

CIT GROUP INC
Form 10-K
February 29, 2012

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

FORM 10-K

IXI Annual Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the fiscal year ended December 31, 2011

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

Commission File Number: 001-31369

CIT GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

65-1051192
(IRS Employer Identification No.)

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

10036
(Zip Code)

(212) 461-5200
Registrant's telephone number including area code:

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

Title of each class
Common Stock, par value \$0.01 per share

Name of each exchange on which registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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

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

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

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Part III of this Form 10-K or any amendment to this Form 10-K. | |

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

At February 17, 2012, there were 200,810,014 shares of CIT's common stock, par value \$0.01 per share, outstanding.

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

The aggregate market value of voting common stock held by non-affiliates of the registrant, based on the New York Stock Exchange Composite Transaction closing price of Common Stock (\$44.26 per share, 200,342,235 shares of common stock outstanding), which occurred on June 30, 2011, was \$8,867,147,321. For purposes of this computation, all officers and directors of the registrant are deemed to be affiliates. Such determination shall not be deemed an admission that such officers and directors are, in fact, affiliates of the registrant.

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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to the 2012 Annual Meeting of Stockholders are incorporated by reference into Part III hereof to the extent described herein.

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PART ONE

Item 1. Business Overview

BUSINESS DESCRIPTION

Founded in 1908, CIT Group Inc., a Delaware Corporation, is a bank holding company that, together with its subsidiaries (collectively we, CIT or the Company), provides primarily commercial financing and leasing products and other services to small and middle market businesses across a wide variety of industries. CIT became a bank holding company (BHC) in December 2008, and is regulated by the Board of Governors of the Federal Reserve System (FRS) and the Federal Reserve Bank of New York (FRBNY) under the U.S. Bank Holding Company Act of 1956 (BHC Act). CIT Bank, a wholly-owned subsidiary, is a state chartered bank located in Salt Lake City, Utah, that offers commercial financing and leasing products and other services and on-line banking products, such as certificates of deposits (CDs).

CIT operates principally in North America, with locations in Europe, Latin America and Asia. Our businesses focus mainly on commercial clients with a particular emphasis on small business and middle-market companies. We provide financing and leasing products to our clients and customers in over 30 industries, including transportation, particularly aerospace and rail, manufacturing and retail, in over 20 countries. We funded \$7.8 billion of new business volume during 2011 and have \$34.2 billion of financing and leasing assets at December 31, 2011.

Each business has industry alignment and focuses on specific sectors, products and markets, with portfolios diversified by client and geography. Our principal product and service offerings include:

Products	Services
Asset-based loans	Financial risk management
Secured lines of credit	Asset management and servicing
Enterprise value and cash flow loans	Debt restructuring
Leases: operating, finance and leveraged	Credit protection
Factoring services	Account receivables collection
Vendor financing	Debt underwriting and syndication
Import and export financing	Mergers and acquisition advisory services
Small business loans	Insurance services
Acquisition and expansion financing	
Letters of credit / trade acceptances	
Debtor-in-possession / turnaround financing	
CIT Bank Certificate of Deposit Achiever, Jumbo, and Term	

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We source business through marketing efforts directly to borrowers, lessees, manufacturers, vendors and distributors, and through referral sources and other intermediaries. Our business units work together both in referring transactions between units and by combining products and services to meet our customers' needs. We also buy and sell participations in syndications of finance receivables and lines of credit and periodically purchase and sell finance receivables on a whole-loan basis.

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

We set underwriting standards for each business unit and employ portfolio risk management models to achieve desired portfolio demographics. Our collection and servicing operations are organized by businesses and geographies providing efficient client interfaces and uniform customer experiences.

Our primary bank subsidiary is CIT Bank, a state chartered bank located in Salt Lake City, Utah. CIT Bank is subject to regulation and examination by the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions (UDFI). Though non-bank subsidiaries, both in the U.S. and abroad, currently own the majority of the Company's assets, as of December 31, 2011, the majority of new U.S. business volume in Corporate Finance and Vendor Finance and selected new U.S. business volume in Transportation Finance was being originated in CIT Bank.

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BUSINESS SEGMENTS

CIT meets customer financing requirements through five business segments.

SEGMENT	MARKET AND SERVICES
Corporate Finance	Lending, leasing and other financial and advisory services to principally small and middle-market companies across select industries.
Transportation Finance	Large ticket equipment leases and other secured financing to companies in aerospace, rail, and defense industries.
Trade Finance	Factoring, receivables management products and secured financing to retail supply chain companies.
Vendor Finance	Partners with manufacturers and distributors to deliver financing and leasing solutions to end-user customers globally.
Consumer	Consumer loan portfolios, which are in run-off and are primarily comprised of government-guaranteed student loans.

