |X| No |_|

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

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

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

As of October 31, 2015 there were 200,970,322 shares of the registrant s common stock outstanding.

Table of Contents

CONTENTS

Table of Contents

Part One Financial Information

Item 1. Consolidated Financial Statements

CIT GROUP INC. AND SUBSIDIARIES

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

	September 30, 2015	December 31, 2014

	September 30, 2015	December 31, 2014
Assets		
Cash and due from banks, including restricted balances of $617.2 and $374.0 at September 30, 2015 and December 31, 2014[(1)], respectively	$ 1,653.6	$ 878.5
Interest bearing deposits, including restricted balances of $219.2 and $590.2 at September 30, 2015 and December 31, 2014[(1)], respectively	6,606.3	6,241.2
Securities purchased under agreements to resell	100.0	650.0
Investment securities	3,618.8	1,550.3
Assets held for sale[(1)]	2,154.3	1,218.1
Loans (see Note 9 for amounts pledged)	32,406.2	19,495.0
Allowance for loan losses	(335.0)	(346.4)
Total loans, net of allowance for loan losses[(1)]	32,071.2	19,148.6
Operating lease equipment, net (see Note 9 for amounts pledged)[(1)]	15,538.2	14,930.4
Indemnification assets	465.0	
Unsecured counterparty receivable	529.5	559.2
Goodwill	1,135.1	571.3
Intangible assets	201.3	25.7
Other assets, including $222.6 and $168.4 at September 30, 2015 and December 31, 2014, respectively, at fair value	3,538.4	2,106.7
Assets of discontinued operations	513.8	
Total Assets	**$68,125.5**	**$47,880.0**
Liabilities		
Deposits	$ 32,328.9	$ 15,849.8
Credit balances of factoring clients	1,609.3	1,622.1
Other liabilities, including $247.3 and $62.8 at September 30, 2015 and December 31, 2014, respectively, at fair value	3,395.7	2,888.8
Borrowings, including $4,006.4 and $3,053.3 contractually due within twelve months at September 30, 2015 and December 31, 2014, respectively	19,320.5	18,455.8
Liabilities of discontinued operations	671.9	
Total Liabilities	**57,326.3**	**38,816.5**
Stockholders Equity		
Common stock: $0.01 par value, 600,000,000 authorized		
Issued: 204,344,215 and 203,127,291 at September 30, 2015 and December 31, 2014, respectively	2.0	2.0
Outstanding: 200,952,387 and 180,920,575 at September 30, 2015 and December 31, 2014, respectively		
Paid-in capital	8,683.5	8,603.6
Retained earnings	2,443.4	1,615.7
Accumulated other comprehensive loss	(174.3)	(133.9)
Treasury stock: 3,391,828 and 22,206,716 shares at September 30, 2015 and December 31, 2014, respectively, at cost	(155.9)	(1,018.5)
Total Common Stockholders Equity	10,798.7	9,068.9
Noncontrolling minority interests	0.5	(5.4)
Total Equity	10,799.2	9,063.5
Total Liabilities and Equity	**$68,125.5**	**$47,880.0**

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

Assets

Cash and interest bearing deposits, restricted	$ 339.7	$ 537.3
Assets held for sale	431.5	
Total loans, net of allowance for loan losses	2,729.7	3,619.2
Operating lease equipment, net	4,151.4	4,219.7
Other	14.0	10.0
Total Assets	**$ 7,666.3**	**$ 8,386.2**
Liabilities		
Beneficial interests issued by consolidated VIEs (classified as borrowings)	$ 4,643.5	$ 5,331.5
Total Liabilities	**$ 4,643.5**	**$ 5,331.5**

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

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Interest income				
Interest and fees on loans	$ 414.2	$ 299.9	$ 961.4	$ 894.7
Other interest and dividends	23.5	8.4	41.1	25.6
Interest income	437.7	308.3	1,002.5	920.3
Interest expense				
Interest on borrowings	(187.2)	(216.0)	(582.5)	(642.1)
Interest on deposits	(93.1)	(59.2)	(234.3)	(167.2)
Interest expense	(280.3)	(275.2)	(816.8)	(809.3)
Net interest revenue	157.4	33.1	185.7	111.0
Provision for credit losses	(49.9)	(38.2)	(102.9)	(85.1)
Net interest revenue, after credit provision	107.5	(5.1)	82.8	25.9
Non-interest income				
Rental income on operating leases	539.3	535.0	1,601.6	1,546.5
Other income	39.2	24.2	189.1	189.0
Total non-interest income	578.5	559.2	1,790.7	1,735.5
Total revenue, net of interest expense and credit provision	686.0	554.1	1,873.5	1,761.4
Non-interest expenses				
Depreciation on operating lease equipment	(159.1)	(156.4)	(473.7)	(462.5)
Maintenance and other operating lease expenses	(55.9)	(46.5)	(151.4)	(147.1)
Operating expenses	(333.9)	(234.5)	(810.5)	(693.0)
Loss on debt extinguishment	(0.3)		(0.4)	(0.4)
Total non-interest expenses	(549.2)	(437.4)	(1,436.0)	(1,303.0)
	136.8	116.7	437.5	458.4

	Quarters Ended September 30,		Nine Months Ended September 30,	
Income from continuing operations before benefit for income taxes				
Benefit for income taxes	560.0	401.2	478.2	369.6
Income from continuing operations, before attribution of noncontrolling interests	696.8	517.9	915.7	828.0
Net (income) loss attributable to noncontrolling interests, after tax		(2.5)	0.1	(2.5)
Income from continuing operations	696.8	515.4	915.8	825.5
Discontinued operations				
Loss from discontinued operations, net of taxes	(3.7)	(0.5)	(3.7)	(229.3)
Gain on sale of discontinued operations				282.8
Total (loss) income from discontinued operations, net of taxes	(3.7)	(0.5)	(3.7)	53.5
Net Income	$ 693.1	$ 514.9	$ 912.1	$ 879.0
Basic income per common share				
Income from continuing operations	$ 3.66	$ 2.78	$ 5.08	$ 4.34
(Loss) income from discontinued operations	(0.02)		(0.02)	0.28
Basic income per share	$ 3.64	$ 2.78	$ 5.06	$ 4.62
Diluted income per common share				
Income from continuing operations	$ 3.63	$ 2.76	$ 5.05	$ 4.31
(Loss) income from discontinued operations	(0.02)		(0.02)	0.28
Diluted income per share	$ 3.61	$ 2.76	$ 5.03	$ 4.59
Average number of common shares (thousands)				
Basic	190,557	185,190	180,300	190,465
Diluted	191,803	186,289	181,350	191,433
Dividends declared per common share	$ 0.15	$ 0.15	$ 0.45	$ 0.35

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

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Income from continuing operations, before attribution of noncontrolling interests	$ 696.8	$ 517.9	$ 915.7	$ 828.0
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(8.7)	(6.3)	(33.4)	(13.6)
Changes in fair values of derivatives qualifying as cash flow hedges		0.3		0.2

	Quarters Ended September 30,		Nine Months Ended September 30,	
Net unrealized gains (losses) on available for sale securities	(6.1)	(0.4)	(5.9)	(0.1)
Changes in benefit plans net gain (loss) and prior service (cost)/credit	(0.7)	1.8	(1.1)	5.0
Other comprehensive (loss), net of tax	(15.5)	(4.6)	(40.4)	(8.5)
Comprehensive income (loss) before noncontrolling interests and discontinued operations	681.3	513.3	875.3	819.5
Comprehensive (income) loss attributable to noncontrolling interests		(2.5)	0.1	(2.5)
Income (loss) from discontinued operations, net of taxes	(3.7)	(0.5)	(3.7)	53.5
Comprehensive income	$ 677.6	$ 510.3	$ 871.7	$ 870.5

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

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES

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

	Common Stock	Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Minority Interests	Total Equity
December 31, 2014	**$ 2.0**	**$ 8,603.6**	**$ 1,615.7**	**$ (133.9)**	**$ (1,018.5)**	**$ (5.4)**	**$ 9,063.5**
Net income (loss)			912.1			(0.1)	912.0
Other comprehensive loss, net of tax				(40.4)			(40.4)
Dividends paid			(84.4)				(84.4)
Amortization of restricted stock, stock option and performance shares expenses		59.8			(22.0)		37.8
Issuance of common stock acquisition		45.6			1,416.4		1,462.0
Repurchase of common stock					(531.8)		(531.8)
Employee stock purchase plan		1.0					1.0
Purchase of noncontrolling interest and distribution of earnings and capital		(26.5)				6.0	(20.5)
September 30, 2015	**$ 2.0**	**$ 8,683.5**	**$ 2,443.4**	**$ (174.3)**	**$ (155.9)**	**$ 0.5**	**$ 10,799.2**

	Common Stock	Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Minority Interests	Total Equity
December 31, 2013	**$ 2.0**	**$ 8,555.4**	**$ 581.0**	**$ (73.6)**	**$ (226.0)**	**$ 11.2**	**$ 8,850.0**
Net income			879.0			2.5	881.5
Other comprehensive loss, net of tax				(8.5)			(8.5)
Dividends paid			(67.5)				(67.5)
Amortization of restricted stock, stock option and performance shares expenses		37.1			(16.8)		20.3
Repurchase of common stock					(658.0)		(658.0)
Employee stock purchase plan		1.1					1.1
Distribution of earnings and capital						(14.9)	(14.9)
September 30, 2014	**$ 2.0**	**$ 8,593.6**	**$ 1,392.5**	**$ (82.1)**	**$ (900.8)**	**$ (1.2)**	**$ 9,004.0**

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

CIT GROUP INC. AND SUBSIDIARIES

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

	Nine Months Ended September 30,	
	2015	**2014**
Cash Flows From Operations		
Net income	$ 912.1	$ 879.0
Adjustments to reconcile net income to net cash flows from operations:		
Provision for credit losses	102.9	85.1
Net depreciation, amortization and (accretion)	500.7	729.2
Net gains on asset sales	(66.6)	(288.3)
Benefit for deferred income taxes	(563.6)	(395.5)
Increase in finance receivables held for sale	(101.1)	(144.7)
Goodwill impairment	29.0	
Reimbursement of OREO expense from FDIC	2.2	
(Increase) decrease in other assets	(45.8)	124.4
Increase (decrease) in accrued liabilities and payables	11.0	(148.1)

	Nine Months Ended September 30,	
Net cash flows provided by operations	780.8	841.1
Cash Flows From Investing Activities		
Loans originated and purchased	(10,548.4)	(11,532.5)
Principal collections of loans	9,224.8	9,880.8
Purchases of assets to be leased and other equipment	(1,717.9)	(2,431.7)
Proceeds from asset and receivable sales	1,455.7	2,578.5
Purchases of investment securities	(6,882.1)	(8,494.4)
Proceeds from maturities of investment securities	7,066.0	9,695.2
Net increase in short-term factoring receivables	(32.3)	(112.2)
Purchases of restricted stock	(126.2)	
Proceeds from redemption of restricted stock	18.3	
Payments to the FDIC under loss share agreements	(17.4)	
Proceeds from the FDIC under loss share agreements and participation agreements	11.3	
Proceeds from sales of other real estate owned, net of repurchases	24.2	
Acquisitions, net of cash received	2,521.2	(448.2)
Net change in restricted cash	151.1	(21.2)
Net cash flows provided by (used in) investing activities	1,148.3	(885.7)
Cash Flows From Financing Activities		
Proceeds from the issuance of term debt	1,670.6	2,866.0
Repayments of term debt	(3,854.5)	(4,116.5)
Proceeds from the issuance of FHLB debt	5,100.0	
Repayments of FHLB debt	(4,997.4)	
Net increase in deposits	1,949.2	1,957.1
Collection of security deposits and maintenance funds	234.9	246.3
Use of security deposits and maintenance funds	(127.1)	(129.0)
Repurchase of common stock	(531.8)	(658.0)
Dividends paid	(84.4)	(67.5)
Purchase of noncontrolling interest	(20.5)	
Payments on affordable housing investment credits	(0.2)	
Net cash flows (used in) provided by financing activities	(661.2)	98.4
Increase in unrestricted cash and cash equivalents	1,267.9	53.8
Unrestricted cash and cash equivalents, beginning of period	6,155.5	5,081.1
Unrestricted cash and cash equivalents, end of period	$ 7,423.4	$ 5,134.9
Supplementary Cash Flow Disclosure		
Interest paid	$ (866.5)	$ (850.8)
Federal, foreign, state and local income taxes (paid) collected, net	$ (26.4)	$ (19.0)
Supplementary Non Cash Flow Disclosure		
Transfer of assets from held for investment to held for sale	$ 2,030.0	$ 1,329.6
Transfer of assets from held for sale to held for investment	$ 93.1	$ 52.2
Transfer of assets from held for sale and held for investment to OREO	$ 26.4	$

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

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CIT Group Inc., together with its subsidiaries (collectively CIT or the Company), has provided financial solutions to its clients since its formation in 1908. The Company provides financing, leasing and advisory services principally to middle market companies in a wide variety of industries primarily in North America, and equipment financing and leasing solutions to the transportation industry worldwide. CIT became a bank holding company (BHC) in December 2008 and a financial holding company (FHC) in July 2013. Through its bank subsidiary, CIT Bank, N.A., CIT provides a full range of commercial and consumer banking and related services to customers through 70 branches located in southern California and its online bank, bankoncit.com.

Effective as of August 3, 2015, CIT Group Inc. (CIT) acquired IMB HoldCo LLC (IMB), the parent company of OneWest Bank, National Association, a national bank (OneWest Bank). CIT Bank, a Utah-state chartered bank and a wholly owned subsidiary of CIT, merged with and into OneWest Bank (the OneWest Transaction), with OneWest Bank surviving as a wholly owned subsidiary of CIT with the name CIT Bank, National Association (CIT Bank, N.A. or CIT Bank). See *Note 2 Acquisitions and Disposition Activities* for details.

CIT is regulated by the Board of Governors of the Federal Reserve System (FRB) and the Federal Reserve Bank of New York (FRBNY) under the U.S. Bank Holding Company Act of 1956. CIT Bank, N.A. is regulated by the Office of the Comptroller of the Currency, U.S. Department of the Treasury (OCC). Prior to the OneWest Transaction, CIT Bank was regulated by the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions (UDFI).

BASIS OF PRESENTATION

Principles of Consolidation

The accompanying consolidated financial statements include financial information related to CIT Group Inc. and its majority-owned subsidiaries and those variable interest entities (VIEs) where the Company is the primary beneficiary.

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.

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 presentation 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 our current Form 10-K on file.

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

The results for the quarter and nine months ended September 30, 2015 each contain activity of OneWest Bank for approximately two months, therefore they are not necessarily indicative of the results expected for any other interim period or for the full year as a whole.

Discontinued Operations

The Financial Freedom business, a division of CIT Bank (formerly a division of OneWest Bank) that services reverse mortgage loans, was acquired in conjunction with the OneWest Transaction. Pursuant to ASC 205-20, as amended by ASU 2014-08, the Financial Freedom business is reflected as discontinued operations as of September 30, 2015. The business includes the entire third party servicing of reverse mortgage operations, which include personnel, systems and the servicing assets. The assets of discontinued operations primarily include Home Equity Conversion Mortgage (HECM) loans and servicing advances, while liabilities of discontinued operations include reverse mortgage servicing liability, secured borrowings and contingent liabilities. The reverse mortgage servicing relates primarily to loans serviced for Fannie Mae. Separate from the Financial Freedom business, there is a portfolio of reverse mortgages in the Legacy Consumer Mortgage segment, which is continuing operations.

In addition, on April 25, 2014, the Company completed the sale of its student lending business, which was finalized in 2014. As a result, that business was reported as a discontinued operation. Discontinued Operations are discussed in *Note 2 Acquisition and Disposition Activities.*

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SIGNIFICANT ACCOUNTING POLICIES

Financing and Leasing Assets

CIT extends credit to commercial customers through a variety of financing arrangements including term loans, revolving credit facilities, capital (direct finance) leases and operating leases. With the addition of OneWest Bank, CIT now also extends credit through consumer loans, including residential mortgages and home equity loans, and has a portfolio of reverse mortgages. The amounts outstanding on term loans, consumer loans, revolving credit facilities and capital leases are referred to as finance receivables. In certain instances, we use the term Loans synonymously, as presented on the balance sheet. These finance receivables, when combined with *Assets held for sale* (AHFS) and *Operating lease equipment, net* are referred to as financing and leasing assets.

It is CIT s expectation that the majority of the loans and leases originated will be held for the foreseeable future or until maturity. In certain situations, for example to manage concentrations and/or credit risk or where returns no longer meet specified targets, some or all of certain exposures are sold. Loans for which the Company has the intent and ability to hold for the foreseeable future or until maturity are classified as held for investment (HFI). If the Company no longer has the intent or ability to hold loans for the foreseeable future, then the loans are transferred to AHFS. Loans originated with the intent to resell are classified as AHFS.

Loans originated and classified as HFI are recorded at amortized cost. Loan origination fees and certain direct origination costs are deferred and recognized as adjustments to interest income over the lives of the related loans. Unearned income on leases and discounts and premiums on loans purchased are amortized to interest income using the effective interest method. For loans classified as AHFS, the amortization of discounts and premiums on loans purchased and unearned income ceases. Direct financing leases originated and classified as HFI are recorded at the aggregate future minimum lease payments plus estimated residual values less unearned finance income. Management performs periodic reviews of estimated residual values, with other than temporary impairment (OTTI) recognized in current period earnings.

If it is determined that a loan should be transferred from HFI to AHFS, then the balance is transferred at the lower of cost or fair value. At the time of transfer, a write-down of the loan is recorded as a charge-off when the carrying amount exceeds fair value and the difference relates to credit quality, otherwise the write-down is recorded as a reduction to Other Income, and any allowance for loan loss is reversed. Once classified as AHFS, the amount by which the carrying value exceeds fair value is recorded as a valuation allowance and is reflected as a reduction to Other Income.

If it is determined that a loan should be transferred from AHFS to HFI, the loan is transferred at the lower of cost or fair value on the transfer date, which coincides with the date of change in management s intent. The difference between the carrying value of the loan and the fair value, if lower, is reflected as a loan discount at the transfer date, which reduces its carrying value. Subsequent to the transfer, the discount is accreted into earnings as an increase to interest income over the life of the loan using the effective interest method.

Loans acquired in the OneWest Transaction were initially recorded at their fair value on the acquisition date. For loans that were not considered credit impaired at the date of acquisition and for which cash flows were evaluated based on contractual terms, a premium or discount was recorded, representing the difference between the unpaid principal balance and the fair value. The discount or premium is accreted or amortized to earnings using the effective interest method as a yield adjustment over the remaining terms of the loans and is recorded in Interest Income. If the loan is prepaid, the remaining discount or premium will be recognized in Interest Income. If the loan is sold, the remaining discount will be considered in the resulting gain or loss on sale. If the loan is subsequently classified as non-accrual, or transferred to AHFS, accretion/amortization of the discount (premium) will cease.

For loans that were purchased with evidence of credit quality deterioration since origination, the discount recorded includes accretable and non-accretable components.

Purchased Credit-Impaired Loans

Loans accounted for as purchased credit-impaired loans (PCI loans) are accounted for in accordance with ASC 310-30 *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30). PCI loans were determined as of the date of purchase to have evidence of credit quality deterioration, which make it probable that the Company will be unable to collect all contractually required payments. Evidence of credit quality deterioration as of the purchase date may include past due status, recent borrower credit scores, credit rating (probability of obligor default) and recent loan-to-value ratios.

Commercial PCI loans are accounted for as individual loans. Conversely, consumer PCI loans with similar common risk characteristics are pooled together for accounting purposes (i.e., into one unit of account). Common risk characteristics consist of similar credit risk (e.g., delinquency status, loan-to-value, or credit risk rating) and at least one other predominant risk characteristic (e.g., loan type, collateral type, interest rate index or type, date of origination or term). For pooled loans, each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows for the pool.

At acquisition, the PCI loans were initially recorded at estimated fair value, which is determined by discounting each commercial loan s or consumer pool s principal and interest cash flows expected to be collected using a discount rate for similar instruments with adjustments that

management believes a market participant would consider. The Company estimated the cash flows expected to be collected at acquisition using internal credit risk and prepayment risk models that incorporate management s best estimate of current key assumptions, such as default rates, loss severity and prepayment speeds of the loan.

For both commercial PCI loans (evaluated individually) and consumer PCI loans (evaluated on a pool basis), an accretable yield is measured as the excess of the cash flows expected to be collected, estimated at the acquisition date, over the recorded investment (estimated fair value at acquisition) and is recognized in interest income over the remaining life of the loan, or pool of loans, on an effective yield basis. The difference between the cash flows contractually required to be paid, measured as of the acquisition date, over the expected cash flows is referred to as the non-accretable difference.

Subsequent to acquisition, we evaluate our estimates of the cash flows expected to be collected on a quarterly basis for both commercial PCI loans (evaluated individually) and consumer PCI loans (evaluated on a pool basis). During each subsequent reporting period, the cash flows expected to be collected shall be reviewed but will be revised only if it is deemed probable that a significant change has occurred. Probable and significant decreases in expected cash flows as a result of further credit deterioration result in a charge to the provision for credit losses and a corresponding increase to the allowance for credit losses. Probable and significant increases in cash flows expected to be collected due to improved credit quality result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and an increase in the accretable yield applied prospectively for any remaining increase. Changes in expected cash flows caused by changes in market interest rates are recognized as adjustments to the accretable yield on a prospective basis.

Resolutions of loans may include sales to third parties, receipt of payments in settlement with the borrower, or foreclosure of the collateral. Upon resolution the Company s policy is to remove an individual consumer PCI loan from the pool at its carrying amount. Any difference between the loan s carrying amount and the fair value of the collateral or other assets received does not affect the percentage yield calculation used to recognize accretable yield on the pool. This removal method assumes that the amount received from these resolutions approximates the pool performance expectations of cash flows. The accretable yield percentage is unaffected by the resolution. Modifications or refinancing of loans accounted for within a pool do not result in the removal of those loans from the pool; instead, the revised terms are reflected in the expected cash flows within the pool of loans.

Reverse Mortgages

Reverse mortgage loans, which were recorded at fair value on the acquisition date, are contracts in which a homeowner borrows against the equity in their home and receives cash in one lump sum payment, a line of credit, fixed monthly payments for either a specific term or for as long as the homeowner lives in the home or a combination of these options. Since reverse mortgages are nonrecourse obligations, the loan repayments are generally limited to the sale proceeds of the borrower s residence and the mortgage balance consists of cash advanced, interest compounded over the life of the loan, and capitalized mortgage insurance premiums and other servicing advances capitalized into loans.

Revenue Recognition

Interest income on loans (both HFI and AHFS) is recognized using the effective interest method or on a basis approximating a level rate of return over the life of the asset. Interest income includes components of accretion of the fair value discount on loans and lease receivables recorded in connection with Purchase Accounting Adjustments (PAA) and to a lesser extent Fresh Start Accounting (FSA) adjustments that were applied as of December 31, 2009, (the Convenience Date), all of which are accreted using the effective interest method as a yield adjustment over the remaining contractual term of the loan and recorded in interest income. If the loan is subsequently classified as AHFS, accretion (amortization) of the discount (premium) will cease. See Purchase Accounting Adjustments in *Note 2 Acquisition and Disposition Activities* further in this section.

Reverse mortgages are accounted for in accordance with the instructions provided by the staff of the Securities and Exchange Commission (SEC) entitled Accounting for Pools of Uninsured Residential Reverse Mortgage Contracts. The Company has determined the unit of account to be the loan level. To determine the effective yield of the loan, we project the loan s cash inflows and outflows including actuarial projections of the life expectancy of the individual contract holder and changes in the collateral value of the residence. At each reporting date, a new economic forecast is made of the cash inflows and outflows for the population of uninsured reverse mortgages. The effective yield of the individual loans is recomputed and income is adjusted to retrospectively reflect the revised rate of return. Because of this accounting, the recorded value of uninsured reverse mortgage loans and interest income can result in significant volatility associated with the estimates. As a result, income recognition can vary significantly from period to period.