Item 1: Business Overview

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CORPORATE FINANCE

Corporate Finance provides a large range of financing and advisory services to small and medium size companies in the U.S. and Canada and has a specialized lending unit focused on financial sponsors in Europe. Corporate Finance core products include asset-based and cash flow lending, fee-based advisory products (e.g., financial advisory, M&A) for middle-market customers, equipment leasing and financing, commercial real estate financing, as well as Small Business Administration (SBA) 7(a) and 504 loans.

Corporate Finance offers a product suite primarily composed of senior loans, including revolving lines of credit secured by accounts receivables and inventories, term loans based on operating cash flow and enterprise valuation, equipment leasing and financing secured by commercial equipment, real estate financing secured by commercial real estate, and government guaranteed loans (such as SBA loans). Our clients use loan proceeds to fund working capital, asset growth, acquisitions and debt restructurings, commercial real estate, and in the case of SBA loans, owner-occupied real estate.

Risks associated with secured financings relate to the ability of the borrower to repay its loan and the value of the collateral underlying the loan should the borrower default on its payments. Risks associated with cash flow loans relate to the collectability of the loan should there be a decline in the credit worthiness of the client. In our Small Business Lending (SBL) business, the collateral consists in most instances of real estate. If it was determined that an SBA loan was not underwritten or serviced correctly, the guaranty of the SBA would not be honored.

Middle Market Lending

Corporate Finance's middle-market lending business provides financing to customers in a wide range of industries (including Commercial & Industrial, Communications, Media & Entertainment, Healthcare, and Energy):

- Commercial & Industrial industries include wholesale trade (both durable and non-durable goods), business services, miscellaneous retail, chemicals and allied products, food and kindred products and numerous other industries.
- Communications, Media, & Entertainment industries include broadcast, cable, entertainment, gaming, sports franchise, telephony, wireless and tower, and other related industries.
- Healthcare industries include skilled nursing facilities, home health and hospice companies, acute care hospitals, dialysis companies and outpatient services, among others.
- Energy industries include conventional and renewable power generation, coal mining, and oil and gas production, and financing is provided to other related energy service providers and manufacturers.

Commercial Real Estate Finance (REF)

REF provides senior secured commercial real estate loans. REF focuses on cash flowing investment loans and originates construction loans to highly experienced and well capitalized developers.

Small Business Lending

SBL originates and services SBA and conventional loans for commercial real estate financing, construction, business acquisition and business succession financing. SBL is a Preferred Lender in the SBA programs due to our strong corporate financing record with authority over loan approvals, closings, servicing and liquidations. SBL earns fees for servicing third party assets. Small business lending activities are principally focused on the U.S. market.

TRANSPORTATION FINANCE

Transportation Finance is a leading provider of aircraft and railcar leasing and financing solutions to operators and suppliers in the global aviation and North American rail car industries. The segment operates through two business units, CIT Aerospace (Aerospace) and CIT Rail (Rail).

We have achieved a leadership position in the aviation and rail markets by leveraging our core strengths in technical asset management, customer relationship management, credit analysis, deep industry expertise, and information sharing and cross-selling with our other business units. This segment has seasoned management teams servicing the aerospace and rail industries, and in the case of aerospace, has built a global presence with operations in the U.S., Canada, Europe and Asia. We have extensive experience in managing equipment over its full life cycle,

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including purchasing new equipment, estimating residual values and remarketing by re-leasing or selling equipment.

The primary risks associated with loans and finance leases relates to the ability of the borrower to repay its loan and the Company's ability to realize the value of the collateral underlying the loan should the borrower default on its payments. For operating leases, the primary risk relates to the Company's ability to recover the asset value. Risks associated with cash flow loans relate to the collectability of the loans should there be a decline in the credit worthiness of the client.

Aerospace

Commercial Air provides aircraft leasing and lending, asset management, aircraft valuation and advisory services. The unit's primary clients include major and regional airlines around the world. Offices are located in the U.S., Europe and Asia. As of December 31, 2011, our commercial aerospace financing and leasing portfolio consists of over 300 aircraft with a weighted average age of 5 years, which are placed with about 100 clients.

Business Air offers financing and leasing programs for owners of business jet aircraft, primarily in the U.S.

Transportation Lending provides comprehensive loan and lease financing solutions to the aerospace, defense, marine and rail markets, directly or through financial sponsors and intermediaries.

Rail

Rail leases equipment to railroads and rail shippers throughout North America. We serve approximately 500 customers, including all of the U.S. and Canadian Class I railroads (railroads with annual revenues of at least \$250 million) and other non-rail companies, such as shippers and power and energy companies.