Rental revenue on operating leases is recognized on a straight line basis over the lease term and is included in Non-interest Income. Intangible assets were recorded during FSA and in acquisitions completed by the Company to adjust the carrying value of above or below market operating lease contracts to their fair value. The FSA related adjustments (net) are amortized into rental income on a straight line basis over the remaining term of the respective lease.

The recognition of interest income (including accretion) on Loans is suspended and an account is placed on non-accrual status when, in the opinion of management, full collection of all principal and interest due is doubtful. To the extent the estimated cash flows, including fair value of collateral,

does not satisfy both the principal and accrued interest outstanding, accrued but uncollected interest at the date an account is placed on non-accrual status is reversed and charged against interest income. Subsequent interest received is applied to the outstanding principal balance until such time as the account is collected, charged-off or returned to accrual status. Loans that are on cash basis non-accrual do not accrue interest income; however, payments designated by the borrower as interest payments may be recorded as interest income. To qualify for this treatment, the remaining recorded investment in the loan must be deemed fully collectable.

The recognition of interest income (including accretion) on consumer mortgages (except reverse mortgages) and small ticket commercial loans and lease receivables is suspended and all previously accrued but uncollected revenue is reversed, when payment of principal and/or interest is contractually delinquent for 90 days or more. Accounts, including accounts that have been modified, are returned to accrual status when, in the opinion of management, collection of remaining principal and interest is reasonably assured, and there is a sustained period of repayment performance for a minimum of six months.

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

PCI loans in pools that the Company may modify as TDRs are not within the scope of the accounting guidance for TDRs.

Allowance for Loan Losses on Finance Receivables

The allowance for loan losses is intended to provide for credit losses inherent in the Held for Investment loan and lease receivables portfolio and is periodically reviewed for adequacy. The allowance for loan losses is determined based on three key components: (1) specific allowances for loans that are impaired, based upon the value of underlying collateral, projected cash flows, or observable market price, (2) non-specific allowances for estimated losses inherent in the portfolio based upon the expected loss over the loss emergence period, and (3) allowances for estimated losses inherent in the portfolio based upon economic risks, industry and geographic concentrations, and other factors. Changes to the Allowance for Loan Losses are recorded in the Provision for Credit Losses.

Determining an appropriate allowance for loan losses requires significant judgment that may change based on management s ongoing process in analyzing the credit quality of the Company s HFI loan portfolio.

Finance receivables are divided into the following portfolio segments, which correspond to the Company s business segments: Transportation & International Finance (TIF), North America Banking (NAB); formerly known as North American Commercial Finance, Legacy Consumer Mortgages (LCM) and Non-Strategic Portfolios (NSP). Within each portfolio segment, credit risk is assessed and monitored in the following classes of loans; within TIF, Aerospace, Rail, Maritime Finance and International Finance, within NAB, Commercial Banking, Equipment Finance, Commercial Real Estate, and Commercial Services, (collectively referred to as the Commercial Loans); and within LCM, the Single Family Residential (SFR) Mortgages and Reverse Mortgages and in NAB, Consumer Banking, (collectively referred to as the Consumer Loans). The allowance is estimated based upon the finance receivables in the respective class.

For each portfolio, impairment is generally measured individually for larger non-homogeneous loans (finance receivables of $500 thousand or greater) and collectively for groups of smaller loans with similar characteristics or for designated pools of PCI loans based on decreases in cash flows expected to be collected subsequent to acquisition.

Loans acquired in the OneWest Transaction were initially recorded at estimated fair value at the time of acquisition. Expected credit losses were included in the determination of estimated fair value; no allowance was established on the acquisition date.

Allowance Methodology

Commercial Loans

With respect to commercial portfolios, the Company monitors credit quality indicators, including expected and historical losses and levels of and trends in past due loans, non-performing assets and impaired loans, collateral values and economic conditions. Commercial loans are graded based on various risk factors. The non-specific allowance is determined based on the estimated probability of default, which reflects the borrower s financial strength, and the severity of loss in the event of default, considering the quality of the underlying collateral. The probability of default and severity are derived through historical observations of default and subsequent losses within each risk grading.

A specific allowance is also established for impaired commercial loans and commercial loans modified in a TDR. Refer to the *Impairment of Finance Receivables* section of this Note for details.

Consumer Loans

For residential mortgages, the Company develops a loss reserve factor by deriving the projected lifetime losses then adjusting for losses expected to be specifically identified within the loss emergence period. The key drivers of the projected lifetime losses include the type of loan, type of product, delinquency status of the underlying loans, loan-to-value and/or debt-to-income ratios, geographic location of the collateral, and any guarantees.

For reverse mortgage loans, an allowance is established if the Company is likely to experience losses on the disposition of the property that are not reflected in the recorded investment. The level of any required allowance for loan losses on reverse mortgage loans is based on the Company s estimate of the future fair value of the property based on current conditions and trends. An allowance is recorded for any shortfall between the estimated future fair value of the property less estimated costs to sell and the estimated future net investment in the loan.

If consumer loan losses are reimbursable by the FDIC under the loss sharing agreement, the recorded provision is partially offset by any benefit expected to be derived from the related indemnification asset. See *Indemnification Assets* later in this section.

Other Allowance Factors

With respect to assets transferred from HFI to AHFS, a charge-off is recognized to the extent carrying value exceeds the fair value and the difference relates to credit quality.

An approach similar to the allowance for loan losses is utilized to calculate a reserve for losses related to unfunded loan commitments, along with deferred purchase commitments associated with the Company s factoring business. A reserve for unfunded loan commitments is maintained to absorb estimated probable losses related to these facilities. The adequacy of the reserve is determined based on periodic evaluations of the unfunded credit facilities, including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. The reserve for unfunded loan commitments is recorded as a liability on the Consolidated Balance Sheet. Net adjustments to the reserve for unfunded loan commitments are included in the provision for credit losses.

The allowance policies described above related to specific and non-specific allowances, and the impaired finance receivables and charge-off policies that follow are applied across the portfolio segments and loan classes therein. Given the nature of the Company s business, the specific allowance is largely related to the NAB and TIF segments. The non-specific allowance, which considers the Company s internal system of probability of default and loss severity ratings, among other factors, is applicable to commercial portfolio segments. Additionally, portions of the NAB and LCM segments also utilize methodologies under ASC 310-30, as discussed below.

PCI Loans

Subsequent to acquisition, we evaluate our estimates of the cash flows expected to be collected on a quarterly basis for both commercial PCI loans (evaluated individually) and consumer PCI loans (evaluated on a pool basis). Probable and significant decreases in expected cash flows as a result of further credit deterioration, result in a charge to the provision for credit losses and a corresponding increase to the allowance for credit losses. Probable and significant increases in expected cash flows due to improved credit quality result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and an increase through the accretable yield applied prospectively for any remaining increase. Changes in expected cash flows caused by changes in market interest rates are recognized as adjustments to the accretable yield on a prospective basis.

Past Due and Non-Accrual Loans

A loan is considered past due for financial reporting purposes if default of contractual principal or interest exists for a period of 30 days or more. Past due loans consist of both loans that are still accruing interest as well as loans on non-accrual status.

Loans are placed on non-accrual status when the financial condition of the borrower has deteriorated and payment in full of principal or interest is not expected or the scheduled payment of principal and interest has been delinquent for 90 days or more, unless the loan or finance lease is both well secured and in the process of collection.

PCI loans are written down at acquisition to their fair value using an estimate of cash flows deemed to be probable of collecting. Accordingly, such loans are no longer classified as past due or non-accrual even though they may be contractually past due because we expect to fully collect the new carrying values of these loans. Due to the nature of reverse mortgage loans (i.e., there are no required contractual payments due from the borrower), they are considered current for purposes of past due reporting and are excluded from non-accrual loan balances.

When a loan is placed on non-accrual status, all previously accrued but uncollected interest is reversed. All future interest accruals, as well as amortization of deferred fees, costs, purchase premiums or discounts are suspended. Where there is doubt as to the recoverability of the original outstanding investment in the loan, the cost recovery method is used and cash collected first reduces the carrying value of the loan. Otherwise, interest income may be recognized to the extent cash is collected.

Impairment of Finance Receivables

Impairment occurs when, based on current information and events, it is probable that CIT will be unable to collect all amounts due according to contractual terms of the agreement. Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable, with the estimated value determined using fair value of collateral and other cash flows if the finance receivable is collateralized, the present value of expected future cash flows discounted at the contract s effective interest rate, or observable market prices.

Impaired finance receivables of $500 thousand or greater that are placed on non-accrual status, largely in Commercial Banking, Commercial Real Estate, Commercial Services, and classes within TIF, are subject to periodic individual review by the Company s problem loan management (PLM) function. The Company excludes certain loan and lease portfolios from its impaired finance receivables disclosures as charge-offs are typically determined and recorded for such loans beginning at 90-180 days of contractual delinquency. These include small-ticket loan and lease receivables, largely in Equipment Finance and NSP, and consumer loans, including single family and multi-family residential mortgages, in NAB and LCM that have not been modified in a troubled debt restructuring, as well as short-term factoring receivables in Commercial Services.

Charge-off of Finance Receivables

Charge-offs on loans are recorded after considering such factors as the borrower s financial condition, the value of underlying collateral and guarantees (including recourse to dealers and manufacturers), and the status of collection activities. Such charge-offs are deducted from the carrying value of the related finance receivables. This policy is largely applicable in the Commercial Banking, Equipment Finance, Commercial Real Estate, Commercial Services and Transportation Finance loan classes. In general, charge-offs of large ticket commercial loans ($500 thousand or greater) are determined based on the facts and circumstances related to the specific loan and the underlying borrower and the use of judgment by the Company. Charge-offs of small ticket commercial finance receivables are recorded beginning at 90 to 150 days of contractual delinquency. Charge-offs of Consumer loans are recorded beginning at 120 days of delinquency. The value of the underlying collateral will be considered when determining the charge-off amount if repossession is assured and in process.

Charge-offs on loans originated are reflected in the provision for credit losses. Charge-offs are recognized on consumer loans for which losses are reimbursable under loss sharing agreements with the FDIC, with a provision benefit recorded to the extent applicable via an increase to the related indemnification asset. Charge-offs on loans with a PAA are first allocated to the respective loan s discount, then to the extent a charge-off amount exceeds such discount, to provision for credit losses. Collections on accounts charged off in the post-acquisition or post-emergence periods are recorded as recoveries in the provision for credit losses. Collections on accounts that exceed the balance recorded at the date of acquisition are recorded as recoveries in other income. Collections on accounts previously charged off prior to transfer to AHFS are recorded as recoveries in other income.

Impairment of Long-Lived Assets

A review for impairment of long-lived assets, such as operating lease equipment, is performed at least annually or when events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable. Impairment of assets is determined by comparing the carrying amount to future undiscounted net cash flows expected to be generated. If an asset is impaired, the impairment is the amount by which the carrying amount exceeds the fair value of the asset. Fair value is based upon discounted cash flow analysis and available market data. Current lease rentals, as well as relevant and available market information (including third party sales for similar equipment and published appraisal data), are considered both in determining undiscounted future cash flows when testing for the existence of impairment and in determining estimated fair value in measuring impairment. Depreciation expense is adjusted when the projected fair value at the end of the lease term is below the projected book value at the end of the lease term. Assets to be disposed of are included in assets held for sale in the Consolidated Balance Sheet and reported at the lower of the cost or fair market value less disposal costs (LOCOM).

Investments

Debt and equity securities classified as available-for-sale (AFS) are carried at fair value with changes in fair value reported in accumulated other comprehensive income (AOCI), a component of stockholders equity, net of applicable income taxes. Credit-related declines in fair value that are determined to be OTTI are immediately recorded in earnings. Realized gains and losses on sales are included in other income on a specific identification basis, and interest and dividend income on AFS securities is included in other interest and dividends.

Debt securities classified as held-to-maturity (HTM) represent securities that the Company has both the ability and the intent to hold until maturity, and are carried at amortized cost. Interest on such securities is included in Interest and dividends on interest bearing deposits and investments.

Debt and marketable equity security purchases and sales are recorded as of the trade date.

Mortgage-backed security investments acquired in the OneWest Transaction were originally recorded as securities AFS at their fair value on the acquisition date. Debt securities classified as AFS that had evidence of credit deterioration as of the acquisition date and for which it was probable that the Company would not collect all contractually required principal and interest payments were classified as PCI debt securities. Subsequently, the accretable yield (based on the cash flows expected to be collected in excess of the recorded investment or fair value) is accreted to interest income using an effective interest method. On a quarterly basis, the cash flows expected to be collected are reviewed and updated. The expected cash flow estimates

Table of Contents

take into account relevant market and economic data as of the end of the reporting period including, for example, for securities issued in a securitization, underlying loan-level data, and structural features of the securitization, such as subordination, excess spread, overcollateralization or other forms of credit enhancement. OTTI with credit-related losses are recognized as permanent write-downs, while other changes in expected cash flows (e.g., significant increases and contractual interest rate changes) are recognized through a revised accretable yield in subsequent periods. The non-accretable discount is recorded as a reduction to the investments and will be reclassified to accretable discount should expected cash flows improve.

Equity securities without readily determinable fair values are generally carried at cost or the equity method of accounting and periodically assessed for OTTI, with the net asset values reduced and when impairment is deemed to be other-than-temporary. Equity method investments are recorded at cost, adjusted to reflect the Company s portion of income, loss or dividend of the investee. All other non-marketable equity investments are carried at cost and periodically assessed for OTTI.

Evaluating Investments for OTTI

An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in AOCI for AFS securities, while such losses related to HTM securities are not recorded, as these investments are carried at their amortized cost.

The Company conducts and documents periodic reviews of all securities with unrealized losses to evaluate whether the impairment is other than temporary. The Company accounts for investment impairments in accordance with ASC 320-10-35-34, *Investments Debt and Equity Securities: Recognition of an Other-Than-Temporary Impairment*. Under the guidance for debt securities, OTTI is recognized in earnings for debt securities that the Company has an intent to sell or that the Company believes it is more-likely-than-not that it will be required to sell prior to the recovery of the amortized cost basis. For debt securities classified as HTM that are considered to have OTTI that the Company does not intend to sell and it is more likely than not that the Company will not be required to sell before recovery, the OTTI is separated into an amount representing the credit loss, which is recognized in other income in the Consolidated Statement of Operations, and the amount related to all other factors, which is recognized in OCI. OTTI on debt securities and equity securities classified as AFS and non-marketable equity investments are recognized in other income in the Consolidated Statement of Operations in the period determined. We evaluate for impairment and to the extent it is credit related we reclassify amounts out of AOCI to other income. If it is not credit related, then the amounts remain in AOCI.

Amortized cost is defined as the original purchase cost, plus or minus any accretion or amortization of a purchase discount or premium. Regardless of the classification of the securities as AFS or HTM, the Company assesses each investment with an unrealized loss for impairment.

Factors considered in determining whether a loss is temporary include:

n the length of time that fair value has been below cost;

n the severity of the impairment or the extent to which fair value has been below cost;

n the cause of the impairment and the financial condition and the near-term prospects of the issuer;

- activity in the market of the issuer that may indicate adverse credit conditions; and

- the Company s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The Company s review for impairment generally includes identification and evaluation of investments that have indications of possible impairment, in addition to:

- analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;

- discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having OTTI and those that would not support OTTI; and

- documentation of the results of these analyses, as required under business policies.

Investments in Restricted Stock

The Company is a member of, and owns capital stock in, the Federal Home Loan Bank of San Francisco (the FHLB) and the FRB. As a condition of membership, the Company is required to own capital stock in the FHLB based upon outstanding FHLB advances and FRB stock based on a specified ratio relative to the Company s capital. FHLB and FRB stock may only be sold back to the member institutions at its carrying value and cannot be sold to other parties. For FHLB stock, cash dividends are recorded within interest income when declared by the FHLB. For FRB stock, the Company is legally entitled (without declaration) to a specified dividend paid semi-annually. Dividends are recorded in other interest and dividends in the Consolidated Statements of Income.

Due to the restricted ownership requirements, the Company accounts for its investments in FHLB and FRB stock as a nonmarketable equity stock accounted for under the cost method and reviews the investment for impairment at least annually, or when events or circumstances indicate that their

carrying amounts may not be recoverable. The Company s impairment evaluation considers the long-term nature of the investment, the liquidity position of the member institutions, its recent dividend declarations and the intent and ability to hold this investment for a period of time sufficient to ultimately recover the Company s recorded investment.

Goodwill and Intangible Assets

The Company s goodwill primarily represented the excess of the purchase prices paid for acquired businesses over the respective fair value of net asset values acquired. The goodwill was assigned to reporting units at the date the goodwill was initially recorded. Once the goodwill was assigned to the reporting unit level, it no longer retained its association with a particular transaction, and all of the activities within the reporting unit, whether acquired or internally generated, are available to support the value of goodwill.

A portion of the Goodwill balance also represented the excess of reorganization equity value over the fair value of tangible and identifiable intangible assets, net of liabilities.

Goodwill is not amortized but it is subject to impairment testing at the reporting unit on an annual basis, or more often if events or circumstances indicate there may be impairment. The Company follows guidance in ASC 350*, Intangibles Goodwill and Other* that includes the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two-step impairment test. Examples of qualitative factors to assess include macroeconomic conditions, industry and market considerations, market changes affecting the Company s products and services, overall financial performance, and company specific events affecting operations.

If the Company does not perform the qualitative assessment or upon performing the qualitative assessment concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, CIT would be required to perform the first step of the two-step goodwill impairment test for that reporting unit. The first step involves comparing the fair value of the reporting unit with its carrying value, including goodwill as measured by allocated equity. If the fair value of the reporting unit exceeds its carrying value, goodwill in that unit is not considered impaired. However, if the carrying value exceeds its fair value, step two must be performed to assess potential impairment. In step two, the implied fair value of the reporting unit s goodwill (the reporting unit s fair value less its carrying amount, excluding goodwill) is compared with the carrying amount of the goodwill. An impairment loss would be recorded in the amount that the carrying amount of goodwill exceeds its implied fair value. Reporting unit fair values are primarily estimated using discounted cash flow models. See *Note 23 Goodwill and Intangible Assets* for further details.

Intangible assets relate to acquisitions and the remaining amount from FSA adjustments. Intangible assets have finite lives and as detailed in *Note 23 Goodwill and Intangible Assets*, depending on the component, are amortized on an accelerated or straight line basis over the estimated useful lives. Amortization expense for the intangible assets is recorded in operating expenses.

The Company reviews intangible assets for impairment annually or when events or circumstances indicate that their carrying amounts may not be recoverable. Impairment is recognized by writing down the asset to the extent that the carrying amount exceeds the estimated fair value, with any impairment recorded in operating expense.

Indemnification Assets

Prior to the acquisition of OneWest Bank by CIT, OneWest Bank was party to certain shared loss agreements with the FDIC related to its acquisitions of IndyMac Federal Bank, FSB (IndyMac), First Federal Bank of California, FSB (First Federal) and La Jolla Bank, FSB (La Jolla). As part of CITs acquisition of OneWest Bank, CIT is now party to these loss sharing agreements with the FDIC. Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., loan modifications, charge-off of loan balance or liquidation of collateral). Reimbursements approved by the FDIC are received usually within 60 days of submission.

The IndyMac transaction encompassed multiple loss sharing agreements with the FDIC that provided protection from certain losses related to purchased single family residential (SFR) loans and reverse mortgage proprietary loans. In addition, CIT is party to the FDIC agreement to indemnify OneWest Bank, subject to certain requirements and limitations, for third party claims from the Government Sponsored Enterprises (GSEs or Agencies) related to IndyMac selling representations and warranties, as well as liabilities arising from the acts or omissions (including, without limitation, breaches of servicer obligations) of IndyMac as servicer.

The loss sharing arrangements related to the First Federal and La Jolla transactions also provide protection from certain losses related to certain purchased assets, specifically the SFR loans.

All of the loss sharing agreements are accounted for as indemnification assets and were initially recognized at estimated fair value as of the acquisition date based on the discounted present value of expected future cash flows under the respective loss sharing agreements pursuant to ASC 805. As of the acquisition date, the First Federal loss share agreement has a zero fair value given the expiration of the commercial loan portion in December 2014 and management s expectation not to reach the first stated threshold for the SFR mortgage loan portion, which expires

in December 2019. As of acquisition date, the La Jolla loss share agreement had a negligible indemnification asset value. Under the La Jolla loss share agreement, the FDIC indemnifies the eligible credit losses for SFR and commercial loans. Unlike SFR mortgage loan claim submissions, which do not take place until the loss is incurred through the conclusion of the foreclosure process, commercial loan claims are submitted to and paid by the FDIC at the time of charge-off. Similar to the First Federal agreement, the commercial loan portion expired prior to the acquisition date (expired March 2015); however the loss thresholds apply to the covered loans collectively.

On a subsequent basis, the indemnification asset is measured on the same basis of accounting as the indemnified loans (e.g., as PCI loans under the effective yield method). A yield is determined based on the expected cash flows to be collected from the FDIC over the recorded investment. The expected cash flows on the indemnification asset are reviewed and updated on a quarterly basis.

Changes in expected cash flows caused by changes in market interest rates or by prepayments of principal are recognized as adjustments to the effective yield on a prospective basis in interest income. In some cases, the cash flows expected to be collected from the indemnified loans may improve so that the related indemnification asset is no longer expected to be fully recovered. For PCI loans with an associated indemnification asset, if the increase in expected cash flows is recognized through a higher yield, a lower and potentially negative yield (i.e. to the extent no future cash flows are expected to be received) is applied to the related indemnification asset to mirror an accounting offset for the indemnified loans. Any negative yield is determined based on the remaining term of the indemnification agreement. Both accretion (positive yield) and amortization (negative yield) from the indemnification asset are recognized in interest income on loans over the lesser of the contractual term of the indemnification agreement or the remaining life of the indemnified loans.

In connection with the La Jolla transaction, the Company recorded a separate FDIC true-up liability for an estimated payment due to the FDIC at the expiry of the loss share agreement, given the estimated cumulative losses of the acquired covered assets are projected to be lower than the cumulative losses originally estimated by the FDIC at inception of the loss share agreement. There is no FDIC true-up liability recorded in connection with the First Federal transaction based on the projected loss estimates at this time. There is also no FDIC true-up liability recorded in connection with the IndyMac transaction, as it was not required. This liability represents contingent consideration to the FDIC and is re-measured at estimated fair value on a quarterly basis, with the changes in fair value recognized in noninterest expense.

For further discussion, see *Note 5 Indemnification Assets*.

Other Assets

Tax Credit Investments

As a result of the OneWest Transaction, the Company has investments in limited liability entities formed to operate qualifying affordable housing projects, and other entities that make equity investments, provide debt financing or support community-based investments in tax-advantaged projects. Certain affordable housing investments qualify for credit under the Community Reinvestment Act (CRA), which requires regulated financial institutions to help meet the credit needs of the local communities in which they are chartered, particularly in neighborhoods with low or moderate incomes. These tax credit investments provide tax benefits to investors primarily through the receipt of federal and/or state income tax credits or tax benefits in the form of tax deductible operating losses or expenses.

The Company invests as a limited partner and its ownership amount in each limited liability entity varies. As a limited partner, the Company is not the primary beneficiary (PB) as it does not meet the power criterion, i.e., no power to direct the activities of the VIE that most significantly impact the VIE s economic performance and has no direct ability to unilaterally remove the general partner. Accordingly, the Company is not required to consolidate these entities on its financial statements. For further discussion on VIEs, see *Note 9 Borrowings*.

These tax credit investments, including the commitment to contribute additional capital over the term of the investment, were recorded at fair value at the acquisition date pursuant to ASC 805 Business Combinations. On a subsequent basis, these investments are accounted for under the equity method. Under the equity method, the Company s investments are adjusted for the Company s share of the investee s net income or loss for the period. Any dividends or distributions received are recorded as a reduction of the recorded investment. The tax credits generated from investments in affordable housing projects and other tax credit investments are recognized on the consolidated financial statements to the extent they are utilized on the Company s income tax returns through the tax provision.

Tax credit investments are evaluated for potential impairment at least annually, or more frequently, when events or conditions indicate that it is deemed probable that the Company will not recover its investment. Potential indicators of impairment might arise when there is evidence that some or all tax credits previously claimed by the limited liability entities would be recaptured, or that expected remaining credits would no longer be available to the limited liability entities. If an investment is determined to be impaired, it is written down to its estimated fair value and the new cost basis of the investment is not adjusted for subsequent recoveries in value.

These investments are included within other assets and any impairment loss would be recognized in other income.

FDIC Receivable

In connection with the OneWest Transaction, the Company has a receivable from the FDIC representing a secured interest in certain homebuilder, home construction and lot loans. The secured interest entitles the Company to 40% of the underlying cash flows. The Company elected to measure the FDIC Receivable at estimated fair value under the fair value option. The fair value is estimated based on cash flows expected to be collected from the Company s participation interest in the underlying collateral. The underlying cash flows include estimated amounts expected to be collected from repayment of loan principal and interest and net proceeds from property liquidations. These cash flows are offset by amounts paid for servicing expenses, management fees, and liquidation expenses. The Company recognizes interest income on the FDIC receivable on an effective yield basis over the expected remaining life. The gains and losses from changes in the estimated fair value of the asset is recorded separately in Other income. For further discussion, see *Note 12 Fair Value*.

Other Real Estate Owned

Other real estate owned (OREO) represents collateral acquired from the foreclosure of secured loans and is being actively marketed for sale. These assets are initially recorded at lower of cost or market value less disposition costs. Estimated market value is generally based upon independent appraisals or broker price opinions, which are then modified based on assumptions and expectations that are determined by management. Any write-down as a result of differences between carrying and market value on the date of transfer from loan classification is charged to the allowance for credit losses.

Subsequently, the assets are recorded at the lower of its carrying value or estimated fair value less disposition costs. If the property or other collateral has lost value subsequent to foreclosure, a valuation allowance (contra asset) is established, and the charge is recorded in Other income. OREO values are reviewed on a quarterly basis and subsequent declines in estimated fair value are recognized in earnings in the current period. Holding costs are expensed as incurred and reflected in operating expenses. Upon disposition of the property, any difference between the proceeds received and the carrying value is booked to gain or loss on disposition.

Property and Equipment

Property and equipment are included in other assets and are carried at cost less accumulated depreciation and amortization. Depreciation is expensed using the straight-line method over the estimated service lives of the assets. Estimated service lives generally range from 3 to 7 years for furniture, fixtures and equipment and 20 to 40 years for buildings. Leasehold improvements are amortized over the term of the respective lease or the estimated useful life of the improvement, whichever is shorter.

Servicing Advances

The Company is required to make servicing advances in the normal course of servicing mortgage loans. These advances include customary, reasonable and necessary out-of-pocket costs incurred in the performance of its servicing obligation. They include advances related to foreclosure activities, funding of principal and interest with respect to mortgage loans held in connection with a securitized transaction and taxes and other assessments which are or may become a lien upon the mortgage property. Servicing advances are generally reimbursed from cash flows collected from the loans.

As the servicer of securitizations of loans or equipment leases, the Company may be required to make servicing advances on behalf of obligors if the Company determines that any scheduled payment was not received prior to the end of the applicable collection period. Such advances may be limited by the Company based on its assessment of recoverability of such amounts in subsequent collection periods. The reimbursement of servicing advances to the Company is generally prioritized over the distribution of any payments to the investors in the securitizations.

A receivable is recognized for the advances that are expected to be reimbursed, while a loss is recognized in operating expenses for advances that are not expected to be reimbursed.

Derivative Financial Instruments

The Company manages economic risk and exposure to interest rate and foreign currency risk through derivative transactions in over-the-counter markets with other financial institutions. The Company also offers derivative products to its customers in order for them to manage their interest rate and currency risks. The Company does not enter into derivative financial instruments for speculative purposes.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) includes measures to broaden the scope of derivative instruments subject to regulation by requiring clearing and exchange trading of certain derivatives, and imposing margin, reporting and registration requirements for certain market participants. Since the Company does not meet the definition of a Swap Dealer or Major Swap

Participant under the Dodd-Frank Act, the reporting and clearing obligations, which became effective April 10, 2013, apply to a limited number of derivative transactions executed with its lending customers in order to manage their interest rate risk.

Derivatives utilized by the Company may include swaps, forward settlement contracts and options contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward settlement contracts are

agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date, and rate or price. An option contract is an agreement that gives the buyer the right, but not the obligation, to buy or sell an underlying asset from or to another party at a predetermined price or rate over a specific period of time.

The Company documents, at inception, all relationships between hedging instruments and hedged items, as well as the risk management objectives and strategies for undertaking various hedges. Upon executing a derivative contract, the Company designates the derivative as either a qualifying hedge or non-qualifying hedge. The designation may change based upon management s reassessment of circumstances.

The Company utilizes cross-currency swaps and foreign currency forward contracts to hedge net investments in foreign operations. These transactions are classified as foreign currency net investment hedges with resulting gains and losses reflected in AOCI. For hedges of foreign currency net investment positions, the forward method is applied whereby effectiveness is assessed and measured based on the amounts and currencies of the individual hedged net investments versus the notional amounts and underlying currencies of the derivative contract. For those hedging relationships where the critical terms of the underlying net investment and the derivative are identical, and the credit-worthiness of the counterparty to the hedging instrument remains sound, there is an expectation of no hedge ineffectiveness so long as those conditions continue to be met.

The Company also enters into foreign currency forward contracts to manage the foreign currency risk associated with its non-U.S. subsidiaries funding activities and designates these as foreign currency cash flow hedges for which certain components are reflected in AOCI and others recognized in noninterest income when the underlying transaction impacts earnings.

The company uses foreign currency forward contracts, interest rate swaps, cross currency interest rate swaps, and options to hedge interest rate and foreign currency risks arising from its asset and liability mix. These are treated as economic hedges.

The Company also provides interest rate derivative contracts to support the business requirements of its customers (customer-related positions). The derivative contracts include interest rate swap agreements and interest rate cap and floor agreements wherein the Company acts as a seller of these derivative contracts to its customers. To mitigate the market risk associated with these customer derivatives, the Company enters into similar offsetting positions with broker-dealers.

All derivative instruments are recorded at their respective fair value. Derivative instruments that qualify for hedge accounting are presented in the balance sheet at their fair values in other assets or other liabilities, with changes in fair value (gains and losses) of cash flow hedges deferred in AOCI, a component of equity. For qualifying derivatives with periodic interest settlements, e.g. interest rate swaps, interest income or interest expense is reported as a separate line item in the income statement. Derivatives that do not qualify for hedge accounting are also presented in the balance sheet in other assets or other liabilities, but with their resulting gains or losses recognized in Other income. For non-qualifying derivatives with periodic interest settlements, the Company reports interest income with other changes in fair value in other income.

Fair value is based on dealer quotes, pricing models, discounted cash flow methodologies, or similar techniques for which the determination of fair value may require significant management judgment or estimation. The fair value of the derivative is reported on a gross-by-counterparty basis. Valuations of derivative assets and liabilities reflect the value of the instrument including the Company s and counterparty s credit risk.

CIT is exposed to credit risk to the extent that the counterparty fails to perform under the terms of a derivative. Losses related to credit risk are reflected in other income. The Company manages this credit risk by requiring that all derivative transactions entered into as hedges be conducted with counterparties rated investment grade at the initial transaction by nationally recognized rating agencies, and by setting limits on the exposure with any individual counterparty. In addition, pursuant to the terms of the Credit Support Annexes between the Company and its counterparties, CIT may be required to post collateral or may be entitled to receive collateral in the form of cash or highly liquid securities depending on the valuation of the derivative instruments as measured on a daily basis.

Fair Value

Fair Value Hierarchy

CIT measures the fair value of its financial assets and liabilities in accordance with ASC 820 *Fair Value Measurements*, which defines fair value, establishes a consistent framework for measuring fair value and requires disclosures about fair value measurements. The Company categorizes its financial instruments, based on the significance of inputs to the valuation techniques, according to the following three-tier fair value hierarchy:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain other securities that are highly liquid and are actively traded in over-the-counter markets;

- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of

the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes derivative contracts and certain loans held-for-sale;

- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using valuation models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes highly structured or long-term derivative contracts and structured finance securities where independent pricing information cannot be obtained for a significant portion of the underlying assets or liabilities.

Valuation Process

The Company has various processes and controls in place to ensure that fair value is reasonably estimated. The Company generally determines the estimated fair value of Level 3 assets and liabilities by using internally developed models and, to a lesser extent, prices obtained from third-party pricing services or broker dealers (collectively, third party vendors).

The Company s internally developed models primarily consist of discounted cash flow techniques, which require the use of relevant observable and unobservable inputs. Unobservable inputs are generally derived from actual historical performance of similar assets or are determined from previous market trades for similar instruments. These unobservable inputs include discount rates, default rates, loss severity and prepayment rates. Internal valuation models are subject to review prescribed by the Company s model validation policy that governs the use and control of valuation models used to estimate fair value. This policy requires review and approval of significant models by the Company s model review group, who are independent of the business units, and perform model validation. Model validation assesses the adequacy and appropriateness of the model, including reviewing its processing components, logic and output results and supporting model documentation. These procedures are designed to provide reasonable assurance that the model is appropriate for its intended use and performs as expected. Periodic re-assessments of models are performed to ensure that they are continuing to perform as designed. The Company updates model inputs and methodologies periodically as a result of the monitoring procedures in place.

Procedures and controls are in place to ensure new and existing models are subject to periodic validations by the Independent Model Validation Group (IMV). Oversight of the IMV is provided by the Model Governance Committee (MGC). All internal valuation models are subject to ongoing review by business unit level management. More complex models, such as those involved in the fair value analysis, are subject to additional oversight, at least quarterly, by the Company s Valuation Reserve Working Group (VRWG), which consists of senior management, which reviews the Company s valuations for complex instruments.

For valuations involving the use of third party vendors for pricing of the Company s assets and liabilities, or those of potential acquisitions, the Company performs due diligence procedures to ensure information obtained and valuation techniques used are appropriate. The Company monitors and reviews the results from these third party vendors to ensure the estimated fair values are reasonable. Although the inputs used by the third party vendors are generally not available for review, the Company has procedures in place to provide reasonable assurance that the relied upon information is complete and accurate. Such procedures may include, as available and applicable, comparison with other pricing vendors, corroboration of pricing by reference to other independent market data and investigation of prices of individual assets and liabilities.

Income Taxes

Deferred tax assets and liabilities are recognized for the expected future taxation of events that have been reflected in the consolidated financial statements. Deferred tax assets and liabilities are determined based on the differences between the book values and the tax basis of particular assets and liabilities, using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to reduce the reported amount of any net deferred tax assets of a reporting entity if, based upon the relevant facts and circumstances, it is more likely than not that some or all of the deferred tax assets will not be realized. Additionally, in certain situations, it may be appropriate to write-off the deferred tax asset against the valuation allowance. This reduces the valuation allowance and the amount of the respective gross deferred tax asset that is disclosed. A write-off might be appropriate if there is only a remote likelihood that the reporting entity will ever utilize its respective deferred tax assets, thereby eliminating the need to disclose the gross amounts.

The Company is subject to the income tax laws of the United States, its states and municipalities and those of the foreign jurisdictions in which the Company operates. These tax laws are complex, and the manner in which they apply to the taxpayer s facts is sometimes open to interpretation. Given these inherent complexities, the Company must make judgments in assessing the likelihood that a beneficial income tax position will be sustained upon examination by

the taxing authorities based on the technical merits of the tax position. An income tax benefit is recognized only when, based on management s judgment regarding the application of income tax laws, it is more likely than not that the tax position will be sustained upon examination. The amount of benefit recognized for financial reporting purposes is based on management s best judgment of the most likely outcome resulting from examination given the facts, circumstances and information available at the reporting date. The Company adjusts the level of unrecognized tax benefits when there is new information available to assess the likelihood of the outcome. Liabilities for uncertain income tax positions are included in current taxes payable, which is reflected in accrued liabilities and payables. Accrued interest and penalties for unrecognized tax positions are recorded in income tax expense.

Variable Interest Entities

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

The Company accounts for its VIEs in accordance with Accounting Standards Update (ASU) No. 2009-16, *Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets* and ASU No. 2009-17, *Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. ASU 2009-17 requires qualified special purpose entities to be evaluated for consolidation and also changed the approach to determining a VIE s primary beneficiary (PB) and required companies to more frequently reassess whether they must consolidate VIEs. The PB is the party that has both (1) the power to direct the activities of an entity that most significantly impact the VIE s economic performance; and (2) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE s economic performance, the Company considers all facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes, first, identifying the activities that most significantly impact the VIE s economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE (such as asset managers, collateral managers, servicers, or owners of call options or liquidation rights over the VIE s assets) or have the right to unilaterally remove those decision-makers are deemed to have the power to direct the activities of a VIE.

To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, the Company considers all of its economic interests, including debt and equity investments, servicing fees, and derivative or other arrangements deemed to be variable interests in the VIE. This assessment requires that the Company apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE s capital structure; and the reasons why the interests are held by the Company.

The Company performs on-going reassessments of: (1) whether any entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain events, and are therefore subject to the VIE consolidation framework; and (2) whether changes in the facts and circumstances regarding the Company s involvement with a VIE cause the Company s consolidation conclusion regarding the VIE to change.

When in the evaluation of its interest in each VIE it is determined that the Company is considered the primary beneficiary, the VIE s assets, liabilities and non-controlling interests are consolidated and included in the Consolidated Financial Statements. See *Note 9 Borrowings* for further details.

Non-interest Income

Non-interest income is recognized in accordance with relevant authoritative pronouncements and includes rental income on operating leases and other income. Other income includes (1) factoring commissions, (2) gains and losses on sales of equipment, (3) fee revenues, including fees on lines of credit, letters of credit, capital markets related fees, agent and advisory fees, service charges on deposit accounts, and servicing fees on loans CIT services for others, (4) gains and losses on loan and portfolio sales, (5) gains and losses on OREO sales, (6) gains and losses on investments, (7) gains and losses on derivatives and foreign currency exchange, (8) impairment on assets held for sale, and (9) other revenues. Other revenues include items that are more episodic in nature, such as gains on work-out related claims, recoveries on acquired loans or loans charged off prior to transfer to AHFS, proceeds received in excess of carrying value on non-accrual accounts held for sale that were repaid or had another workout resolution, insurance proceeds in excess of carrying value on damaged leased equipment, and also includes income from joint ventures.

Non-interest Expenses

Non-interest expense is recognized in accordance with relevant authoritative pronouncements and includes depreciation on operating lease equipment, maintenance and other operating expenses, loss on debt extinguishment and operating expense.

Operating expenses consists of (1) compensation and benefits, (2) technology costs, (3) professional fees, (4) net occupancy expenses, (5) provision for severance and facilities exiting activities, (6) advertising and marketing, (7) amortization of intangible assets, and (8) other expenses.

Consolidated Statements of Cash Flows

Unrestricted cash and cash equivalents includes cash and interest-bearing deposits, which are primarily overnight money market investments and short term investments in mutual funds. The Company maintains cash balances principally at financial institutions located in the U.S. and Canada. The balances are not insured in all cases. Cash and cash equivalents also include amounts at CIT Bank, which are only available for the bank s funding and investment requirements. Cash inflows and outflows from customer deposits are presented on a net basis. Most factoring receivables are presented on a net basis in the Statements of Cash Flows, as factoring receivables are generally less than 90 days.

Cash receipts and cash payments resulting from purchases and sales of loans, securities, and other financing and leasing assets are classified as operating cash flows in accordance with ASC 230-10-45-21 when these assets are originated/acquired and designated specifically for resale.

Activity for loans originated or acquired for investment purposes, including those subsequently transferred to AHFS, is classified in the investing section of the statement of cash flows in accordance with ASC 230-10-45-12 and 230-10-45-13. The vast majority of the Company s loan originations are for investment purposes. Cash receipts resulting from sales of loans, beneficial interests and other financing and leasing assets that were not specifically originated and/or acquired and designated for resale are classified as investing cash inflows regardless of subsequent classification.

Activity of discontinued operations is included in various line items of the Statements of Cash Flows and summary items are disclosed in *Note 2 Acquisition and Disposition Activities*.

In preparing the interim financial statements for the quarter ended September 30, 2015, the Company discovered and corrected an immaterial error impacting the classification of certain immaterial balances between line items and categories presented in the Consolidated Statements of Cash Flows. The amounts presented comparatively for the nine months ended 2014 have been revised for these misclassifications.

For the nine months ended September 30, 2014 the errors outlined above resulted in an overstatement of net cash flows provided by operations of $92.8 million, an overstatement of net cash flows used in investing activities of $10.0 million and an understatement of net cash flows provided by financing activities of $82.8 million. The errors had no impact on the Company s reported Increase (decrease) in unrestricted cash and cash equivalents or Unrestricted cash and cash equivalents for any period.

NEW ACCOUNTING PRONOUNCEMENTS

Customer s Accounting for Fees Paid in a Cloud Computing Arrangement

The FASB issued an amendment to U.S. GAAP on April 15, 2015, to explain how businesses and other organizations should account for the fees for purchasing cloud computing services. The changes in Accounting Standards Update (ASU) No. 2015-05, *Intangibles: Goodwill and Other: Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement*, add to the guidance for intangible assets to help businesses and other organizations determine whether a cloud computing agreement includes a software license or should be considered as a service agreement.

The amendments to FASB ASC 350-40, *Intangibles: Goodwill and Other: Internal-Use Software: Scope and Scope Exceptions,* formerly AICPA Statement of Position (SOP) No. 98-1, state that the portion of a cloud computing agreement that includes a software license should be accounted for in a manner that is consistent with other software licenses. An arrangement that does not include a software license should be accounted for as a service contract.

Public companies have to apply the amendment for fiscal years that start after December 15, 2015. Companies will have to apply the changes in their first-quarter reports for 2016. CIT is currently evaluating the impact of adopting this amendment.

Debt Issuance Costs

On April 7, 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount.

Debt issuance costs are specific incremental costs, other than those paid to the lender, that are directly attributable to issuing a debt instrument (i.e., third party costs). Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as a deferred charge (i.e., an asset).

CIT GROUP INC. AND SUBSIDIARIES   NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For public business entities, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The new guidance will be applied on a retrospective basis. The adoption of this guidance is not expected to have a significant impact on CIT s financial statements or disclosures.

Amendments to the Consolidation Analysis

The FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*, in February 2015 to improve targeted areas of the consolidation standard and reduce the number of consolidation models. The new guidance changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity (VIE), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities.

The Board changed the way the voting rights characteristic in the VIE scope determination is evaluated for corporations, which may significantly impact entities for which decision making rights are conveyed though a contractual arrangement.

Under ASU 2015-02:

- More limited partnerships and similar entities will be evaluated for consolidation under the revised consolidation requirements that apply to VIEs.
- Fees paid to a decision maker or service provider are less likely to be considered a variable interest in a VIE.
- Variable interests in a VIE held by related parties of a reporting enterprise are less likely to require the reporting enterprise to consolidate the VIE.
- There is a new approach for determining whether equity at-risk holders of entities that are not similar to limited partnerships have power to direct the entity s key activities when the entity has an outsourced manager whose fee is a variable interest.
- The deferral of consolidation requirements for certain investment companies and similar entities of the VIE in ASU 2009-17 is eliminated.

The anticipated impacts of the new update include:

- A new consolidation analysis is required for VIEs, including many limited partnerships and similar entities that previously were not considered VIEs.
- It is less likely that the general partner or managing member of limited partnerships and similar entities will be required to consolidate the entity when the other investors in the entity lack both participating rights and kick-out rights.
- Limited partnerships and similar entities that are not VIEs will not be consolidated by the general partner.
- It is less likely that decision makers or service providers involved with a VIE will be required to consolidate the VIE.
- Entities for which decision making rights are conveyed through a contractual arrangement are less likely to be considered VIEs.
- Reporting enterprises with interests in certain investment companies and similar entities that are considered VIEs will no longer evaluate those entities for consolidation based on majority exposure to variability.

The guidance is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2015 (i.e. January 1, 2016). A reporting enterprise is permitted to apply either a modified retrospective approach or full retrospective application. CIT is currently evaluating the impact of adopting this ASU.

Extraordinary and Unusual Items

The FASB issued ASU 2015-01, *Extraordinary and Unusual Items*, in January 2015 as part of FASB s simplification initiative, which eliminates the concept of extraordinary item and the need for entities to evaluate whether transactions or events are both unusual in nature and infrequently occurring.

The ASU precludes (1) segregating an extraordinary item from the results of ordinary operations; (2) presenting separately an extraordinary item on the income statement, net of tax, after income from continuing operations; and (3) disclosing income taxes and earnings-per-share data applicable to an extraordinary item. However, the ASU does not affect the reporting and disclosure requirements for an event or transaction that is unusual in nature or that occurs infrequently. So, although the Company will no longer need to determine whether a transaction or event is both unusual in nature and infrequently occurring, CIT will still need to assess whether items are unusual in nature or infrequent to determine if the additional presentation and disclosure requirements for these items apply.

For all entities, ASU 2015-01 is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. Adoption of this guidance is not expected to have a significant impact on CIT s financial statements or disclosures.

Table of Contents

Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern

The FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern*, in August 2014. This ASU describes how entities should assess their ability to meet their obligations and sets disclosure requirements about how this information should be communicated. The standard will be used along with existing auditing standards, and provides the following key guidance:

1. Entities must perform a going concern assessment by evaluating their ability to meet their obligations for a look-forward period of one year from the financial statement issuance date (or date the financial statements are available to be issued).

2. Disclosures are required if it is probable an entity will be unable to meet its obligations within the look-forward period. Incremental substantial doubt disclosure is required if the probability is not mitigated by management s plans.

3. Pursuant to the ASU, substantial doubt about an entity s ability to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations as they become due within one year after the date the annual or interim financial statements are issued or available to be issued (assessment date).

The new standard applies to all entities for the first annual period ending after December 15, 2016. Company management is responsible for assessing going concern uncertainties at each annual and interim reporting period thereafter. The adoption of this guidance is not expected to have a significant impact on CIT s financial statements or disclosures.

Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure

The FASB issued *ASU 2014-14: Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)* in August 2014.

The ASU was issued to clarify the classification and measurement of a foreclosed mortgage loan guaranteed by the government. ASU 2014-14 applies to all creditors that hold government-guaranteed mortgage loans, including those guaranteed by the U.S. Federal Housing Administration (FHA), the U.S. Department of Housing and Urban Development (HUD), and the U.S. Department of Veterans Affairs (VA).

Specifically, creditors should reclassify loans that are within the scope of the ASU to other receivables upon foreclosure, rather than reclassifying them to OREO.

Importantly, a reporting entity must elect the same method of adoption as elected under Accounting Standards Update No. 2014-04, Receivables Troubled Debt Restructurings by Creditors, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.

The amendments in this Update were effective for CIT upon its acquisition of OneWest Bank in August 2015 and CIT will apply them via the prospective transition, i.e. to foreclosures that occur after the acquisition date.

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

The FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*, in June 2014.

The ASU directs that a performance target that affects vesting and can be achieved after the requisite service period is a performance condition. That is, compensation cost would be recognized over the required service period if it is probable that the performance condition would be achieved. The total amount of compensation cost recognized during and after the requisite service period would reflect the number of awards that are expected to vest and would be adjusted to reflect those awards that ultimately vest.

The ASU does not require additional disclosures. Entities may apply the amendments in this update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this ASU as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost.

The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within those years. CIT is currently evaluating the impact of adopting this ASU and is reviewing existing awards for applicability.

Revenue Recognition

The FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers,* in June 2014, which will supersede virtually all of the revenue recognition guidance in GAAP, except as it relates to lease accounting.

The core principle of the five-step model is that a company will recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. In doing so, many companies will have to make more estimates and use more judgment than they do under current GAAP. The five-step analysis of

transactions, to determine when and how revenue is recognized, includes:

1. Identify the contract with the customer.

2. Identify the performance obligations in the contract.

3. Determine the transaction price.

4. Allocate the transaction price to the performance obligations.

5. Recognize revenue when or as each performance obligation is satisfied.

Companies can choose to apply the standard using either the full retrospective approach or a modified retrospective approach. Under the modified approach, financial statements will be prepared for the year of adoption using the new standard, but prior periods will not be adjusted. Instead, companies will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the company and disclose all line items in the year of adoption as if they were prepared under today s revenue guidance.

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date one year for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period, which means CIT would apply the standard in their SEC filings for the first quarter of 2018. Public companies that choose full retrospective application will need to apply the standard to amounts they report for 2016 and 2017 on the face of their full year 2018 financial statements. CIT is currently reviewing the impact of adoption and has not determined the effect of the standard on its ongoing financial reporting.

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

The FASB issued ASU 2014-04 *Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)* in January 2014.

This update clarifies when banks should derecognize a defaulted consumer mortgage loan and recognize other real estate owned. It is intended to reduce diversity in practice that has arisen due to the increased number of foreclosures and extended nature of foreclosure proceedings.

The scope of the guidance is limited to consumer loans collateralized by residential real estate and clarifies when an in substance repossession or foreclosure occurs and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan in either of the following situations:

1. The creditor obtains legal title to the residential real estate property.

2. Completion of a deed in lieu of foreclosure or similar legal agreement under which the borrower conveys all interest in the residential real estate property to the creditor to satisfy that loan.

In addition to existing disclosure that includes the amount of investments in impaired loans, the nature and extent of Troubled Debt Restructuring (TDRs) during the period and the effect on the allowance for credit losses and assets held for sale, entities will be required to disclose at each balance sheet date (1) the amount of outstanding foreclosed residential real estate and (2) the amount of recorded investment in residential real estate mortgage loans in the process of foreclosure per local jurisdiction requirements.

The amendments in this Update were effective for CIT upon its acquisition of OneWest Bank in August 2015 using the prospective transition method, which apply to all instances of receiving physical possession of residential real estate property collateralized by consumer mortgage loans that occur after the acquisition date.

Accounting for Investments in Qualified Affordable Housing Projects

The FASB issued ASU 2014-01 *Investments Equity Method and Joint Ventures (Topic 323), Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)* in January 2014.

The ASU revised the accounting for investments in qualified affordable housing projects:

n Modifies the conditions that must be met to present the pretax effects and related tax benefits of such investments as a component of income taxes (net within income tax expense).

n For investments that qualify for net presentation of investment performance, the ASU introduces a proportional amortization method that can be elected, in lieu of the effective yield method, to amortize the investment basis. Under the proportional amortization method an investor amortizes the cost of its investment, in proportion to the tax credits and other tax benefits it receives, to income tax expense.

- Requires new disclosure for all investors in these projects.

Under the proportional amortization method, an investment must be tested for impairment when events or changes in circumstances indicate that it is more likely than not that the carrying amount of the investment will not be realized.

An impairment loss is measured as the amount by which the carrying amount of the investment exceeds its fair value. Previously recognized impairment losses cannot be reversed.

The ASU introduces disclosure requirements for all investments in qualified affordable housing projects, regardless of the accounting method used for those investments. An investor must disclose information that enables users of its financial statements to understand:

1. The nature of its investments in affordable housing projects, and
2. The effect of the measurement of those investments and the related tax credits on its financial statements.

The amendments in this Update were effective for CIT upon its acquisition of OneWest Bank in August 2015. The amendment was previously not applicable to CIT, therefore there is no retrospective impact to CIT s financial statements.

NOTE 2 ACQUISITION AND DISPOSITION ACTIVITIES

ACQUISITIONS

During 2015 and 2014, the Company completed the following significant business acquisitions.

OneWest Transaction

Effective as of August 3, 2015, CIT acquired IMB, the parent company of OneWest Bank. CIT Bank, a Utah-state chartered bank and a wholly owned subsidiary of CIT, merged with and into OneWest Bank, with OneWest Bank surviving as a wholly owned subsidiary of CIT with the name CIT Bank, National Association. CIT paid approximately $3.4 billion as consideration, comprised of approximately $1.9 billion in cash proceeds, approximately 30.9 million shares of CIT Group Inc. common stock (valued at approximately $1.5 billion at the time of closing), and approximately 168,000 restricted stock units of CIT (valued at approximately $8 million at the time of closing). Total consideration also included $116 million of cash retained by CIT as a holdback for certain potential liabilities relating to IMB and $2 million of cash for expenses of the holders representative. The acquisition was accounted for as a business combination, subject to the provisions of ASC 805-10-50, Business Combinations.

The acquisition added approximately $21.8 billion of assets and $18.4 billion of liabilities to CIT s Consolidated Balance Sheet and 70 branches in Southern California. Primary reasons for the acquisition included advancing CIT s bank deposit strategy, expanding the Company s products and services offered to small and middle market customers, and improving CIT s competitive position in the financial services industry.

The assets acquired, liabilities assumed and consideration exchanged were recorded at their estimated fair value on the acquisition date. No allowance for loan losses was carried over and no allowance was created at acquisition.

Consideration and Net Assets Acquired (dollars in millions)

Purchase price	$ 3,391.6
Recognized amounts of identifiable assets acquired and (liabilities assumed), at fair value	
Cash and interest bearing deposits	$ 4,411.6
Investment securities	1,297.3
Assets held for sale	20.4
Loans HFI	13,598.3
Indemnification assets	480.7
Other assets	676.6
Assets of discontinued operation	524.4
Deposits	(14,533.3)
Borrowings	(2,970.3)
Other liabilities	(221.1)
Liabilities of discontinued operation	(676.9)
Total fair value of identifiable net assets	$ 2,607.7
Intangible assets	$ 185.9
Goodwill	$ 598.0

The determination of estimated fair values required management to make certain estimates about discount rates, future expected cash flows (that may reflect collateral values), market conditions and other future events that are highly subjective in nature and may require adjustments, which can be updated throughout the year following the acquisition. As of September 30, 2015, CIT continued to review information relating to events or circumstances existing at the acquisition date. Management anticipates that this review could result in adjustments to the acquisition date valuation amounts presented herein but does not anticipate that these adjustments would be material.

Cash and Interest Bearing Deposits

Acquired cash and cash equivalents of $4.4 billion include cash on deposit with the FRB and other banks, vault cash, deposits in transit, and highly liquid investments with original maturities of three months or less. Given the short-term nature and insignificant risk of changes in value because of changes in interest rates, the carrying amount of the acquired cash and interest bearing deposits was determined to equal fair value.

Investment Securities

In connection with the OneWest acquisition, the Company acquired a portfolio of mortgage-backed securities (MBS) valued at approximately $1.3 billion as of the acquisition date. This MBS portfolio contains various senior and subordinated non agency MBS, interest-only, and agency securities. Approximately $982 million of these MBS securities were classified as PCI due to evidence of credit deterioration since issuance and for which it is probable that the Company will not collect all contractually required principal and interest payments at the time of purchase. These securities are classified as available-for-sale.

The acquisition date fair value of the securities was based on market quotes, where available, or on discounted cash flow techniques using assumptions for prepayment rates, market yield requirements and credit losses where market quotes were not available. Future prepayment rates were estimated based on current and expected future interest rate levels, collateral seasoning and market forecasts, as well as relevant characteristics of the collateral underlying the securities, such as loan types, prepayment penalties, interest rates and recent prepayment experience.

Loan Portfolio

The acquired loan portfolio, with an aggregate Unpaid Principal Balance (UPB) of $15.8 billion and a fair value (FV) of $13.6 billion at the acquisition date, is comprised of various types of loan products, including SFR loans, non-SFR loans, jumbo mortgages, commercial real estate loans, Small Business Administration (SBA) loans, repurchased GNMA loans, reverse mortgages and commercial and industrial loans.

n *Single Family Residential* At the acquisition date, OneWest owned a legacy portfolio of SFR loans that had been acquired by OneWest through various portfolio purchases. The UPB and FV at the acquisition date were $6.2 billion and $4.8 billion, respectively.

n *Non-SFR* The Non-SFR loan portfolio consists mainly of commercial real estate loans secured by various property types, including multifamily, retail, office and other. The UPB and FV at the acquisition date were $1.4 billion and $1.2 billion, respectively.

n *Jumbo Mortgages* At the acquisition date, OneWest owned a portfolio of recently originated Jumbo Mortgages. The Jumbo Mortgages consist of three different product types: fixed rate, adjustable rate mortgage (ARM) and home equity lines of credit (HELOC). The UPB and FV at the acquisition date were both $1.4 billion.

n *Commercial Real Estate* At the acquisition date, OneWest owned a portfolio of recently originated commercial real estate (CRE) loans. The CRE loan portfolio consists of loans secured by various property types, including hotel, multifamily, retail, and other. The UPB and FV at the acquisition date were both $2.0 billion.

n *SBA* At the acquisition date, OneWest owned a portfolio of recently originated SBA loans. The SBA loan portfolio primarily consists of loans provided to small business borrowers and guaranteed by the SBA. The UPB and FV at the acquisition date were both $278 million.

n *Repurchased GNMA Loans* At the acquisition date, OneWest held a portfolio of loans repurchased from GNMA securitizations under its servicer repurchase program. GNMA allows servicers to repurchase loans from securitization pools after the borrowers have been delinquent for three payments. After repurchase, servicers can work to rehabilitate the loan, and subsequently resell the loan into another GNMA pool. The UPB and FV at the acquisition date were both $78 million.

The eight major loan products, including Reverse Mortgages and Commercial & Industrial Loans discussed below, were further stratified into approximately ninety cohorts based on common risk characteristics. Specific valuation assumptions were then applied to these stratifications in the determination of fair value. The stratification of the SFR portfolio cohorts was largely based on product type, while the cohorts for the other products were based on a combination of product type, the Company s probability of default risk ratings and selected industry groupings.

For the SFR portfolio, a waterfall analysis was performed to determine if a loan was PCI. This waterfall analysis was comprised of a series of tests which considered the status of the loan (delinquency, foreclosure, etc.), the payment history of the borrowers over the prior two years, collateral coverage of the loan based on the loan-to-value ratio (LTV), and changes in borrower FICO scores. Loans that passed each of the tests were considered non-PCI and all others were deemed to have some impairment and, thus, classified as PCI. The PCI determination for the other asset classes was largely based on the Company s probability of default risk ratings.

The above acquired loan portfolios were valued using the direct method of the income approach. The income approach derives an estimate of value based on the present value of the projected future cash flows of each loan using a discount rate which incorporates the relevant risks associated with the asset and time value of money. To perform the valuation, all credit and market aspects of these loans were evaluated, and the appropriate performance assumptions were determined for each portfolio. In general, the key cash flow assumptions relating to the above acquired loan portfolios were: prepayment rate, default rate, severity rate, modification rate, and the recovery lag period, as applicable.

n *Reverse Mortgages* OneWest Bank held a portfolio of jumbo reverse mortgage loans. The reverse mortgage loan portfolio consists of loans made to elderly borrowers in which the bank makes periodic advances to the homeowner, and, in return, at some future point the bank could take custody of the home upon occurrence of a termination event. A termination event includes such events as the death of the homeowner, the relocation of the homeowner, or a refinancing of the mortgage. The UPB and FV at the acquisition date were $1.1 billion and $811 million, respectively.

The reverse mortgage portfolio was valued using the direct method of the income approach. To perform the valuation for the reverse mortgage portfolio we considered all credit aspects of the mortgage portfolio (e.g., severity), selected appropriate performance assumptions related to advances, interest rates, prepayments (e.g. mortality), home price appreciation, actuarial and severity, projected cash flows utilizing the selected assumptions, and ultimately performed a discounted cash flow

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

analysis on the resulting projections. The key terminal cash flow projections were based on two assumptions: (1) the prepayment rate, and (2) the severity. Reverse mortgage borrowers prepay, or terminate, their loans upon a termination event such as the death or relocation of the homeowner. Such mortality and mobility events, respectively, constitute the prepayment rate for reverse mortgages.

- *Commercial and Industrial Loans* OneWest had recently originated a portfolio of commercial and industrial (C&I) loans. The C&I loan portfolio consists of term loans and lines of credit provided to businesses across different industries. The UPB and FV at the acquisition date were $3.3 billion and $3.1 billion, respectively.

The non-PCI portion of the C&I portfolio was valued using the indirect method of the income approach. The indirect method was selected as it is the most common method used in the valuation of commercial loans, which are valued based on an all-in discount rate. To perform the valuation, we considered all credit risks of the non-PCI portion of the C&I portfolio within the discount rate, selecting an all-in discount rate which fully captures the risk associated with the loan rating.

The PCI portion of the C&I portfolio was valued by applying valuation marks based on CIT s PD and LGD framework and supporting those prices by using the direct method of the income approach. To perform the valuation a recovery analysis was applied based on the probability of default and loss given default assigned to each loan. The direct method was used for the PCI loans in order to capture either the existing defaulted, or near defaulted, nature of the loans.

The table below summarizes the key valuation input assumptions by major product type:

	Discount Rate		Severity Rate		Prepayment Rate		Default Rate	
Product Type	**Range**	**Weighted Avg.**	**Range**	**Weighted Avg.**	**Range**	**Weighted Avg.**	**Range**	**Weighted Avg.**
SFR	4.6% 12.1%	6.9%	[1]	[1]	[1]	[1]	[1]	[1]
Non-SFR	5.1% 10.0%	6.0%	36.6% 60.9%	45.8%	1.0% 6.0%	3.4%	0.2% 82.4%	11.0%
Jumbo Mortgages	3.3% 4.2%	3.4%	0.0% 10.0%	2.7%	10.0% 18.0%	13.9%	0.0% 0.2%	0.0%
Commercial Real Estate	4.2% 5.0%	4.5%	15.0% 35.0%	19.3%	1.5% 6.0%	4.6%	0.6% 14.7%	1.4%
SBA	5.1% 7.3%	5.1%	25.0%	25.0%	2.0% 5.0%	4.9%	3.0% 24.9%	8.4%
Repurchased GNMA	T + 0.9%	2.1%	0.0% 13.5%	6.4%	0.0% 7.3%	3.4%	0.0% 8.8%	4.2%
Reverse Mortgages	10.5%	10.5%	[2]	[2]	[3]	[3]	NA[4]	NA
C&I Loans	5.3% 8.4%	6.0%	NA	NA	NA	NA	NA	NA

(1) *SFR Severity, Prepayment and Default Rates were based on portfolio historic delinquency migration and loss experience.*

(2) *Reverse mortgage severity rates were based on HPI and LTV.*

(3) *Reverse mortgage prepayment rates were based on mobility and mortality curves.*

(4) *NA means not applicable.*

Indemnification Assets

As part of the OneWest Transaction, CIT is party to loss share agreements with the FDIC, which provide for the indemnification of certain losses within the terms of these agreements. These loss share agreements are related to OneWest Bank s previous acquisitions of IndyMac, First Federal and La Jolla. The loss sharing agreements generally require CIT Bank, N.A. to obtain FDIC approval prior to transferring or selling loans and related indemnification assets. Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., loan modification, charge-off of loan balance or liquidation of collateral).

The loss share agreements cover the SFR loans acquired from IndyMac, First Federal, and La Jolla. In addition, the IndyMac loss share agreement covers the reverse mortgage loans. The IndyMac agreement was signed on March 19, 2009 and the SFR indemnification expires on the tenth anniversary of the agreement. The First Federal loss share agreement was signed on December 18, 2009 and expires on the tenth anniversary of the agreement. The La Jolla loss share agreement was signed on February 19, 2010 and expires on the tenth anniversary of the agreement. These agreements are accounted for as indemnification assets which were recognized as of the acquisition date at their assessed fair value of $480.7 million. The First Federal and La Jolla loss share agreements also include certain true-up provisions for amounts due to the FDIC if actual and estimated cumulative losses of the acquired covered assets are projected to be lower than the cumulative losses originally estimated at the time of OneWest Bank s acquisition of the covered loans. Upon acquisition, CIT established a separate liability for these amounts due to the FDIC associated with the LJB loss share agreement at the assessed fair value of $56.3 million.

The indemnification assets were valued using the direct method of the income approach. The income approach derives an estimate of value based on the present value of the projected future cash flows allocated to each of the loss share agreements using a discount rate which incorporates the relevant risks associated with the asset and time value of money. To perform the valuation, we made use of the

Table of Contents

projected losses for each of the relevant loan portfolios, as discussed in each loan portfolio section above, as well as the contractual terms of the loss share agreements. As the indemnification assets relate to cash flows to be received from the FDIC, a government agency, we considered a discount rate reflective of the risk of the FDIC. Conversely, as true-up payments to be made in the future are liabilities, we selected a discount rate reflective of CIT s borrowing rates for a similar term.

Goodwill and Intangible Assets

The goodwill recorded is attributable to advancing CIT s bank deposit strategy, by expanding the Company s products and services offered to small and middle market customers, improving CIT s competitive position in the financial services industry and related synergies that are expected to result from the acquisition. The amount of goodwill recorded ($598 million) represents the excess of the purchase price over the estimated fair value of the net assets acquired by CIT, including intangible assets. See *Note 23 Goodwill and Intangible Assets* for a description of goodwill recognized, along with the reporting units within the NAB and LCM segments that recorded goodwill. Goodwill related to this transaction is not deductible for income tax purposes. The intangible assets recorded related primarily to the valuation of existing core deposits, customer relationships and trade names recorded in conjunction with the OneWest Transaction.

Intangible assets acquired, as of August 3, 2015 consisted of the following:

Intangible Assets (dollars in millions)

Intangible Assets	Fair Value	Estimated Useful Life	Amortization Method

Core deposit intangibles	$ 126.3	7 years	Straight line
Trade names	36.4	10 years	Straight line
Customer relationships	20.3	10 years	Accelerated
Other	2.9	3 years	Straight line
Total	$ 185.9		

- *Core Deposit Intangibles* Certain core deposits were acquired as part of the transaction, which provide an additional source of funds for CIT. The core deposit intangibles represent the costs saved by CIT by acquiring the core deposits and not needing to source the funds elsewhere. This intangible was valued using the income approach: cost savings method.

- *OneWest Trade Name* OneWest s brand is recognized in the Financial Services industry, as such, OneWest s brand name reputation and positive brand recognition embodied in its trade name was valued using the income approach: relief from royalty method.

- *Customer Relationships* Certain commercial borrower customer relationships were acquired as part of the transaction. The acquired customer relationships were valued using the income approach: multi-period excess earnings method.

- *Other* Relates to certain non-competition agreements which limit specific employees from competing in related businesses of CIT. This intangible was valued using the income approach: with-and-without method.

See *Note 23 Goodwill and Intangible Assets*, for further discussion of the accounting for goodwill and other intangible assets.

Other Assets

Acquired other assets of $0.7 billion include items such as investment tax credits, OREO, deferred federal and state tax assets, property, plant and equipment (PP&E), an FDIC receivable, as well as accrued interest and other receivables.

- *Investment tax credits* As of the acquisition date, OneWest s most significant tax credit investments were in several funds specializing in the financing and development of low-income housing (LIHTC). Our fair value analysis of the LIHTC investments took into account the ongoing equity installments regularly allocated to the underlying tax credit funds, along with changes to projected tax benefits and the impact this has on future capital contributions. CIT s assessment of the investment tax credits primarily consisted of applying discount rates ranging from 4% 6% to projected cash flows. As a result of this analysis, CIT determined that the fair value of the tax credit assets was approximately $114 million (the fair value of associated future funding commitments is separately recorded as a liability at its fair value of $19.3 million). At acquisition, OneWest also held smaller investments in funds promoting film production and renewable energy; these were recorded at their acquisition fair value of approximately $21 million based on CIT s consideration of market based indications of value.

- *OREO* A portfolio of real estate assets acquired over time as part of the foreclosure process associated with mortgages on real estate. OREO assets primarily include single family residences, and also include land, multi-family, medical office, and condominium units. OREO assets are actively marketed for sale and carried by

Table of Contents

OneWest at the lower of its carrying amount or estimated fair value less disposition costs. Estimated fair value is generally based upon broker price opinions and independent appraisals, modified based on assumptions and expectations determined by management. CIT reviewed the OREO carried in Other assets and concluded that the net book value of $132.4 million at the acquisition date was a reasonable approximation of fair value.

n

Property Plant and Equipment The operations of the Company are supported by various property, plant and equipment (PP&E) assets. The PP&E assets broadly include real and personal property used in the normal course of the company s daily operations. CIT considered the income, market, and cost approaches in estimating the fair value of the PP&E. The owned real estate assets were valued under the income approach to derive property level fair value estimates. The underlying assets, including the land, buildings, site improvements, and leases-in-place were discretely valued using the cost and market approaches. Furniture and fixtures were reviewed and it was found that the depreciated book value was a reasonable proxy for fair value. Based on our analysis, the fair value of the PP&E was estimated at $61.4 million. The valuation resulted in a premium of approximately $23.6 million.

- *FDIC Receivable* CIT acquired a receivable with the FDIC representing a secured interest in certain homebuilder, home construction and lot loans. The secured interest entitles the Company to 40% of the underlying cash flows. The Company recorded this receivable at its estimated acquisition date fair value of $54.8 million. The fair value was estimated based on cash flows expected to be collected from the Company s participation interest in the underlying collateral. The underlying cash flows include estimated amounts expected to be collected from repayment of loan principal and interest and net proceeds from property liquidations. These cash flows are offset by amounts paid for servicing expenses, management fees, and liquidation expenses.

Deposits

Deposits of $14.5 billion included $8,327.6 million with no stated maturities and Certificates of Deposit (CDs) that totaled $6,205.7 million. For deposits with no stated maturities (primarily checking and savings deposits), fair value was assumed to equal the carrying value, therefore no PAA was recorded. The CDs had maturities ranging from 3 months to 5 years and were valued using the indirect method of the income approach, which was based on discounting the cash flows associated with the CDs. Value under the indirect method was a function of the projected contractual cash flows of the fixed term deposits and a credit adjusted discount rate, as observed from similar risk instruments, based on the platform in which the deposit was originated. In order to best capture the features and risks, CDs were grouped along two dimensions, maturity groups, based on the remaining term of the fixed deposits (e.g., 0 to 1 year, 1 to 2 years, etc.) and origination channel (e.g., Branch or Online).

Contractual cash flows of each CD group were projected, related to interest accrual and principal and interest repayment, for the CDs over the remaining term of each deposit pool. Upon the maturity of each group, the accumulated interest and principal are repaid to the depositor. Each underlying fixed term CD had a contractual interest rate, and the weighted average interest rate for each group was calculated. The weighted average interest rate of each group was used to forecast the accumulated interest to be repaid at maturity. The applicable discount rate for each group of CDs reflected the maturity and origination channel of that group. The selected discount rate for all channels other than Branch was based on the observed difference in OneWest Bank origination rates between channels, added to the selected Branch channel rate of the same maturity. The discount rates ranged from 0.25 percent to 1.38 percent. The valuation resulted in a PAA premium of $29.0 million.

Borrowings

Borrowings of $3.0 billion consisted of FHLB advances that included fixed rate credit (FRC), adjustable rate credit (ARC), and overnight (Fed Funds Overnight) borrowing. The FHLB advances were valued using the indirect method of the income approach, which is based on discounting the cash flows associated with the borrowing. Value under the indirect method is a function of the projected contractual cash flows of the FHLB borrowing and a discount rate matching the type of FHLB borrowing, as observed from recent FHLB Advance rates. The applicable discount rate for each borrowing type was observed based on rates published by the FHLB.

Each FHLB borrowing has a contractual interest rate, interest payment terms, and a stated maturity date; therefore, cash flows of each FHLB borrowing was projected to match its contractual terms of repayment, both principal and interest, and then discounted to the valuation date. For Fed Funds Overnight borrowing, as these borrowings are settled overnight, the Fair Value is assumed to be equal to the outstanding balance, as the interest rate resets to the market rate overnight. The applicable discount rate for each borrowing ranged from 0.15 percent to 0.89 percent. The valuation resulted in a PAA premium of $6.8 million.

Other Liabilities include various amounts accrued for compensation related costs, a separate reserve for credit losses on off-balance sheet commitments, liabilities associated with economic hedges, and commitments to invest in the LIHTC noted above.

Mortgage Servicing Rights

CIT acquired certain reverse mortgage servicing rights (MSRs) accounted for as a servicing liability with an acquisition date fair value of approximately $10 million, which are included in discontinued operations. MSRs are accounted for as separate assets or liabilities only when servicing is contractually separated from the underlying mortgage loans 1) by sale or securitization of the loans with servicing retained or 2) by separate purchase or assumption of the servicing. Under the servicing agreements, the Company performs certain accounting and reporting functions for the benefit of the related mortgage investors. For performing such services, the Company receives a servicing fee.

MSRs represent a contract for the right to receive future revenue associated with the servicing of financial assets and thus are considered a non-financial asset. The acquisition date estimated fair value was based on observable market data and to the extent such information is not available, CIT determined the estimated fair value of the MSRs using discounted cash flow techniques using a third-party valuation model. Estimates of fair value involve several assumptions, including market expectations of future prepayment rates, interest rates, discount rates, servicing costs and default rates, all of which are subject to change over time. Assumptions are evaluated for reasonableness in comparison to actual performance, available market and third party data.

CIT will evaluate the acquired MSRs for potential impairment using stratification based on one or more predominant risk characteristics of the underlying financial assets such as loan vintage. The MSRs are amortized in proportion to and over the period of estimated net servicing income and the amortization is recorded as an offset to Loan servicing fee, net. The amortization of MSRs is analyzed at least quarterly and adjusted to reflect changes in prepayment speeds, delinquency rates, as well as other factors.

CIT will recognize OTTI when it is probable that all or part of the valuation allowance for impairment (recognized under LOCOM) will not be recovered within the foreseeable future. For this purpose, the foreseeable future shall not exceed a period of two years. The Company will assess a servicing asset or liability for OTTI when conditions exist or events occur indicating that OTTI may exist (e.g., a severe or extended decline in estimated fair value).

Unaudited Pro Forma Information

The estimated amount of OneWest Bank net finance revenue and pre-tax income from continuing operations for the period from August 3, 2015 to September 30, 2015 of $134 million and $49 million, respectively, was included in CIT s consolidated income statement for the quarter and nine months ended September 30, 2015. Upon closing the transaction and integrating OneWest Bank, effective August 3, 2015, separate records for OneWest Bank as a stand-alone business have not been maintained as the operations have been integrated into CIT. OneWest Bank net finance revenue and earnings disclosed above reflect management s best estimate, based on information available at the reporting date.

The following table presents certain unaudited pro forma information for illustrative purposes only, for the nine months ended September 30, 2015 and 2014 as if OneWest Bank had been acquired on January 1, 2014. The unaudited estimated pro forma information combines the historical results of OneWest Bank with the Company s consolidated historical results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition taken place on January 1, 2014.

Further, the unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value by OneWest Bank prior to the acquisition, which in turn did not require an allowance for loan losses. The pro forma financial information does not include the impact of possible business changes or synergies. The preparation of the pro forma financial information includes adjustments to conform accounting policies between OneWest Bank and CIT, specifically related to (1) adjustments to remove the fair value adjustments previously recorded by OneWest Bank on $4.4 billion of loan balances and record income on a level yield basis, reflecting the adoption of ASC 310-20 and ASC 310-30 for loans, depending on whether the loans were determined to be purchased credit impaired; and (2) adjustments to remove the fair value adjustments previously recorded by OneWest Bank on $500 million of borrowings and record interest expense in accordance with ASC 835-30. The pro forma financial information in the table below reflects the total impact ($1,022 million) of income tax benefits recognized by the Company in 2014 and 2015 ($375 million and $647 million for the nine months ended September 30, 2014 and 2015, respectively) in the 2014 period, assuming for the purpose of preparing the pro forma information that the acquisition of OneWest Bank had occurred on January 1, 2014. These tax benefits, which related to the reduction in the Company’s deferred tax asset valuation allowance, do not have a continuing impact. Similarly, in connection with the OneWest Transaction, CIT incurred acquisition and integration costs recognized by the Company during the nine months ended September 30, 2014 and 2015 of approximately $5 million and $41 million, respectively. For the purpose of preparing the pro forma information, these acquisition and integration costs have been reflected as if the acquisition had occurred on January 1, 2014. Additionally, CIT expects to achieve operating cost savings and other business synergies as a result of the acquisition that are not reflected in the pro forma amounts that follow. Therefore, actual results may differ from the unaudited pro forma information presented and the differences could be significant.

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Unaudited Pro Forma (dollars in millions)

	For the Nine Months Ended September 30	
	2015	**2014**
Net finance revenue	$2,348.6	$2,435.6
Net income	$ 476.8	$1,534.0

Nacco Acquisition

On January 31, 2014, CIT acquired 100% of the outstanding shares of Paris-based Nacco SAS (Nacco), an independent full service railcar lessor in Europe. The purchase price was approximately $250 million and the acquired assets and liabilities were recorded at their estimated fair values as of the acquisition date, resulting in $77 million of goodwill. The purchase included approximately $650 million of assets (operating lease equipment), comprised of more than 9,500 railcars, including tank cars, flat cars, gondolas and hopper cars, and liabilities, including secured debt of $375 million.

Direct Capital Acquisition

On August 1, 2014, CIT Bank acquired 100% of the outstanding shares of Capital Direct Group and its subsidiaries (Direct Capital), a U.S. based lender providing equipment financing to small and mid-sized businesses operating across a range of industries. The purchase price was approximately $230 million and the acquired assets and liabilities were recorded at their estimated fair values as of the acquisition date resulting in approximately $170 million of goodwill. The assets acquired included finance receivables of approximately $540 million, along with existing secured debt of $487 million. In addition, intangible assets of approximately $12 million were recorded relating mainly to the valuation of existing customer relationships and trade names.

DISCONTINUED OPERATIONS

Reverse Mortgage Servicing

The Financial Freedom business, a division of CIT Bank (formerly a division of OneWest Bank) that services reverse mortgage loans was acquired in conjunction with the OneWest Transaction. Pursuant to ASC 205-20, as amended by ASU 2014-08, the Financial Freedom business is reflected as a discontinued operation as of September 30, 2015. The business includes the entire third party servicing of reverse mortgage operations, which include personnel, systems and the servicing assets and liabilities. The assets of discontinued operations primarily include HECM loans and servicing advances, while liabilities of discontinued operations include reverse mortgage servicing liability, secured borrowings and contingent liabilities. The reverse mortgage servicing relates primarily to loans serviced for Fannie Mae. Separate from the Financial Freedom business, there is a portfolio of reverse mortgages in the Legacy Consumer Mortgage segment, which is continuing operations. Based on the Company s continuing assessment of market participants costs to service in response to recent information from bidders and contemplation of recent industry servicing practice changes, the Company s estimated fair value of the reverse MSRs was a negative $10 million at September 30, 2015, which is unchanged from the acquisition date fair value from the OneWest acquisition.

In addition to the servicing rights, discontinued operations reflect HECM loans, which were pooled and securitized in the form of GNMA HMBS and sold into the secondary market with servicing retained. These HECM loans are insured by the Federal Housing Administration (FHA). Based upon the structure of the GNMA HMBS securitization program, the Company has determined that the HECM loans transferred into the program had not met all of the requirements for sale accounting and, therefore, has accounted for these transfers as a financing transaction. Under a financing transaction, the transferred loans remain on the Company s statement of financial position and the proceeds received are recorded as a secured borrowing. Condensed financial information is presented below.

Student Lending

On April 25, 2014, the Company completed the sale of its student lending business, along with certain secured debt and servicing rights. The business was in run-off and $3.4 billion in portfolio assets were classified as assets held for sale as of December 31, 2013. Income from the discontinued operation for the nine months ended September 30, 2014, reflected the benefit of proceeds received in excess of the net carrying value of assets and liabilities sold. The interest expense primarily reflected the acceleration of FSA accretion on the extinguishment of the debt, while the gain on sale mostly reflects the excess of purchase price over net assets, and amounts received for the sale of servicing rights.

The 2014 interest expense allocated to the discontinued operation corresponded to debt of approximately $3.2 billion, net of $224 million of FSA. The debt included $0.8 billion that was repaid using a portion of the cash proceeds. Operating expenses included in the discontinued operation consisted of direct expenses of the student lending business that were separate from ongoing CIT operations and did continue subsequent to disposal.

In connection with the classification of the student lending business as a discontinued operation, certain indirect operating expenses that previously had been allocated to the business have instead been allocated to Corporate and Other as part of continuing operations and are not included in the summary of discontinued operations presented in the

table below. The total incremental pretax amounts of indirect overhead expense that were previously allocated to the student lending business and remain in continuing operations were approximately $2.2 million for the quarter ended September 30, 2014 and $1.7 million for the nine months ended September 30, 2014.

There were no assets or liabilities related to the student loan business at September 30, 2015 and December 31, 2014. Amounts reflected for the quarter and nine months ended September 30, 2014 apply to the student lending business, while all 2015 balances relate to the acquired discontinued operations in conjunction with the OneWest Transaction.

Condensed Balance Sheet of Discontinued Operations (dollars in millions)

	September 30, 2015
Net Finance Receivables[(1)]	$463.9
Other assets[(2)]	49.9
Assets of discontinued operations	$513.8
Secured borrowings[(1)]	$454.1
Other liabilities[(3)]	217.8
Liabilities of discontinued operations	$671.9

(1) *Net finance receivables includes $453.2 million of securitized balances and $10.7 million of additional draws awaiting securitization at September 30, 2015. Secured borrowings relate to those receivables.*

(2) *Amount includes servicing advances, servicer receivables and property and equipment, net of accumulated depreciation.*

(3) *Other liabilities include contingent liabilities and other accrued liabilities.*

As a mortgage servicer of residential reverse mortgage loans, the Company is exposed to contingent obligations for breaches of servicer obligations as set forth in industry regulations established by HUD and FHA and in servicing agreements with the applicable counterparties, such as Fannie Mae and other investors. Under these agreements, the servicer may be liable for failure to perform its servicing obligations, which could include fees imposed for failure to comply with foreclosure timeframe requirements established by servicing guides and agreements to which CIT is a party as the servicer of the loans. The Company recorded a liability for contingent servicing-related liabilities. While the Company believes that such accrued liabilities are adequate, it is reasonably possible that such losses could ultimately exceed the Company s liability for probable and reasonably estimable losses by up to approximately $30.9 million as of September 30, 2015 associated with discontinued operations.

Separately, a corresponding indemnification receivable from the FDIC of $67.7 million is recognized for the loans covered by indemnification agreements with the FDIC reported in continuing operations as of September 30, 2015. The indemnification receivable is measured using the same assumptions used to measure the indemnified item (contingent liability) subject to management s assessment of the collectability of the indemnification asset and any contractual limitations on the indemnified amount.

The results from discontinued operations, net of tax, for the quarters and nine months ended September 30, 2015 and 2014 are as follows:

Condensed Statements of Operation (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Interest income[(1)]	$ 2.2	$	$ 2.2	$ 27.0
Interest expense[(1)]	(2.3)		(2.3)	(248.2)
Other income	6.1		6.1	(2.1)
Operating expenses[(2)]	(11.8)		(11.8)	(3.5)
Loss from discontinued operations before provision (benefit) for income taxes	(5.8)		(5.8)	(226.8)
Benefit (provision) for income taxes[(3)]	2.1	(0.5)	2.1	(2.5)
Loss from discontinued operations, net of taxes	(3.7)	(0.5)	(3.7)	(229.3)
Gain on sale of discontinued operations				282.8
Income (loss) from discontinued operations, net of taxes	$ (3.7)	$ (0.5)	$ (3.7)	$ 53.5

(1) *Includes amortization for the premium associated with the HECM loans and related secured borrowings for the quarter and nine months ended September 30, 2015.*

(2) *For the quarter and nine months ended September 30, 2015, operating expense is comprised of $4.4 million in salaries and benefits, $2.8 million in professional services and $4.6 million for other expenses such as data processing, premises and equipment, legal settlement, and miscellaneous charges.*

(3) *The Company s tax rate for discontinued operations is 36.5% for the quarter and nine months ended September 30, 2015.*

Condensed Statement of Cash Flows (dollars in millions)

	Nine Months Ended September 30, 2015
Net cash flows used for operations	$ (1.4)
Net cash flows provided by investing activities	9.8

NOTE 3 LOANS

The following tables and data as of September 30, 2015 include the loan balances acquired in the OneWest Transaction, which were recorded at fair value at the time of the acquisition (August 3, 2015). See *Note 2 Acquisition and Disposition Activities* for details of the OneWest Transaction.

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

Finance Receivables by Product (dollars in millions)

	September 30, 2015	December 31, 2014
Commercial Loans	$21,860.1	$14,850.8
Direct financing leases and leveraged leases	3,616.9	4,644.2
Total commercial	**25,477.0**	**19,495.0**
Consumer Loans	6,929.2	
Total finance receivables	**32,406.2**	**19,495.0**
Finance receivables held for sale	1,975.0	779.9
Finance receivables and held for sale receivables(1)	$34,381.2	$20,274.9

(1) *Assets held for sale on the Balance Sheet includes finance receivables and operating lease equipment primarily related to portfolios in Canada, China and the U.K. As discussed in subsequent tables, since the Company manages the credit risk and collections of finance receivables held for sale consistently with its finance receivables held for investment, the aggregate amount is presented in this table.*

In preparing the interim financial statements for the quarter ended September 30, 2015, the Company discovered and corrected an immaterial error impacting the classification of balances for Commercial loans and Direct financing leases and leverage leases in the amount of $452.6 million as of December 31, 2014. The reclassification had no impact on the Company s Balance Sheet and Statements of Operations or Cash Flows for any period.

The following table presents finance receivables by segment, based on obligor location:

Finance Receivables (dollars in millions)

	September 30, 2015			December 31, 2014		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Transportation & International Finance	$ 713.0	$ 2,592.5	$ 3,305.5	$ 812.6	$ 2,746.3	$ 3,558.9
North America Banking	23,090.0	411.3	23,501.3	14,645.1	1,290.9	15,936.0
Legacy Consumer Mortgages	5,590.9	8.5	5,599.4			
Non-Strategic Portfolios					0.1	0.1
Total	$ 29,393.9	$ 3,012.3	$ 32,406.2	$ 15,457.7	$ 4,037.3	$ 19,495.0

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table presents selected components of the net investment in finance receivables.

Components of Net Investment in Finance Receivables (dollars in millions)

	September 30, 2015	December 31, 2014
Unearned income	$ (879.6)	$ (1,037.8)
Unamortized (discounts)	(25.4)	(22.0)
Accretable yield on PCI loans	(1,163.9)	
Net unamortized deferred costs and (fees)	40.0	48.5

Certain of the following tables present credit-related information at the class level in accordance with ASC 310-10-50, *Disclosures about the Credit Quality of Finance Receivables and the Allowance for Credit Losses*. A class is generally a disaggregation of a portfolio segment. In determining the classes, CIT considered the finance receivable characteristics and methods it applies in monitoring and assessing credit risk and performance.

Credit Quality Information

Commercial obligor risk ratings are reviewed on a regular basis by Credit Risk Management and are adjusted as necessary for updated information affecting the borrowers ability to fulfill their obligations.

The definitions of the commercial loan ratings are as follows:

- Pass finance receivables in this category do not meet the criteria for classification in one of the categories below.
- Special mention a special mention asset exhibits potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects.
- Classified a classified asset ranges from: (1) assets that exhibit a well-defined weakness and are inadequately protected by the current sound worth and paying capacity of the borrower, and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected to (2) assets with weaknesses that make collection or liquidation in full unlikely on the basis of current facts, conditions, and values. Assets in this classification can be accruing or on non-accrual depending on the evaluation of these factors.

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

Commercial Finance and Held for Sale Receivables Risk Rating by Class/Segment (dollars in millions)

Grade:	Pass	Special Mention	Classified-accruing	Classified-non-accrual	PCI Loans	Total
September 30, 2015						
Transportation & International Finance						
Aerospace	$ 1,575.4	$ 71.5	$ 54.0	$ 4.7	$	$ 1,705.6
Rail	126.0	1.2	1.9			129.1
Maritime Finance	1,440.9		69.0			1,509.9
International Finance	741.7	60.0	50.4	47.4		899.5
Total TIF	3,884.0	132.7	175.3	52.1		4,244.1
North America Banking						
Commercial Banking	9,363.6	714.0	371.7	84.6	101.0	10,634.9
Equipment Finance	4,289.6	321.9	129.3	67.6		4,808.4
Commercial Real Estate	4,921.1	42.4	18.2	4.1	106.4	5,092.2
Commercial Services	2,072.3	315.4	168.7			2,556.4
Consumer Banking	10.9					10.9
Total NAB	$ 20,657.5	$ 1,393.7	$ 687.9	$ 156.3	$ 207.4	$ 23,102.8
Non- Strategic Portfolios	$ 53.4	$ 1.8	$ 0.5	$ 4.5	$	60.2
Total Commercial	$ 24,594.9	$ 1,528.2	$ 863.7	$ 212.9	$ 207.4	$ 27,407.1
December 31, 2014						
Transportation & International Finance						
Aerospace	$ 1,742.0	$ 11.4	$ 43.0	$ 0.1	$	$ 1,796.5
Rail	127.5	1.4	1.1			130.0
Maritime Finance	1,026.4					1,026.4
International Finance	820.2	107.9	58.0	37.1		1,023.2
Total TIF	3,716.1	120.7	102.1	37.2		3,976.1
North America Banking						
Commercial Banking	6,199.0	561.0	121.8	30.9		6,912.7
Equipment Finance	4,129.1	337.8	180.4	70.0		4,717.3
Commercial Real Estate	1,692.0	76.6				1,768.6
Commercial Services	2,084.1	278.8	197.3			2,560.2
Total NAB	$ 14,104.2	$ 1,254.2	$ 499.5	$ 100.9	$	$ 15,958.8
Non-Strategic Portfolios	$ 288.7	$ 18.4	$ 10.5	$ 22.4	$	340.0
Total Commercial	$ 18,109.0	$ 1,393.3	$ 612.1	$ 160.5	$	$ 20,274.9

For consumer loans, the Company monitors credit risk based on indicators such as delinquencies and LTV, which the Company believes are relevant credit quality indicators.

LTV refers to the ratio comparing the loan s unpaid principal balance to the property s collateral value. We examine LTV migration and stratify LTV into categories to monitor the risk in the loan classes.

The following table provides a summary of the consumer portfolio credit quality. The amounts represent the carrying value, which differ from unpaid principal balances, and include the premiums or discounts and the accretable yield and non-accretable difference for PCI loans recorded in purchase accounting. Included in the consumer finance receivables are covered loans for which the Company can be reimbursed for a substantial portion of future losses under the terms of loss sharing agreements with the FDIC. Covered loans are discussed further in *Note 5 Indemnification Assets.* There are no prior period balances in the below table as the Company did not have consumer loans prior to the acquisition of OneWest Bank.

Consumer Loan LTV Distributions at September 30, 2015 (dollars in millions)

	Single Family Residential					Reverse Mortgage				
	Covered Loans		Non-covered Loans			Covered Loans	Non-covered Loans			
	Non- PCI	PCI	Non- PCI	PCI	Total Single Family Residential	Non- PCI	Non- PCI	PCI	Total Reverse Mortgages	Total Consumer
Greater than 125%	$ 1.3	$ 464.5	$ 0.4	$ 18.3	$ 484.5	$ 0.9	$ 1.3	$39.2	$ 41.4	$ 525.9
101% 125%	7.7	671.8	0.2	14.4	694.1	2.1	2.8	18.0	22.9	717.0
80% 100%	531.0	542.7	14.8	11.4	1,099.9	28.1	36.0	12.9	77.0	1,176.9
Less than 80%	1,600.4	819.6	1,315.1	10.7	3,745.8	425.8	317.8	12.2	755.8	4,501.6
Not Applicable[(1)]			7.8		7.8					7.8
Total	$ 2,140.4	$ 2,498.6	$ 1,338.3	$ 54.8	$6,032.1	$ 456.9	$357.9	$82.3	$897.1	$6,929.2

[(1)] *Certain Consumer Loans do not have LTV s, including the Credit Card portfolio.*

The following table summarizes the covered loans by segment:

Covered Loans (dollars in millions)

	PCI	Non-PCI	Total
LCM loans HFI at carrying value	$ 2,498.6	$ 2,597.3	$ 5,095.9

Past Due and Non-accrual Loans

The table that follows presents portfolio delinquency status, regardless of accrual/non-accrual classification:

Finance and Held for Sale Receivables Delinquency Status (dollars in millions)

	Past Due						
	30 59 Days Past Due	**60 89 Days Past Due**	**90 Days or Greater**	**Total Past Due**	**Current(1)**	**PCI Loans(2)**	**Total Finances Receivable**
September 30, 2015							
Transportation & International Finance							
Aerospace	$	$ 17.1	$ 4.7	$ 21.8	$ 1,683.8	$	$ 1,705.6
Rail	0.7	1.3	2.4	4.4	124.7		129.1
Maritime Finance					1,509.9		1,509.9
International Finance	18.2	10.1	24.3	52.6	846.9		899.5
Total TIF	18.9	28.5	31.4	78.8	4,165.3		4,244.1
North America Banking							
Commercial Banking	0.9	9.8	13.6	24.3	10,522.5	101.0	10,647.8
Equipment Finance	72.8	27.6	22.2	122.6	4,685.8		4,808.4
Commercial Real Estate			1.5	1.5	4,984.3	106.4	5,092.2
Commercial Services	42.7	0.8	1.4	44.9	2,511.5		2,556.4
Consumer Banking			0.4	0.4	1,335.4		1,335.8
Total NAB	116.4	38.2	39.1	193.7	24,039.5	207.4	24,440.6
Legacy Consumer Mortgages							
Single family residential mortgages	20.6	1.3	0.8	22.7	2,147.4	2,553.4	4,723.5
Reverse mortgages					830.5	82.3	912.8
Total LCM	20.6	1.3	0.8	22.7	2,977.9	2,635.7	5,636.3
Non-Strategic Portfolios	1.3	0.4	0.5	2.2	58.0		60.2
Total	$ 157.2	$ 68.4	$ 71.8	$ 297.4	$ 31,240.7	$ 2,843.1	$ 34,381.2
December 31, 2014							
Transportation & International Finance							
Aerospace	$	$	$ 0.1	$ 0.1	$ 1,796.4	$	$ 1,796.5
Rail	5.2	1.9	4.2	11.3	118.7		130.0
Maritime Finance					1,026.4		1,026.4
International Finance	43.9	7.0	21.6	72.5	950.7		1,023.2
Total TIF	49.1	8.9	25.9	83.9	3,892.2		3,976.1
North America Banking							
Commercial Banking	4.4		0.5	4.9	6,907.8		6,912.7
Equipment Finance	93.7	32.9	14.9	141.5	4,575.8		4,717.3
Commercial Real Estate					1,768.6		1,768.6
Commercial Services	62.2	3.3	0.9	66.4	2,493.8		2,560.2
Total NAB	160.3	36.2	16.3	212.8	15,746.0		15,958.8
Non-Strategic Portfolios	16.4	6.9	9.6	32.9	307.1		340.0
Total	$ 225.8	$ 52.0	$ 51.8	$ 329.6	$ 19,945.3	$	$ 20,274.9

(1) *Due to their nature, reverse mortgage loans are included in Current, as they do not have contractual payments due at a specified time.*

(2) *PCI loans are written down at acquisition to their fair value using an estimate of cash flows deemed to be collectible. Accordingly, such loans are no longer classified as past due or non-accrual even though they may be contractually past due as we expect to fully collect the new carrying values of these loans.*

Non-accrual loans include loans that are individually evaluated and determined to be impaired (generally loans with balances greater than $500,000), as well as other, smaller balance loans placed on non-accrual due to delinquency (generally 90 days or more for smaller commercial loans and 120 days or more regarding real estate mortgage loans).

Table of Contents

Certain loans 90 days or more past due as to interest or principal are still accruing, because they are (1) well-secured and in the process of collection or (2) real estate mortgage loans or consumer loans exempt under regulatory rules from being classified as nonaccrual until later delinquency, usually 120 days past due.

The following table sets forth non-accrual loans, assets received in satisfaction of loans (repossessed assets and OREO) and loans 90 days or more past due and still accruing.

Finance Receivables on Non-Accrual Status (dollars in millions)

	September 30, 2015			December 31, 2014		
	Held for Investment	Held for Sale	Total	Held for Investment	Held for Sale	Total
Transportation & International Finance						
Aerospace	$ 4.7	$	$ 4.7	$ 0.1	$	$ 0.1
International Finance		47.4	47.4	22.4	14.7	37.1
Total TIF	4.7	47.4	52.1	22.5	14.7	37.2
North America Banking						
Commercial Banking	83.1	1.5	84.6	30.9		30.9
Equipment Finance	58.2	9.4	67.6	70.0		70.0
Commercial Real Estate	4.1		4.1			
Total NAB	145.4	10.9	156.3	100.9		100.9
Legacy Consumer Mortgages						
Single family residential mortgages	1.4	0.4	1.8			
Total LCM	1.4	0.4	1.8			
Non-Strategic Portfolios		4.5	4.5		22.4	22.4
Total	$ 151.5	$ 63.2	$ 214.7	$ 123.4	$ 37.1	$ 160.5
OREO and Repossessed assets			127.9			0.8
Total non-performing assets			$ 342.6			$ 161.3
Commercial loans past due 90 days or more accruing			$ 9.8			10.3
Consumer loans past due 90 days or more accruing			0.8			
Total Accruing loans past due 90 days or more			$ 10.6			$ 10.3

Payments received on non-accrual financing receivables are generally applied first against outstanding principal, though in certain instances where the remaining recorded investment is deemed fully collectible, interest income is recognized on a cash basis. Reverse mortgages are not included in the non-accrual balances.

Loans in Process of Foreclosure

The table below summarizes the residential mortgage loans in the process of foreclosure and OREO as of September 30, 2015:

Loans in Process of Foreclosure (dollars in millions)

	September 30, 2015
PCI	$ 350.7
Non-PCI	84.4
Loans in process of foreclosure	$ 435.1
OREO	$ 122.0

Impaired Loans

The Company s policy is to review for impairment finance receivables greater than $500,000 that are on non-accrual status. Consumer and small-ticket loan and lease receivables that have not been modified in a troubled debt restructuring, as well as short-term factoring receivables, are included (if appropriate) in the reported non-accrual balances above, but are excluded from the impaired finance receivables disclosure below as charge-offs are typically determined and recorded for such loans when they are more than 90 150 days past due.

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table contains information about impaired finance receivables and the related allowance for loan losses by class, exclusive of finance receivables that were identified as impaired at the Acquisition Date for which the Company is applying the income recognition and disclosure guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*), which are disclosed further below in this note. Impaired loans exclude PCI loans.

Impaired Loans (dollars in millions)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment(3)
September 30, 2015(2)				
With no related allowance recorded:				
Transportation & International Finance				
International Finance	$	$	$	$ 6.5
North America Banking				
Commercial Banking	14.8	18.4		4.3
Equipment Finance	2.7	5.5		4.4
Commercial Real Estate	3.3	3.3		0.8
Commercial Services	4.0	4.0		4.0
With an allowance recorded:				

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment[3]
Transportation & International Finance				
Aerospace	4.7	4.7	0.9	2.4
International Finance				9.1
North America Banking				
Commercial Banking	65.1	84.0	14.4	40.8
Equipment Finance	7.6	9.7	3.0	4.3
Total Impaired Loans[1]	$ 102.2	$ 129.6	$ 18.3	$ 76.6
December 31, 2014				
With no related allowance recorded:				
International Finance	$ 10.2	$ 17.0	$	$ 10.1
Commercial Banking	1.2	1.2		104.9
Equipment Finance	5.6	6.8		5.8
Commercial Services	4.2	4.2		6.9
Non-Strategic Portfolios				3.4
With an allowance recorded:				
Aerospace				9.0
International Finance	6.0	6.0	1.0	3.4
Commercial Banking	29.6	34.3	11.4	43.5
Equipment Finance				0.8
Commercial Services				2.8
Total Impaired Loans[1]	56.8	69.5	12.4	190.6
Total Loans Impaired at Convenience Date[2]	1.2	15.8	0.5	26.4
Total	$ 58.0	$ 85.3	$ 12.9	$ 217.0

(1) *Interest income recorded for the nine months ended September 30, 2015 and the year ended December 31, 2014 while the loans were impaired was $0.8 million and $10.1 million, respectively of which $0.1 million and $0.7 million was interest recognized using the cash-basis method of accounting.*

(2) *Details of finance receivables that were identified as impaired at the Acquisition Date are presented under Loans Acquired with Deteriorated Credit Quality. Loans impaired at the Convenience Date were insignificant as of September 30, 2015.*

(3) *Average recorded investment for the nine months ended September 30, 2015 and year ended December 31, 2015.*

Impairment occurs when, based on current information and events, it is probable that CIT will be unable to collect all amounts due according to contractual terms of the agreement. For commercial loans, the Company has established review and monitoring procedures designed to identify, as early as possible, customers that are experiencing financial difficulty. Credit risk is captured and analyzed based on the Company s internal probability of obligor default (PD) and loss given default (LGD) ratings. A PD rating is determined by evaluating borrower credit-worthiness, including analyzing credit history, financial condition, cash flow adequacy, financial performance and management quality. An LGD rating is predicated on transaction structure, collateral valuation and related

Table of Contents

guarantees or recourse. Further, related considerations in determining probability of collection include the following:

- Instances where the primary source of payment is no longer sufficient to repay the loan in accordance with terms of the loan document;
- Lack of current financial data related to the borrower or guarantor;
- Delinquency status of the loan;
- Borrowers experiencing problems, such as operating losses, marginal working capital, inadequate cash flow, excessive financial leverage or business interruptions;
- Loans secured by collateral that is not readily marketable or that has experienced or is susceptible to deterioration in realizable value; and
- Loans to borrowers in industries or countries experiencing severe economic instability.

Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable. A specific allowance or charge-off is recorded for the shortfall. In instances where the estimated value exceeds the recorded investment, no specific allowance is recorded. The estimated value is determined using fair value of collateral and other cash flows if the finance receivable is collateralized, the present value of expected future cash flows discounted at the contract s effective interest rate, or market price. A shortfall between the estimated value and recorded investment in the finance receivable is reported in the provision for credit losses. In instances when the Company measures impairment based on the present value of expected future cash flows, the change in present value is reported in the provision for credit losses.

The following summarizes key elements of the Company s policy regarding the determination of collateral fair value in the measurement of impairment:

- Orderly liquidation value is the basis for collateral valuation;
- Appraisals are updated annually or more often as market conditions warrant; and
- Appraisal values are discounted in the determination of impairment if the:
- appraisal does not reflect current market conditions; or
- collateral consists of inventory, accounts receivable, or other forms of collateral that may become difficult to locate, collect or subject to pilferage in a liquidation.

Loans Acquired with Deteriorated Credit Quality

For purposes of this presentation, the Company is applying the income recognition and disclosure guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*) to loans that were identified as impaired as of the acquisition date of OneWest Bank. PCI loans were initially recorded at estimated fair value with no allowance for loan losses carried over, since the initial fair values reflected credit losses expected to be incurred over the remaining lives of the loans. The acquired loans are subject to the Company s internal credit review. See *Note 4 Allowance for Loan Losses.*

Purchased Credit Impaired Loans at September 30, 2015 (dollars in millions)[(1)]

	Unpaid Principal Balance	Carrying Value	Allowance for Loan Losses
North America Banking			
Commercial Banking	$ 149.1	$ 101.0	$
Commercial Real Estate	184.7	106.4	
Legacy Consumer Mortgages			
Single family residential mortgages	3,730.4	2,553.4	

	Unpaid Principal Balance	Carrying Value	Allowance for Loan Losses
Reverse mortgages	96.4	82.3	0.4
	$ 4,160.6	$ 2,843.1	$ 0.4

(1) *PCI loans from prior transactions were not significant and are not included.*

An accretable yield is measured as the excess of the cash flows expected to be collected, estimated at the acquisition date, over the recorded investment (estimated fair value at acquisition) and is recognized in interest income over the remaining life of the loan, or pool of loans, on an effective yield basis. The difference between the cash flows contractually required to be paid, measured as of the acquisition date, over the expected cash flows is referred to as the non-accretable difference.

Subsequent to acquisition, we evaluate our estimates of the cash flows expected to be collected on a quarterly basis. Probable and significant decreases in expected cash flows as a result of further credit deterioration result in a charge to the provision for credit losses and a corresponding increase to the allowance for credit losses. Probable and significant increases in expected cash flows due to improved credit quality result in reversal of any previously recorded allowance for loan losses, to the extent applicable, and an increase in the accretable yield applied prospectively for any

Table of Contents

remaining increase. Changes in expected cash flows caused by changes in market interest rates or by prepayments are recognized as adjustments to the accretable yield on a prospective basis.

The following table summarizes commercial PCI loans, which are monitored for credit quality based on internal risk classifications as of September 30, 2015. See previous table Consumer Loan LTV Distributions for credit quality metrics on consumer PCI loans.

	September 30, 2015		
(dollars in millions)	Non-criticized	Criticized	Total
Commercial Banking	$21.7	$ 79.3	$ 101.0
Commercial Real Estate	32.0	74.4	106.4
	$53.7	$ 153.7	$ 207.4

Accretable Yield

The excess of cash flows expected to be collected over the recorded investment (estimated fair value at acquisition) of the PCI loans represents the accretable yield and is recognized in interest income on an effective yield basis over the remaining life of the loan, or pools of loans. The accretable yield is adjusted for changes in interest rate indices for variable rate PCI loans, changes in prepayment assumptions and changes in expected principal and interest payments and collateral values. Further, if a loan within a pool of loans is modified, the modified loan remains part of the pool of loans.

The following table provides details on PCI loans acquired in connection with the OneWest Transaction on August 3, 2015.

PCI Loans at Acquisition Date (dollars in millions)

	Consumer	Commercial	Total
Contractually required payments, including interest	$ 6,880.5	$ 433.1	$ 7,313.6
Less: Non-accretable difference	(3,005.7)	(188.8)	(3,194.5)
Cash flows expected to be collected[(1)]	3,874.8	244.3	4,119.1
Less: Accretable yield	(1,170.1)	(31.7)	(1,201.8)
Fair value of loans acquired at acquisition date	$ 2,704.7	$ 212.6	$ 2,917.3

(1) *Represents undiscounted expected principal and interest cash flows at acquisition.*

Changes in the accretable yield for PCI loans since the OneWest transaction are summarized below for the quarter ended September 30, 2015:

(dollars in millions)	Accretable Yield
Balance at August 3, 2015	$ 1,201.8
Accretion into interest income	(32.1)
Reclassification from nonaccretable difference for loans due to improving cash flows	0.1
Disposals and other	(5.9)
Balance at September 30, 2015	$ 1,163.9

Troubled Debt Restructurings

The Company periodically modifies the terms of finance receivables in response to borrowers difficulties. Modifications that include a financial concession to the borrower are accounted for as troubled debt restructurings (TDRs).

CIT uses a consistent methodology across all loans to determine if a modification is with a borrower that has been determined to be in financial difficulty and was granted a concession. Specifically, the Company s policies on TDR identification include the following examples of indicators used to determine whether the borrower is in financial difficulty:

n Borrower is in default with CIT or other material creditor

n Borrower has declared bankruptcy

n Growing doubt about the borrower s ability to continue as a going concern

n Borrower has (or is expected to have) insufficient cash flow to service debt

n Borrower is de-listing securities

n Borrower s inability to obtain funds from other sources

n Breach of financial covenants by the borrower.

If the borrower is determined to be in financial difficulty, then CIT utilizes the following criteria to determine whether a concession has been granted to the borrower:

- Assets used to satisfy debt are less than CIT s recorded investment in the receivable
- Modification of terms interest rate changed to below market rate
- Maturity date extension at an interest rate less than market rate
- The borrower does not otherwise have access to funding for debt with similar risk characteristics in the market at the restructured rate and terms
- Capitalization of interest
- Increase in interest reserves
- Conversion of credit to Payment-In-Kind (PIK)
- Delaying principal and/or interest for a period of three months or more
- Partial forgiveness of the balance.

Modified loans that meet the definition of a TDR are subject to the Company s standard impaired loan policy, namely that non-accrual loans in excess of $500,000 are individually reviewed for impairment, while non-accrual loans less than $500,000 are considered as part of homogenous pools and are included in the determination of the non-specific allowance.

We may require some consumer borrowers experiencing financial difficulty to make trial payments generally for a period of three to four months, according to the terms of a planned permanent modification, to determine if they can perform according to those terms. These arrangements represent trial modifications, which we classify and account for as TDRs. While loans are in trial payment programs, their original terms are not considered modified and they continue to advance through delinquency status and accrue interest according to their original terms. The planned modifications for these arrangements predominantly involve interest rate reductions or other interest rate concessions; however, the exact concession type and resulting financial effect are usually not finalized and do not take effect until the loan is permanently modified. The trial period terms are developed in accordance with our proprietary programs or the U.S. Treasury s Making Homes Affordable programs for real estate 1-4 family first lien (i.e. Home Affordable Modification Program HAMP) and junior lien (i.e. Second Lien Modification Program 2MP) mortgage loans.

At September 30, 2015, the loans in trial modification period were $30 million under HAMP, $0.1 million under 2MP and $9.5 million under proprietary programs. Trial modifications with a recorded investment of $4.7 million at September 30, 2015 were accruing loans and $34.9 million, were non-accruing loans. Our experience is that substantially all of the mortgages that enter a trial payment period program are successful in completing the program requirements and are then permanently modified at the end of the trial period. Our allowance process considers the impact of those modifications that are probable to occur.

The recorded investment of TDRs, excluding those classified as PCI, at September 30, 2015 and December 31, 2014 was $29.3 million and $17.2 million, of which 86% and 75%, respectively were on non-accrual. NAB receivables accounted for 96% of the total TDRs at September 30, 2015 and 91% at December 31, 2014, and there were $1.4 million and $0.8 million, respectively, of commitments to lend additional funds to borrowers whose loan terms have been modified in TDRs.

Recorded investment related to modifications qualifying as TDRs that occurred during the quarters ended September 30, 2015 and 2014 were $17.3 million and $1.0 million, respectively. The recorded investment at the time of default of TDRs that experience a payment default (payment default is one missed payment), during the quarters ended September 30, 2015 and 2014, and for which the payment default occurred within one year of the modification totaled $0.4 million and $0.1 million, respectively. The September 30, 2015 defaults related to Equipment Financing and the September 30, 2014 defaults related primarily to Equipment Financing and Non-Strategic Portfolios.

The financial impact of the various modification strategies that the Company employs in response to borrower difficulties is described below. While the discussion focuses on the 2015 amounts, the overall nature and impact of modification programs were comparable in the prior year.

- The nature of modifications qualifying as TDR s based upon recorded investment at September 30, 2015 was comprised of payment deferrals for 19% and covenant relief and/or other for 81%. December 31, 2014 TDR recorded investment was comprised of payment deferrals for 35% and covenant relief and/or other for 65%.

- Payment deferrals result in lower net present value of cash flows, if not accompanied by additional interest or fees, and increased provision for credit losses to the extent applicable. The financial impact of these modifications is not significant given the moderate length of deferral periods;

- Interest rate reductions result in lower amounts of interest being charged to the customer, but are a relatively small part of the Company s restructuring programs. Additionally, in some instances, modifications improve the Company s economic return through increased interest rates and fees, but are reported as TDRs due to assessments regarding the borrowers ability to independently obtain similar funding in the market and assessments of the relationship between modified rates and terms and comparable market rates and terms. The weighted average change in interest rates for all TDRs occurring during the quarters ended September 30, 2015 and 2014 was not significant;

- Debt forgiveness, or the reduction in amount owed by borrower, results in incremental provision for credit losses, in the form of higher charge-offs. While these types of modifications have the greatest individual impact on the allowance, the amounts of principal forgiveness for TDRs occurring during quarters ended September 30, 2015 and 2014 was not significant, as debt forgiveness is a relatively small component of the Company s modification programs; and

- The other elements of the Company s modification programs that are not TDRs, do not have a significant impact on financial results given their relative size, or do not have a direct financial impact, as in the case of covenant changes.

Reverse Mortgages

Consumer loans within continuing operations include the outstanding balance of $897.1 million at September 30, 2015 related to the reverse mortgage portfolio, of which $814.8 million is uninsured. Reverse mortgage loans are contracts in which a homeowner borrows against the equity in his/her home and receives cash in one lump sum payment, a line of credit, fixed monthly payments for either a specific term or for as long as the homeowner lives in the home, or a combination of these options. Since reverse mortgages are nonrecourse obligations, meaning the borrower or his/ her estate can never owe more than the lesser of the loan balance or the value of the property, the loan repayments are generally limited to the sale proceeds of the borrower s residence and the mortgage balance consists of cash advanced, interest compounded over the life of the loan and capitalized service fees.

The uninsured reverse mortgage portfolio consists of approximately 2,000 loans with an average borrowers age of 82 years old and an unpaid principal balance of $1,123.8 million at September 30, 2015. There is currently overcollateralization in the portfolio, as the realizable collateral value (the lower of collectible principal and interest, or estimated value of the home) exceeds the outstanding book balance at September 30, 2015.

Reverse mortgage loans were recorded at fair value on the acquisition date. Subsequent to that, we account for reverse mortgages in accordance with the instructions provided by the staff of the Securities and Exchange Commission (SEC) entitled Accounting for Pools of Uninsured Residential Reverse Mortgage Contracts. Refer to Note 1 for further details. To determine the carrying value of these reverse mortgages as of September 30, 2015, the Company used a proprietary model which uses actual cash flow information to estimate future cash flows. The three main drivers of cash flows include the following:

1) Move-out rates We used the actuarial estimates of contract termination using the Society of Actuaries mortality tables, adjusted for expected prepayments and relocations.

2) Home Price Appreciation Consistent with other projections from various market sources, we use the Moody s baseline forecast at a regional level to estimate home price appreciation on a loan-level basis.

3) Internal Rate of Return The internal rate of return (IRR) is the effective yield required on the life of the portfolio to reduce the net investment to zero at the time the final reverse mortgage contract is liquidated.

As of September 30, 2015, the Company s estimated future advances to reverse mortgagors are as follows:

Estimated Future Advances to Reverse Mortgagors (dollars in millions)

Year Ending:		
Remaining in 2015	$	6.1
2016		21.4
2017		17.2
2018		13.8
2019		10.9
Years 2020 2024		28.1
Years 2025 2034		9.4
Thereafter		0.4
Total[(1), (2)]	$	107.3

(1) *This table does not take into consideration cash inflows including payments from mortgagors or payoffs based on contractual terms.*

(2) *This table includes the reverse mortgages supported by the Company as a result of the IndyMac loss-share agreement with the FDIC. As of September 30, 2015, the Company is responsible for funding up to a remaining $47 million of the total amount. Refer to the Indemnification Asset footnote, for more information on this agreement and the Company s responsibilities toward this reverse mortgage portfolio.*

For the quarter ended September 30, 2015, any changes to the portfolio value as a result of re-estimated cash flows due to changes in actuarial assumptions or actual or expected appreciation or depreciation in property values was immaterial to the portfolio as a whole.

Serviced Loans

In conjunction with the OneWest Transaction, the Company services HECM reverse mortgage loans. As servicer of HECM loans, the Company either chooses to repurchase the loan upon reaching a maturity event (i.e., borrower s death or the property ceases to be the borrower s principal residence) or is required to repurchase the loan once the outstanding principal balance is equal to or greater than 98% of the maximum claim amount. These HECM loans are repurchased at a price equal to the unpaid principal balance outstanding on the loan plus accrued interest. Upon acquisition, the loans are recorded at estimated fair value and classified as AHFS or HFI based on loan status. Loans classified as AHFS are carried at LOCOM pending assignment to the Department of Housing and Urban Development (HUD). Loans

classified as HFI are not assignable to HUD and are accounted for as PCI loans. In the quarter ended September 30, 2015, the Company repurchased $16.6 million (unpaid principal balance) of additional HECM loans, of which $10.4 million were classified as AHFS and the remaining $6.2 million were classified as HFI accounted for as PCI loans. As of September 30, 2015, the Company had an outstanding balance of $97.6 million of HECM loans, of which $16 million (unpaid principal balance) is classified as AHFS with a remaining purchase discount of $0.2 million and $96.4 million is classified as HFI and accounted for as PCI loans with an associated purchase discount of $14.1 million.

NOTE 4 ALLOWANCE FOR LOAN LOSSES

The Company maintains an allowance for loan losses for estimated credit losses in its HFI loan portfolio. The allowance is adjusted through a provision for credit losses, which is charged against current period earnings, and reduced by any charge-offs for losses, net of recoveries.

The Company maintains a separate reserve for credit losses on off-balance sheet commitments, which is reported in Other Liabilities. Off-balance sheet credit exposures include items such as unfunded loan commitments, issued standby letters of credit and deferred purchase agreements. The Company s methodology for assessing the appropriateness of this reserve is similar to the allowance process for outstanding loans.

Allowance for Loan Losses and Recorded Investment in Finance Receivables (dollars in millions)

	Transportation & International Finance	North America Banking	Legacy Consumer Mortgages	Non-Strategic Portfolios	Corporate and Other	Total
Quarter Ended September 30, 2015						
Balance June 30, 2015	$ 58.0	$ 292.9	$	$	$	$ 350.9
Provision for credit losses	1.5	46.9	1.5			49.9
Other[1]	(0.5)	(4.1)	0.1			(4.5)
Gross charge-offs[2]	(28.3)	(37.6)	(1.5)			(67.4)
Recoveries	1.1	4.7	0.3			6.1
Balance September 30, 2015	$ 31.8	$ 302.8	$ 0.4	$	$	$ 335.0
Nine Months Ended September 30, 2015						
Balance December 31, 2014	$ 46.8	$ 299.6	$	$	$	$ 346.4
Provision for credit losses	11.7	89.7	1.5			102.9
Other[1]	(0.7)	(8.0)	0.1			(8.6)
Gross charge-offs[2]	(34.4)	(92.3)	(1.5)			(128.2)
Recoveries	8.4	13.8	0.3			22.5
Balance September 30, 2015	$ 31.8	$ 302.8	$ 0.4	$	$	$ 335.0
Allowance balance at September 30, 2015						
Loans individually evaluated for impairment	$ 0.9	$ 17.4	$	$	$	$ 18.3
Loans collectively evaluated for impairment	30.9	285.4				316.3
Loans acquired with deteriorated credit quality[3]			0.4			0.4
Allowance for loan losses	$ 31.8	$ 302.8	$ 0.4	$	$	$ 335.0
Other reserves[1]	$	$ 40.8	$	$	$	$ 40.8
Finance receivables at September 30, 2015						
Loans individually evaluated for impairment	$ 4.7	$ 97.5	$	$	$	$ 102.2
Loans collectively evaluated for impairment	3,300.8	23,196.4	2,963.7			29,460.9
Loans acquired with deteriorated credit quality[3]		207.4	2,635.7			2,843.1
Ending balance	$ 3,305.5	$ 23,501.3	$ 5,599.4	$	$	$ 32,406.2
Percent of loans to total loans	10.2%	72.5%	17.3%			100%

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Allowance for Loan Losses and Recorded Investment in Finance Receivables (dollars in millions) (continued)

	Transportation & International Finance	North America Banking	Legacy Consumer Mortgages	Non-Strategic Portfolios	Corporate and Other	Total
Quarter Ended September 30, 2014						
Balance June 30, 2014	$39.7	$301.3	$	$	$	$341.0
Provision for credit losses	9.1	29.7		(0.7)	0.1	38.2
Other[1]	1.6	(3.8)			(0.1)	(2.3)
Gross charge-offs[2]	(4.5)	(20.7)				(25.2)
Recoveries	0.6	4.7		0.7		6.0
Balance September 30, 2014	$46.5	$311.2	$	$	$	$357.7
Nine Months Ended September 30, 2014						
Balance December 31, 2013	$46.7	$303.8	$	$5.6	$	$356.1
Provision for credit losses	29.8	55.5		(0.4)	0.2	85.1
Other[1]		(7.3)			(0.2)	(7.5)
Gross charge-offs[2]	(34.7)	(56.5)		(7.5)		(98.7)
Recoveries	4.7	15.7		2.3		22.7
Balance September 30, 2014	$46.5	$311.2	$	$	$	$357.7
Allowance balance at September 30, 2014						
Loans individually evaluated for impairment	$2.7	$22.8	$	$	$	$25.5
Loans collectively evaluated for impairment	43.8	287.9				331.7
Loans acquired with deteriorated credit quality[3]		0.5				0.5
Allowance for loan losses	$46.5	$311.2	$	$	$	$357.7
Other reserves[1]	$0.3	$33.3	$	$0.1	$	$33.7
Finance receivables at September 30, 2014						
Loans individually evaluated for impairment	$23.1	$192.7	$	$	$	$215.8
Loans collectively evaluated for impairment	3,664.6	15,904.1		0.1		19,568.8
Loans acquired with deteriorated credit quality[3]		1.2				1.2
Ending balance	$3,687.7	$16,098.0	$	$0.1	$	$19,785.8
Percent of loans to total loans	18.6 %	81.4 %				100.0 %
Allowance balance at December 31, 2014						
Loans individually evaluated for impairment	$1.0	$11.4	$	$	$	$12.4
Loans collectively evaluated for impairment	45.8	287.7				333.5
Loans acquired with deteriorated credit quality[3]		0.5				0.5
Allowance for loan losses	$46.8	$299.6	$	$	$	$346.4
Other reserves[1]	$0.3	$35.1	$	$	$	$35.4
Finance receivables at December 31, 2014						
Loans individually evaluated for impairment	$17.6	$40.6	$	$	$	$58.2
Loans collectively evaluated for impairment	3,541.3	15,894.2		0.1		19,435.6
Loans acquired with deteriorated credit quality[3]		1.2				1.2

	Transportation & International Finance	North America Banking	Legacy Consumer Mortgages	Non-Strategic Portfolios	Corporate and Other	Total
Ending balance	$3,558.9	$15,936.0	$	$0.1	$	$19,495.0
Percent of loans to total loans	18.3 %	81.7 %				100 %

(1) *Other reserves represents additional credit loss reserves for unfunded lending commitments, letters of credit and for deferred purchase agreements, all of which is recorded in Other liabilities. Other also includes changes relating to loans that were charged off and reimbursed by the FDIC under the indemnification provided by the FDIC, sales and foreign currency translations.*

(2) *Gross charge-offs of amounts specifically reserved in prior periods included $12 million and $17 million charged directly to the Allowance for loan losses for the quarter and year to date September 2015, respectively. For the year to date period, $12.2 million related to NAB and $5 million to TIF. Gross charge-offs included $13 million charged directly to the Allowance for loan losses for the year ended December 31, 2014, all of which related to NAB.*

(3) *Represents loans considered impaired as part of the OneWest transaction and are accounted for under the guidance in ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality).*

Table of Contents

NOTE 5 INDEMNIFICATION ASSETS

The Company acquired the indemnifications provided by the FDIC under the loss sharing agreements from previous transactions entered into by OneWest Bank. The loss share agreements with the FDIC relates to the FDIC-assisted transactions of IndyMac in March 2009 (IndyMac Transaction), First Federal in December 2009 (First Federal Transaction) and La Jolla in February 2010 (La Jolla Transaction). Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., loan modification, charge-off of loan balance or liquidation of collateral). Reimbursements approved by the FDIC are received usually within 60 days of submission.

In connection with the lndyMac, First Federal and La Jolla Transactions, the FDIC indemnified the Company against certain future losses. For the IndyMac Transaction, First Federal Transaction and La Jolla Transaction the loss share agreement covering SFR mortgage loans is set to expire March 2019, December 2019 and February 2020, respectively.

Below are the estimated fair value and range of value on an undiscounted basis for each of the indemnification assets associated with the FDIC-assisted transactions as of the acquisition date (August 3, 2015) pursuant to ASC 805, Business Combinations.

	August 3, 2015		
		Range of Value	
(dollars in millions)	Fair Value	Low	High
IndyMac Transaction	$ 480.0	$	$ 4,596.8
La Jolla Transaction	0.7		85.3
	$ 480.7	$	$ 4,682.1

As of the acquisition date, the indemnification related to the First Federal Transaction is zero as the covered losses are not projected to meet the threshold for FDIC reimbursement. The fair value of the indemnification assets associated with the IndyMac Transaction and La Jolla Transaction totaled $480.7 million for projected credit losses covered by the loss share agreement with a potential maximum value of $4.7 billion. In addition, the Company separately recognized a net receivable of $13.0 million (recorded in Other Assets) associated with the IndyMac Transaction for the claim submissions filed with the FDIC and a net payable of $17.4 million (recorded in Other Liabilities) for the amount due to the FDIC for previously submitted claims for commercial loans that were later recovered by investor (e.g., guarantor payments, recoveries) associated with the La Jolla Transaction.

The indemnification asset is carried on the same basis as the indemnified loans (e.g., as PCI loans under the effective yield method). A yield is determined based on the cash flows expected to be collected over the recorded investment and used to recognize interest income on loans over the lesser of the contractual term of the indemnification agreement or the remaining life of the indemnified assets. Accounting for the indemnification assets is discussed in detail in *Note 1 Business and Summary of Significant Accounting Policies*.

Below provides the carrying value of the recognized indemnification assets and related receivable/payable balance with the FDIC associated with indemnified losses under the IndyMac and La Jolla Transactions as of September 30, 2015.

	September 30, 2015		
(dollars in millions)	**IndyMac Transaction**	**La Jolla Transaction**	**Total**
Loan indemnification	$ 385.9	$ 0.7	$ 386.6
Reverse mortgage indemnification	10.7		10.7
Agency claims indemnification	67.7		67.7
Total	$ 464.3	$ 0.7	$ 465.0

IndyMac Transaction

There are four components to the Indy Mac indemnification program described below: 1. SFR, 2. Reverse Mortgages, 3. Reverse Mortgages sold to the Agencies and 4. Certain Servicing Obligations.

Table of Contents

Single Family Whole Loan Indemnification Asset

The FDIC indemnifies the Company against certain credit losses on SFR mortgage loans based on specified thresholds as follows:

Loss Threshold	FDIC Loss Percentage	CIT Loss Percentage	Comments
First Loss Tranche	0%	100%	The first $2.551 billion (First Loss Tranche) of losses based on the unpaid principal balances as of the transaction date are borne entirely by the Company without reimbursement from the FDIC.
Under Stated Threshold	80%	20%	Losses based on the unpaid principal balances as of the transaction date in excess of the First Loss Tranche but less than $3.826 billion (Stated Threshold) are reimbursed 80% by the FDIC with the remaining 20% borne by the Company.
Meets or Exceeds Stated Threshold	95%	5%	Losses based on the unpaid principal balances as of the transaction date that equal or exceed $3.826 billion (Stated Threshold) are reimbursed 95% by the FDIC with the remaining 5% borne by the Company.

Prior to the OneWest acquisition, the cumulative losses of the SFR portfolio exceeded the first loss tranche ($2.551 billion) effective December 2011 with the excess losses reimbursed 80% by the FDIC. The following table summarizes the submission of qualifying losses for reimbursement from the FDIC since inception of the loss share agreement:

Submission of Qualifying Losses for Reimbursements (dollars in millions)

	September 30, 2015
Unpaid principal balance	$ 4,513.6
Cumulative losses incurred	3,586.9
Cumulative claims	3,573.1
Cumulative reimbursement	784.3

As part of this indemnification agreement, the Company must continue to modify loans under certain U.S. government programs, or other programs approved by the FDIC. Final settlement on the remaining indemnification obligations will occur at the earlier of the sale of the portfolio or the expiration date, March 2019.

Reverse Mortgage Indemnification Asset

Under the loss share agreement, the FDIC agreed to indemnify against losses on the first $200.0 million of funds advanced post March 2009, and to fund any advances above $200.0 million. Final settlement on the remaining indemnification obligation will occur at the earlier of the sale of the portfolio, payment of the last shared-loss loan, or final payment to the purchaser in settlement of all remaining loss share obligations under the agreement, which can occur within the six month period prior to March 2019.

As of September 30, 2015, $152.7 million had been advanced on the reverse mortgage loans. Prior to the OneWest acquisition, the cumulative loss submissions and reimbursements totaled $1.8 million from the FDIC.

Indemnification from Certain Servicing Obligations

Subject to certain requirements and limitations, the FDIC agreed to indemnify the Company, among other things, for third party claims from the Agencies related to the selling representations and warranties of Indy Mac as well as liabilities arising from the acts or omissions, including, without limitation, breaches of servicer obligations of IndyMac for SFR mortgage loans and reverse mortgage loans as follows:

SFR mortgage loans sold to the Agencies

- The FDIC indemnifies the Company up to March 31, 2014 for third party claims made by Fannie Mae or Freddie Mac relating to any liabilities or obligations imposed on the seller of mortgage loans with respect to mortgage loans acquired by Fannie Mae or Freddie Mac from IndyMac. This indemnification was in addition to the contractual protections provided by both Fannie Mae and Freddie Mac, through the respective servicing transfer agreements executed upon the FDICs sale of such mortgage servicing rights to OneWest Bank. Under these contracts, each of the GSEs agreed to not enforce any such claims arising from breaches that would otherwise be imposed on the seller of such mortgage loans.

- The FDIC indemnifies the Company up to March 31, 2014 for third party claims made by GNMA, relating to any liabilities or obligations imposed on the seller of mortgage loans with respect to mortgage loans acquired by GNMA from IndyMac.

- The FDIC indemnifies the Company for third party claims from the Agencies or others arising from certain servicing errors of IndyMac commenced within two years from March 2009 or three years from March 2009 if the claim was brought by FHLB.

The FDIC indemnification for third party claims made by the Agencies for servicer obligations expired as of the acquisition date; however, for any claims, issues or matters relating to the servicing obligations that are known or identified as of the end of the expired term, the FDIC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

indemnification protection continues until resolution of such claims, issues or matters.

The Company had no submitted claims for the quarter ended September 30, 2015. Prior to the OneWest acquisition, the cumulative loss submissions and reimbursements totaled $5.7 million from the FDIC to cover third party claims made by the Agencies for SFR loans.

Reverse mortgage loans sold to the Agencies

The FDIC indemnifies the Company through March 2019 for third party claims made by the Agencies relating to any liabilities or obligations imposed on the seller of HECM loans acquired by the Agencies from IndyMac resulting from servicing errors or servicing obligations prior to March 2019.

The Company had no submitted claims for the quarter ended September 30, 2015. Prior to the OneWest acquisition, the cumulative loss submissions totaled $11.2 million and reimbursements totaled $10.7 million from the FDIC to cover third party claims made by the Agencies for reverse mortgage loans.

First Federal Transaction

The FDIC agreed to indemnify the Company against certain losses on SFR and commercial loans based on established thresholds as follows:

Loss Threshold	FDIC Loss Percentage	CIT Loss Percentage	Comments
First Loss Tranche	0%	100%	The first $932 million (First Loss Tranche) of losses based on the unpaid principal balances as of the transaction date are borne entirely by the Company without reimbursement from the FDIC.
Under Stated Threshold	80%	20%	Losses based on the unpaid principal balances as of the transaction date in excess of the First Loss Tranche but less than $1.532 billion (Stated Threshold) are reimbursed 80% by the FDIC with the remaining 20% borne by the Company.
Meets or Exceeds Stated Threshold	95%	5%	Losses based on the unpaid principal balances as of the transaction date that equal or exceed $1.532 billion (Stated Threshold) are reimbursed 95% by the FDIC with the remaining 5% borne by the Company.

The loss thresholds apply to the covered loans collectively. As of the OneWest Transaction, the loss share agreements covering the SFR mortgage loans remain in effect (expiring in December 2019) while the agreement covering commercial loans expired (in December 2014). However, pursuant to the terms of the shared-loss agreement, the loss recovery provisions for commercial loans extend for three years past the expiration date (to December 2017).

The following table summarizes the submission of qualifying losses for reimbursement from the FDIC since inception of the loss share agreement:

Submission of Qualifying Losses for Reimbursement (dollars in millions)

	September 30, 2015		
	SFR	Commercial	Total

	September 30, 2015		
Unpaid principal balance	$ 1,508.4	$ (1)	$ 1,508.4
Cumulative losses incurred	405.2	9.0	414.2
Cumulative claims submissions	404.6	9.0	413.6

(1) *Due to the expiration of the loss share agreement covering commercial loans in December 2014, the outstanding unpaid principal balance eligible for reimbursement is zero.*

As reflected above, the cumulative losses incurred have not reached the First Loss Tranche ($932 million) for FDIC reimbursement and the Company does not project to reach the specified level of losses. Accordingly, no indemnification asset was recognized in connection with the First Federal Transaction.

Separately, as part of the loss sharing agreement, the Company is required to make a true-up payment to the FDIC in the event that losses do not exceed a specified level by December 2019. As the Company does not project to reach the First Loss Tranche ($932 million) for FDIC reimbursement, the Company does not expect that such true-up payment will be required for the First Federal portfolio.

Table of Contents

La Jolla Transaction

The FDIC agreed to indemnify the Company against certain losses on SFR and commercial loans HFI based on established thresholds as follows:

Loss Threshold	FDIC Loss Percentage	CIT Loss Percentage	Comments
Under Stated Threshold	80%	20%	Losses based on unpaid principal balance up to the Stated Threshold ($1.007 billion) are reimbursed 80% by the FDIC with the remaining 20% borne by the Company.
Meets or Exceeds Stated Threshold	95%	5%	Losses based on unpaid principal balance at or in excess of the Stated Threshold ($1.007 billion) are reimbursed 95% by the FDIC with the remaining 5% borne by the Company.

The loss thresholds apply to the covered loans collectively. As of the OneWest Transaction, the loss share agreements covering the SFR mortgage loans remain in effect (expiring in February 2020) while the agreement covering commercial loans expired (in March 2015). However, pursuant to the terms of the shared-loss agreement, the loss recovery provisions for commercial loans extend for three years past the expiration date (to March 2018).

Pursuant to the loss sharing agreement, the Company s cumulative losses since the acquisition date are reimbursed by the FDIC at 80% until the stated threshold ($1.007 billion) is met. The following table summarizes the submission of cumulative qualifying losses for reimbursement from the FDIC since inception of the loss share agreement:

Submission of Qualifying Losses for Reimbursement (dollars in millions)

	September 30, 2015		
	SFR	Commercial	Total
Unpaid principal balance	$ 103.9	$ [(1)]	$ 103.9
Cumulative losses incurred[(2)]	56.2	359.5	415.7
Cumulative claims submissions[(2)]	56.8	359.7	416.5
Cumulative reimbursement	45.4	287.8	333.2

(1) *Due to the expiration of the loss share agreement covering commercial loans in March 2015, the outstanding unpaid principal balance eligible for reimbursement is zero.*

(2) *The cumulative claims submissions are higher than the cumulative losses incurred due to recoveries in September 2015 that were not reflected in the claim submissions until the following month.*

As part of the loss sharing agreement, the Company is required to make a true-up payment to the FDIC in the event that losses do not exceed a specified level by the tenth anniversary of the agreement (February 2020). The Company currently expects that such payment will be required based upon its forecasted loss estimates for the La Jolla portfolio as the actual and estimated cumulative losses of the acquired covered assets are projected to be lower than the cumulative losses. As of September 30, 2015, an obligation of $56.3 million has been recorded as a FDIC true-up liability for the contingent payment measured at estimated fair value. Refer to *Note 12 Fair Value* for further discussion.

NOTE 6 INVESTMENT SECURITIES

Investments include debt and equity securities. The Company s debt securities include U.S. Government Agency securities, U.S. Treasury securities, residential mortgage-backed securities (MBS), and supranational and foreign government securities. Equity securities include common stock and warrants, along with restricted stock in the FHLB and FRB.

Investment Securities (dollars in millions)

	September 30, 2015	December 31, 2014
Available-for-sale securities		
Debt securities	$ 3,001.3	$ 1,116.5
Equity securities	14.3	14.0
Held-to-maturity securities		
Debt securities[(1)]	310.7	352.3
Non-marketable investments[(2)]	292.5	67.5
Total investment securities	$ 3,618.8	$ 1,550.3

(1) *Recorded at amortized cost.*

(2) *Non-marketable investments include securities of the FRB and FHLB carried at cost of $263.8 million at September 30, 2015 and $15.2 million at December 31, 2014. The remaining non-marketable investments include ownership interests greater than 3% in limited partnership investments that are accounted for under the equity method, other investments carried at cost, which include*

qualified Community Reinvestment Act (CRA) investments, equity fund holdings and shares issued by customers during loan work out situations or as part of an original loan investment, totaling $28.7 million and $52.3 million in September 30, 2015 and December 31, 2014, respectively.

Realized investment gains totaled $2.1 million and $6.7 million for the quarter and nine months ended September 30, 2015, respectively, and $5.6 million and $14.7 million for the quarter and nine months ended September 30, 2014, respectively, and exclude losses from OTTI.

In addition, the Company maintained $6.6 billion and $6.2 billion of interest bearing deposits at September 30, 2015 and December 31, 2014, respectively, which are cash equivalents and are classified separately on the balance sheet.

The following table presents interest and dividends on interest bearing deposits and investments:

Interest and Dividend Income (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Interest income interest bearing deposits	$ 4.5	$4.4	$11.9	$13.5
Interest income investments/reverse repos	15.0	3.6	24.2	10.0
Dividends investments	4.0	0.4	5.0	2.1
Interest and dividends on interest bearing deposits and investments	$23.5	$8.4	$41.1	$25.6

Securities Available-for-Sale

The following table presents amortized cost and fair value of securities AFS.

Securities AFS Amortized Cost and Fair Value (dollars in millions)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
Debt securities AFS				
Mortgage-backed Securities				
U.S. government agency securities	$ 1,147.5	$ 1.4	$ (0.1)	$ 1,148.8
Non-agency securities	963.4	0.6	(11.5)	952.5
U.S. Treasury securities	300.0			300.0
Supranational and foreign government securities	600.0			600.0
Total debt securities AFS	3,010.9	2.0	(11.6)	3,001.3
Equity securities AFS	14.3	0.2	(0.2)	14.3

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Total securities AFS	$ 3,025.2	$ 2.2	$ (11.8)	$ 3,015.6
December 31, 2014				
Debt securities AFS				
U.S. Treasury securities	$ 200.0	$	$	$ 200.0
U.S. government agency securities	904.2			904.2
Supranational and foreign government securities	12.3			12.3
Total debt securities AFS	1,116.5			1,116.5
Equity securities AFS	14.0	0.2	(0.2)	14.0
Total securities AFS	$ 1,130.5	$ 0.2	$ (0.2)	$ 1,130.5

Table of Contents

The following table presents the debt securities AFS by contractual maturity dates:

Debt Securities AFS Amortized Cost and Fair Value Maturities (dollars in millions)

	September 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage-backed securities U.S. government agency securities				
Due within 1 year	$	$	$ 904.2	$ 904.2
After 1 but within 5 years	996.6	997.4		
Due after 10 years	150.9	151.4		
Total	1,147.5	1,148.8	904.2	904.2
Mortgage-backed securities non-agency securities				
After 5 but within 10 years	$ 29.0	$ 28.5	$	$
Due after 10 years	934.4	924.0		
Total	963.4	952.5		
U.S. Treasury securities				
Due within 1 year	$ 300.0	$ 300.0	$ 200.0	$ 200.0
Total	300.0	300.0	200.0	200.0
Supranational and foreign government securities				
Due within 1 year	$ 600.0	$ 600.0	$ 12.3	$ 12.3
Total	600.0	600.0	12.3	12.3
Total debt securities available-for-sale	$ 3,010.9	$ 3,001.3	$ 1,116.5	$ 1,116.5

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES   NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table summarizes the gross unrealized losses and estimated fair value of AFS securities aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position.

Estimated Unrealized Losses (dollars in millions)

	September 30, 2015		December 31, 2014	
	Less than 12 months		Less than 12 months	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Debt securities AFS				
Mortgage-backed securities				
U.S. government agency securities	$ 176.6	$ (0.1)	$	$
Non-agency securities	921.3	(11.5)		
Total debt securities AFS	1,097.9	(11.6)		
Equity securities AFS	0.2	(0.2)	0.2	(0.2)
Total securities available-for-sale	$ 1,098.1	$ (11.8)	$ 0.2	$ (0.2)

Purchased Credit-Impaired AFS Securities

In connection with the OneWest acquisition, the Company classified AFS mortgage-backed securities as PCI due to evidence of credit deterioration since issuance and for which it is probable that the Company will not collect all principal and interest payments contractually required at the time of purchase. Accounting for these adjustments is discussed in *Note 2   Acquisitions and Disposition Activities*.

The following table provides detail of the acquired PCI securities classified as AFS in connection with the OneWest Transaction on August 3, 2015.

PCI AFS Securities at Acquisition Date (dollars in millions)

	Total
Contractually required payments, including interest	$ 1,631.8
Less: Non-accretable difference	(351.3)
Cash flows expected to be collected[(1)]	1,280.5
Less: Accretable yield	(298.4)
Fair value of securities acquired at acquisition date	$ 982.1

[(1)] *Represents undiscounted expected principal and interest cash flows at acquisition.*

Changes in the accretable yield for PCI securities since the OneWest transaction are summarized below for the quarter ended September 30, 2015:

Changes in Accretable Yield (dollars in millions)

	Total
Balance August 3, 2015	$ 298.4
Accretion into interest income	(8.2)
Balance September 30, 2015	$ 290.2

The estimated fair value of PCI securities was $942.2 million with a par value of $1.2 billion as of September 30, 2015. The Company did not own any PCI securities as of December 31, 2014.

Other than Temporary Impairment

The Company evaluates AFS securities with an unrealized loss for potential OTTI on a quarterly basis or more often if a potential loss-triggering event occurs. In the event the Company determines that it intends to sell AFS securities, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the Company would be required to recognize an OTTI write-down equal to the difference between the amortized cost basis and the estimated fair value of those securities. In estimating fair value, the Company s expected cash flow estimates take into account expectations of relevant market and economic data as of the end of the reporting period including, for example, for securities issued in a securitization, underlying loan-level data, and structural features of the securitization, such as subordination, excess spread, overcollateralization or other forms of credit enhancement. Refer to *Note 12 Fair Value* for further discussion regarding the significant unobservable inputs in measuring estimated fair value.

For AFS securities that the Company does not intend to sell or it is more likely than not that the Company will not be required to sell prior to recovery of the amortized cost basis,

the Company compares the present value of expected cash flows to be received, discounted at the current effective yield, to the security s amortized cost to determine if a credit loss exists. In the event of a credit loss, impairment for the credit loss is reported in noninterest loss as a permanent write-down of the security. Changes in values attributable to factors other than credit losses remain in OCI.

Based on the Company s quarterly assessment, the Company had no material OTTI credit-related losses on its AFS securities for the quarter ended September 30, 2015. Impairment amounts in accumulated other comprehensive income (AOCI) were not material at September 30, 2015 and December 31, 2014.

Debt Securities Held-to-Maturity

The carrying value and fair value of securities HTM at September 30, 2015 and December 31, 2014 were as follows:

Debt Securities HTM Carrying Value and Fair Value (dollars in millions)

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
Mortgage-backed securities				
U.S. government securities	$ 153.3	$ 1.6	$ (2.1)	$ 152.8
State and municipal	37.1	0.1	(0.3)	36.9
Foreign government	16.4	0.1	(0.1)	16.4
Corporate foreign	103.9	6.8		110.7
Total debt securities held-to-maturity	$ 310.7	$ 8.6	$ (2.5)	$ 316.8
December 31, 2014				
Mortgage-backed securities				
U.S. government agency securities	$ 156.3	$ 2.5	$ (1.9)	$ 156.9
State and municipal	48.1	0.1	(1.8)	46.4
Foreign government	37.9	0.1		38.0
Corporate foreign	110.0	9.0		119.0
Total debt securities held-to-maturity	$ 352.3	$ 11.7	$ (3.7)	$ 360.3

Table of Contents

The following table presents the debt securities HTM by contractual maturity dates:

Debt Securities HTM Amortized Cost and Fair Value Maturities (dollars in millions)

	September 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage-backed securities U.S. government agency securities				
After 5 but within 10 years	$ 1.3	$ 1.3	$ 1.3	$ 1.3
Due after 10 years	152.0	151.5	155.0	155.6
Total	153.3	152.8	156.3	156.9
State and municipal				
Due within 1 year	$ 0.7	$ 0.7	$ 1.2	$ 1.2
After 1 but within 5 years	1.5	1.5	2.9	2.9
After 5 but within 10 years	0.8	0.8	_	_
Due after 10 years	34.1	33.9	44.0	42.3
Total	37.1	36.9	48.1	46.4
Foreign government				
Due within 1 year	$ 14.0	$ 14.0	$ 10.8	$ 10.8
After 1 but within 5 years	2.4	2.4	27.1	27.2
Total	16.4	16.4	37.9	38.0
Corporate Foreign securities				
Due within 1 year	$ 0.9	$ 0.9	$ 0.9	$ 0.9

	September 30, 2015		December 31, 2014	
After 1 but within 5 years	76.2	82.2	43.7	49.8
After 5 but within 10 years	26.8	27.6	65.4	68.3
Total	103.9	110.7	110.0	119.0
Total debt securities held-to-maturity	$ 310.7	$ 316.8	$ 352.3	$ 360.3

(1) *Investments with no stated maturities are included as contractual maturities of greater than 10 years. Actual maturities may differ due to call or prepayment rights.*

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 7 OTHER ASSETS

The following table presents the components of other assets.

Other Assets (dollars in millions)

	September 30, 2015	December 31, 2014
Current and deferred federal and state tax assets(1)	$ 1,216.7	$ 483.5
Deposits on commercial aerospace equipment	810.7	736.3
Tax credit investments and investments in unconsolidated subsidiaries(2)	224.6	73.4
Property, furniture and fixtures	200.2	126.4
Fair value of derivative financial instruments	166.9	168.0
Deferred debt costs and other deferred charges	131.7	148.1
OREO and repossessed assets	127.9	0.8
Tax receivables, other than income taxes	102.2	102.0
Executive retirement plan and deferred compensation	94.7	96.7
Other(3)	462.8	171.5
Total other assets	$ 3,538.4	$ 2,106.7

(1) *The increase is primarily due to the reversal of the deferred tax asset valuation ($676 million) in the third quarter. See Note 18 Income Taxes.*

(2) *Included in this balance are affordable housing investments that provide tax benefits to investors in the form of tax deductions from operating losses and tax credits. As a limited partner, the Company has no significant influence over the operations.*

(3) *Other includes items such as investments in and receivables from non-consolidated entities, and other miscellaneous assets.*

NOTE 8 DEPOSITS

The following table presents detail on the type, maturities and weighted average interest rates of deposits.

Deposits (dollars in millions)

	September 30, 2015	December 31, 2014
Deposits Outstanding	$ 32,328.9	$ 15,849.8
Weighted average contractual interest rate	1.26%	1.69%
Weighted average remaining number of days to maturity[(1)]	891 days	1,293 days

(1) *Excludes deposit balances with no stated maturity.*

	Nine Months Ended September 30, 2015
Daily average deposits	$ 20,052.9
Maximum amount outstanding	32,328.9
Weighted average contractual interest rate for the year	1.55%

Table of Contents

The following table provides further detail of deposit:

Deposits Rates and Maturities (dollars in millions)

	September 30, 2015	
	Amount	Average Rate
Non-interest-bearing checking	$ 966.6	
Interest-bearing checking	3,205.1	0.51%
Money market	5,367.8	0.74%
Savings	4,679.9	0.96%
Other	169.3	
Total checking and savings deposits	$ 14,388.7	
Certificates of deposit, remaining contractual maturity:		
Within one year	$ 7,633.2	1.15%
One to two years	2,925.3	1.36%
Two to three years	1,391.5	1.60%
Three to four years	1,638.8	2.28%
Four to five years	2,056.2	2.27%
Over five years	2,270.7	3.14%
Total certificates of deposit	$ 17,915.7	
Premium/discount	(1.1)	

	September 30, 2015	
Purchase accounting adjustments	25.6	
Total Deposits	$ 32,328.9	1.26%

The following table presents the maturity profile of other time deposits with a denomination of $100,000 or more.

Certificates of Deposits $100,000 or More (dollars in millions)

	September 30, 2015	December 31, 2014
U.S. certificates of deposits:		
Three months or less	$ 1,390.5	$ 340.9
After three months through six months	1,449.5	330.8
After six months through twelve months	2,183.5	757.8
After twelve months	4,506.9	2,590.3
Total domestic	$ 9,530.4	$ 4,019.8
Non-U.S. certificates of deposits	$ 24.0	$ 57.0

NOTE 9 BORROWINGS

The following table presents the carrying value of outstanding borrowings.

Borrowings (dollars in millions)

	September 30, 2015			December 31, 2014
	CIT Group Inc.	Subsidiaries	Total	Total
Senior Unsecured[(1)]	$ 10,725.0	$	$ 10,725.0	$ 11,932.4
Secured Borrowings:				
Structured financings		5,376.5	5,376.5	6,268.7
FHLB advances		3,219.0	3,219.0	254.7
Total Borrowings	$ 10,725.0	$ 8,595.5	$ 19,320.5	$ 18,455.8

(1) *Senior Unsecured Notes at September 30, 2015 were comprised of $8,236.0 million unsecured notes, $2,450.0 million Series C Notes, and $39.0 million other unsecured debt.*

The following table summarizes contractual maturities of borrowings outstanding, which excludes PAA discounts, original issue discounts, and FSA discounts:

Contractual Maturities Borrowings as of September 30, 2015 (dollars in millions)

	2016	2017	2018	2019	2020	Thereafter	Contractual Maturities
Senior unsecured notes	$	$2,992.0	$2,200.0	$2,750.0	$ 750.0	$2,051.4	$10,743.4
Secured Borrowing:							
Structured financings	1,734.9	896.5	680.0	452.3	347.8	1,256.4	5,367.9
FHLB advances	2,271.5	42.0	900.0				3,213.5
	$4,006.4	$3,930.5	$3,780.0	$3,202.3	$1,097.8	$3,307.8	$19,324.8

Unsecured Borrowings

Revolving Credit Facility

There were no outstanding borrowings under the Revolving Credit Facility at September 30, 2015 and December 31, 2014. The amount available to draw upon at September 30, 2015 was approximately $1.4 billion, with the remaining amount of approximately $0.1 billion being utilized for issuance of letters of credit to customers.

The Revolving Credit Facility has a total commitment amount of $1.5 billion and the maturity date of the commitment is January 27, 2017. The total commitment amount consists of a $1.15 billion revolving loan tranche and a $350 million revolving loan tranche that can also be utilized for issuance of letters of credit to customers. The applicable margin charged under the facility is 2.50% for LIBOR-based loans and 1.50% for Base Rate loans.

The Revolving Credit Facility may be drawn and prepaid at the option of CIT. The unutilized portion of any commitment under the Revolving Credit Facility may be reduced permanently or terminated by CIT at any time without penalty.

The Revolving Credit Facility is unsecured and is guaranteed by eight of the Company s domestic operating subsidiaries. The facility was amended in January 2014 to modify the covenant requiring a minimum guarantor asset coverage ratio and the criteria for calculating the ratio. The amended covenant requires a minimum guarantor asset coverage ratio ranging from 1.25:1.0 to the current requirement of 1.5:1.0 depending on the Company s long-term senior unsecured debt rating.

The Revolving Credit Facility is subject to a $6 billion minimum consolidated net worth covenant of the Company, tested quarterly, and also limits the Company s ability to create liens, merge or consolidate, sell, transfer, lease or dispose of all or substantially all of its assets, grant a negative pledge or make certain restricted payments during the occurrence and continuance of an event of default.

Senior Unsecured Notes

Senior unsecured notes include notes issued under the shelf registration filed in March 2012 that matured in the first quarter of 2015, and Series C Unsecured Notes. In January 2015, we filed a new shelf that expires in January 2018. The notes issued under the shelf registration rank equal in right of payment with the Series C Unsecured Notes and the Revolving Credit Facility.

The following tables present the principal amounts of Senior Unsecured Notes issued under the Company s shelf registration and Series C Unsecured Notes by maturity date.

Senior Unsecured Notes (dollars in millions)

Maturity Date	Rate (%)	Date of Issuance	Par Value
May 2017	5.000%	May 2012	$1,246.5

Maturity Date	Rate (%)	Date of Issuance	Par Value
August 2017	4.250%	August 2012	1,745.5
March 2018	5.250%	March 2012	1,500.0
April 2018*	6.625%	March 2011	700.0
February 2019*	5.500%	February 2012	1,750.0
February 2019	3.875%	February 2014	1,000.0
May 2020	5.375%	May 2012	750.0
August 2022	5.000%	August 2012	1,250.0
August 2023	5.000%	August 2013	750.0
Weighted average and total	5.02 %		$10,692.0

* *Series C Unsecured Notes*

The Indentures for the Senior Unsecured Notes and Series C Unsecured Notes limit the Company s ability to create liens, merge or consolidate, or sell, transfer, lease or dispose of all or substantially all of its assets. Upon a Change of Control Triggering Event as defined in the Indentures for the Senior Unsecured Notes and Series C Unsecured Notes, holders of the Senior Unsecured Notes and Series C Unsecured Notes will have the right to require the Company, as applicable, to repurchase all or a portion of the Senior Unsecured Notes and Series C Unsecured Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest to the date of such repurchase.

Secured Borrowings

FHLB Advances

As a member of the FHLB of San Francisco, CIT Bank, N.A. can access financing based on an evaluation of its creditworthiness, statement of financial position, size and eligibility of collateral. The interest rates charged by the FHLB for advances typically vary depending upon maturity, the cost of funds of the FHLB, and the collateral provided for the borrowing, and the advances are secured by certain Bank assets and bear either a fixed or floating interest rate. The FHLB advances are collateralized by a variety of consumer and commercial loans and leases, including SFR mortgage loans, reverse mortgage loans, multi-family mortgage loans, commercial real estate loans, certain foreclosed properties and certain amounts receivable under a loss sharing agreement with the FDIC, commercial loans, leases and/or equipment. During October 2015, a subsidiary of CIT Bank, N.A. received approval to withdraw its membership from the FHLB Des Moines and at September 30, 2015, there were no advances outstanding with FHLB Des Moines.

As of September 30, 2015, the Company had $5.6 billion of financing availability with the FHLB, of which $2.4 billion was unused and available. FHLB Advances as of September 30, 2015 have a weighted average rate of 0.64%. The following table includes the outstanding FHLB Advances, and respective pledged assets.

FHLB Advances with Pledged Assets Summary (dollars in millions)

	September 30, 2015		December 31, 2014	
	FHLB Advances	Pledged Assets	FHLB Advances	Pledged Assets
Total	$3,219.0	$6,583.8	$254.7	$309.6

Structured Financings

Set forth in the following table are amounts primarily related to and owned by consolidated VIEs. Creditors of these VIEs received ownership and/or security interests in the assets. These entities are intended to be bankruptcy remote so that such assets are not available to creditors of CIT or any affiliates of CIT until and unless the related secured borrowings have been fully discharged. These transactions do not meet accounting requirements for sales treatment and are recorded as secured borrowings. Structured financings as of September 30, 2015 had a weighted average rate of 3.26%, which ranged from 0.30% to 6.11%.

Secured Borrowings and Pledged Assets Summary[(1)] (dollars in millions)

	September 30, 2015		December 31, 2014	
	Secured Borrowing	**Pledged Assets**	**Secured Borrowing**	**Pledged Assets**
Rail[(2)]	$1,087.2	$1,505.5	$ 1,179.7	$ 1,575.7
Aerospace[(2)]	2,219.8	3,707.9	2,411.7	3,914.4
International Finance	416.2	560.3	545.0	730.6
Subtotal Transportation & International Finance	3,723.2	5,773.7	4,136.4	6,220.7
Commercial Banking		0.2		
Commercial Services	334.7	1,671.7	334.7	1,644.6
Equipment Finance	1,318.6	1,656.5	1,797.6	2,352.8
Subtotal North America Banking	1,653.3	3,328.4	2,132.3	3,997.4
Total	$5,376.5	$9,102.1	$ 6,268.7	$ 10,218.1

(1) *As part of our liquidity management strategy, the Company pledges assets to secure financing transactions (which include securitizations), and for other purposes as required or permitted by law, while CIT Bank, N.A. also pledges assets to secure borrowings from the FHLB and FRB.*

(2) *At September 30, 2015, the GSI TRS related borrowings and pledged assets, respectively, of $1.2 billion and $1.8 billion were included in Transportation & International Finance. The GSI TRS is described in Note 10 Derivative Financial Instruments.*

FRB

The Company has a borrowing facility with the FRB Discount Window that can be used for short-term, typically overnight, borrowings. The borrowing capacity is determined by the FRB based on the collateral pledged.

There were no outstanding borrowings with the FRB Discount Window as of September 30, 2015 or December 31, 2014.

At September 30, 2015 we had pledged assets (including collateral for the FRB discount window) of $18.3 billion, which included $12.7 billion of loans (including amounts held for sale), $4.7 billion of operating lease assets, $0.8 billion of cash and $0.1 billion of investment securities.

Not included in the above are liabilities of discontinued operations consisting of $454 million of secured borrowings related to HECM loans securitized in the form of GNMA HMBS, which were sold prior to the OneWest Transaction to third parties. See *Note 2 Acquisitions and Disposition Activities*.

Variable Interest Entities (VIEs)

Below describes the results of the Company s assessment of its variable interests to determine its current status with regards to being the primary beneficiary of a VIE.

Consolidated VIEs

The Company utilizes VIEs in the ordinary course of business to support its own and its customers financing needs. Each VIE is a separate legal entity and maintains its own books and records.

The most significant types of VIEs that CIT utilizes are ‘on balance sheet secured financings of pools of leases and loans originated by the Company where the Company is the primary beneficiary. The Company originates pools of assets and sells these to special purpose entities, which, in turn, issue debt instruments backed by the asset pools or sells individual interests in the assets to investors. CIT retains the servicing rights and participates in certain cash flows. These VIEs are typically organized as trusts or limited liability companies, and are intended to be bankruptcy remote, from a legal standpoint.

The main risks inherent in structured financings are deterioration in the credit performance of the vehicle s underlying asset portfolio and risk associated with the servicing of the underlying assets.

Lenders typically have recourse to the assets in the VIEs and may benefit from other credit enhancements, such as (1) a reserve or cash collateral account that requires the Company to deposit cash in an account, which will first be used to cover any defaulted obligor payments, (2) over-collateralization in the form of excess assets in the VIE, or (3) subordination, whereby the Company retains a subordinate position in the secured borrowing, which would absorb losses due to defaulted obligor payments before the senior certificate holders. The VIE may also enter into derivative contracts in order to convert the debt issued by the VIEs to match the underlying assets or to limit or change the risk of the VIE.

With respect to events or circumstances that could expose CIT to a loss, as these are accounted for as on balance sheet, the Company records an allowance for loan losses for the credit risks associated with the underlying leases and loans. The VIE has an obligation to pay the debt in accordance with the terms of the underlying agreements.

Generally, third-party investors in the obligations of the consolidated VIEs have legal recourse only to the assets of the VIEs and do not have recourse to the Company beyond certain specific provisions that are customary for secured financing transactions, such as asset repurchase obligations for breaches of representations and warranties. In addition, the assets are generally restricted to pay only such liabilities.

Unconsolidated VIEs

Unconsolidated VIEs include GSE securitization structures, private-label securitizations and limited partnership interests where the Company s involvement is limited to an investor interest where the Company does not have the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE and limited partnership interests.

As a result of the OneWest Transaction, the Company has certain contractual obligations related to the HECM loans and the GNMA HMBS securitizations. The Company, as servicer of these HECM loans, is currently obligated to fund future borrower advances, which include fees paid to taxing authorities for borrowers unpaid taxes and insurance, mortgage insurance premiums and payments made to borrowers for line of credit draws on HECM loans. In addition, the Company capitalizes the servicing fees and interest income earned and is obligated to fund guarantee fees associated with the GNMA HMBS. The Company periodically pools and securitizes certain of these funded advances through issuance of HMBS to third-party security holders, which did not qualify for sale accounting and rather, are treated as financing transactions. As a financing transaction, the HECM loans and related proceeds from the issuance of the HMBS recognized as secured borrowings remain on the Company s Consolidated Balance Sheet. Due to the Company s planned exit of third party servicing, HECM loans of $463.9 million were included in Assets of discontinued operations and the associated secured borrowing of $454.1 million (including an unamortized premium balance of $15.3 million) were included in Liabilities of discontinued operations at September 30, 2015.

As servicer, the Company is required to repurchase the HECM loans once the outstanding principal balance is equal to or greater than 98% of the maximum claim amount or when the property forecloses to OREO, which reduces the secured borrowing balance. Additionally the Company services $202.4 million of HMBS outstanding

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES   NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

principal balance at September 30, 2015 for transferred loans securitized by IndyMac for which OneWest Bank prior to the acquisition had purchased the mortgage servicing rights (MSRs) in connection with the IndyMac Transaction. The carrying value of the MSRs was not significant at September 30, 2015. As the HECM loans are federally insured by the FHA and the secured borrowings guaranteed to the investors by GNMA, the Company does not believe maximum loss exposure as a result of its involvement is material or quantifiable.

For Agency and private label securitizations where the Company is not the servicer, the maximum exposure to loss represents the recorded investment based on the Company s beneficial interests held in the securitized assets. These interests are not expected to absorb losses or receive benefits that are significant to the VIE.

As a limited partner, the nature of the Company s ownership interest in tax credit equity investments is limited in its ability to direct the activities that drive the economic performance of the entity, as these entities are managed by the general or managing partner. As a result, the Company was not deemed to be the primary beneficiary of these VIEs.

The table below presents potential losses that would be incurred under hypothetical circumstances, such that the value of its interests and any associated collateral declines to zero and at the same time assuming no consideration of recovery or offset from any economic hedges. The Company believes the possibility is remote under this hypothetical scenario; accordingly, this required disclosure is not an indication of expected loss.

Assets and Liabilities in Unconsolidated VIEs (dollars in millions)

	Unconsolidated VIEs Carrying Value September 30, 2015	
	Securities	**Partnership Investment**
Agency securities	$ 151.5	$
Non-agency securities Other servicer	952.5	
Tax credit equity investments		134.5
Total Assets	$ 1,104.0	$ 134.5
Commitments to tax credit investments	$	$ 20.3
Total Liabilities	$	$ 20.3
Maximum loss exposure[(1)]	$ 1,104.0	$ 134.5

[(1)] *Maximum loss exposure to the unconsolidated VIEs excludes the liability for representations and warranties, corporate guarantees and also excludes servicing advances.*

NOTE 10   DERIVATIVE FINANCIAL INSTRUMENTS

As part of managing economic risk and exposure to interest rate and foreign currency risk, the Company primarily enters into derivative transactions in over-the-counter markets with other financial institutions. The Company does not enter into derivative financial instruments for speculative purposes.

The Dodd-Frank Act includes measures to broaden the scope of derivative instruments subject to regulation by requiring clearing and exchange trading of certain derivatives, and imposing margin, reporting and registration requirements for certain market participants. Since the Company does not meet the definition of a Swap Dealer or Major Swap Participant under the Act, the reporting and clearing obligations apply to a limited number of derivative transactions executed with its lending customers in order to manage their interest rate risk.

See *Note 1 Business and Summary of Significant Accounting Policies* in the Company s Annual Report on Form 10-K for the year ended December 31, 2014 for further description of its derivative transaction policies.

The following table presents fair values and notional values of derivative financial instruments:

Fair and Notional Values of Derivative Financial Instruments[1] (dollars in millions)

	September 30, 2015			December 31, 2014		
	Notional Amount	**Asset Fair Value**[2]	**Liability Fair Value**[2]	**Notional Amount**	**Asset Fair Value**[2]	**Liability Fair Value**[2]
Qualifying Hedges						
Foreign currency forward contracts net investment hedges	$ 868.5	$ 54.3	$ (1.4)	$ 1,193.1	$ 74.7	$
Total Qualifying Hedges	868.5	54.3	(1.4)	1,193.1	74.7	
Non-Qualifying Hedges						
Interest rate swaps	4,165.7	53.4	(52.8)	1,902.0	15.6	(23.6)
Written options	3,662.9		(2.5)	2,711.5		(2.7)
Purchased options	2,349.3	1.8		948.4	0.8	
Foreign currency forward contracts	1,854.0	58.6	(17.1)	2,028.8	77.2	(12.0)
Total Return Swap (TRS)	1,138.2		(56.2)	1,091.9		(24.5)
Equity Warrants	1.0	0.2		1.0	0.1	
Interest Rate Lock Commitments	6.5	0.1				
Credit derivatives	27.3		(0.2)			
Total Non-qualifying Hedges	13,204.9	114.1	(128.8)	8,683.6	93.7	(62.8)
Total Hedges	$ 14,073.4	$ 168.4	$ (130.2)	$ 9,876.7	$ 168.4	$ (62.8)

(1) *Presented on a gross basis.*

(2) *Fair value balances include accrued interest.*

Total Return Swaps (TRS)

Two financing facilities between two wholly-owned subsidiaries of CIT and Goldman Sachs International (GSI) are structured as total return swaps (TRS), under which amounts available for advances are accounted for as derivatives.

Pursuant to applicable accounting guidance, the unutilized portion of the TRS is accounted for as a derivative and recorded at its estimated fair value. The CIT Financial Ltd. (CFL) facility is $1.5 billion and the CIT TRS Funding B.V. (BV) facility is $625 million.

The aggregate notional amounts of the total return swaps derivative of $1,138.2 million at September 30, 2015 and $1,091.9 million at December 31, 2014 represent the aggregate unused portions under the CFL and BV facilities and constitute derivative financial instruments. These notional amounts are calculated as the maximum aggregate facility commitment amounts, currently $2,125.0 million, less the aggregate actual adjusted qualifying borrowing base outstanding of $986.8 million at September 30, 2015 and $1,033.1 million at December 31, 2014 under the CFL and BV Facilities. The notional amounts of the derivatives will increase as the adjusted qualifying borrowing base decreases due to repayment of the underlying asset-backed securities (ABS) to investors. If CIT funds additional ABS under the CFL or BV Facilities, the aggregate adjusted qualifying borrowing base of the total return swaps will increase and the notional amount of the derivatives will decrease accordingly.

Valuation of the derivatives related to the GSI facilities is based on several factors using a discounted cash flow (DCF) methodology, including:

- Funding costs for similar financings based on current market conditions;
- Forecasted usage of the long-dated facilities through the final maturity date in 2028; and
- Forecasted amortization, due to principal payments on the underlying ABS, which impacts the amount of the unutilized portion.

Based on the Company s valuation, a liability of $56.2 million and $24.5 million was recorded at September 30, 2015 and December 31, 2014, respectively. The increases in the liability of $24.3 million and $31.7 million for the quarter and nine months ended September 30, 2015, respectively were recognized as a reduction to Other Income. The change in value of $13.4 million and $3.7 million in the quarter and nine months ended September 30, 2014, respectively, were recognized as a reduction to Other Income.

Impact of Collateral and Netting Arrangements on the Total Derivative Portfolio

The following tables present a summary of our derivative portfolio, which includes the gross amounts of recognized financial assets and liabilities; the amounts offset in the consolidated balance sheet; the net amounts presented in the consolidated balance sheet; the amounts subject to an

enforceable master netting arrangement or similar agreement that were not included in the offset amount above, and the amount of cash collateral received or pledged. Substantially all of the derivative transactions are under an International Swaps and Derivatives Association (ISDA) agreement.

Offsetting of Derivative Assets and Liabilities (dollars in millions)

				Gross Amounts not offset in the Consolidated Balance Sheet		
	Gross Amount of Recognized Assets (Liabilities)	Gross Amount Offset in the Consolidated Balance Sheet	Net Amount Presented in the Consolidated Balance Sheet	Derivative Financial Instruments(1)	Cash Collateral Pledged/ (Received)(1)(2)	Net Amount
September 30, 2015						
Derivative assets	$ 168.4	$	$ 168.4	$ (20.2)	$ (94.5)	$ 53.7
Derivative liabilities						