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Our operating lease fleet consists of approximately 100,000 rail cars, including covered hopper cars used to ship grain and agricultural products, plastic pellets and cement, gondola cars for coal, steel coil and mill service, open hopper cars for coal and aggregates, center beam flat cars for lumber, boxcars for paper and auto parts, tank cars, and approximately 400 locomotives.

See *Concentrations* section of *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Note 19 Commitments of Item 8. Financial Statements and Supplementary Data* for further discussion of our aerospace and rail portfolios.

TRADE FINANCE

Trade Finance provides factoring, receivable management products and secured financing to businesses that operate in several industries, including apparel, textile, furniture, home furnishings and consumer electronics. Although primarily U.S.-based, Trade Finance also conducts business with clients and their customers internationally. Revenue is principally generated from commissions earned on factoring and related activities, interest on loans and other fees for services rendered.

Trade Finance offers a full range of domestic and international customized credit protection, lending and outsourcing services that include working capital and term loans, factoring, receivable management products, bulk purchases of accounts receivable, import and export financing and letters of credit programs. Clients use the products and services of Trade Finance for various purposes, including improving cash flow, mitigating or reducing customer credit risk, increasing sales, improving management information and outsourcing their bookkeeping, collection, and other receivable processing to Trade Finance.

Trade Finance typically provides financing to its clients through the factoring of accounts receivable owed to its clients by their customers, typically retailers. The assignment of accounts receivable by a client to a factor is traditionally known as factoring and results in payment by the client of a factoring commission that is commensurate with the underlying degree of credit risk and recourse, and which is generally a percentage of the factored receivables or sales volume. Trade Finance may advance funds to its clients, typically in an amount up to 90% of eligible accounts receivable, charging interest on the advance (in addition to any factoring fees), and satisfying the advance by the collection of

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factored accounts receivable. Trade Finance often integrates its clients' operating systems with its operating systems to facilitate the factoring relationship. Trade Finance also can arrange for letters of credit, collateralized by accounts receivable and other assets, to be opened for the benefit of its clients' suppliers.

The services provided by Trade Finance entail two dimensions of risk, customer and client. Customer risk relates to the financial inability of a customer to pay on undisputed trade accounts receivable due from such customer to the factor. Client risk relates to a decline in the credit worthiness of a borrowing client, their consequent inability to repay their loan to Trade Finance and the possible insufficiency of the underlying collateral (including the aforementioned customer accounts receivable) to cover any loan repayment shortfall.

VENDOR FINANCE

Vendor Finance is a global leader in developing business solutions for small businesses and middle market companies, providing equipment financing and value added services. Working with manufacturers, distributors and product resellers across all industries, we develop financing programs and financial solutions tailored to the customer's needs that can enable increased sales.

We provide customer-centric program structures ranging from highly structured (joint ventures, virtual joint ventures) to referral programs. A key part of these partnership programs is integrating with the go-to-market strategy of our vendor partners and leveraging the vendor partners sales process, thereby maximizing efficiency and effectiveness.

These alliances allow our partners to focus on core competencies, reduce capital needs and drive incremental sales volume. We offer our partners (1) financing to end-user customers for purchase or lease of products, (2) enhanced sales tools such as asset management services, loan processing and real-time credit adjudication, and (3) a single point of contact in regional servicing hubs to facilitate global sales.

Vendor Finance end-user customers are diverse, ranging from sole proprietors to multi-national corporations, but we are largely focused on small and middle market customers in all industries acquiring office, technology, telecommunications, medical and other essential use equipment.

Vendor Finance (both U.S. and International) offers in-country origination and regional servicing centers around the globe, industry and geographic expertise, and dedicated sales and credit teams. Our products include standard and customized financial solutions that meet vendor partner and end-user customer requirements, including asset-backed loans, finance leases and usage-based programs to the customers of its vendor relationships and other customers. For loans, the risk relates to the ability of the borrower to repay its loan and the value of the collateral underlying the loans should the borrower default on its payments, and for operating leases and finance leases the risk relates to estimated residual value, the ability of the customer to make the lease payments when due, and the on-going asset value.

CONSUMER

Our Consumer segment consists of U.S. government-guaranteed student loans, currently in run-off. We ceased offering private student loans during 2007 and government-guaranteed student loans in 2008. CIT's risk relates mainly to the ability of the borrower to repay its loan and is primarily limited to the portion, generally 2% - 3%, that is not guaranteed by the U.S. government. Government-guaranteed loans are also subject to repurchase if the guarantor pays CIT on a claim for loss on the loan because the borrower has filed for bankruptcy, but the loan is not discharged in the bankruptcy proceeding or if, after the guarantor pays CIT on a claim for loss on the loan for any reason, it is discovered that CIT committed a violation of applicable law or regulations with respect to the loan.

Item 1: Business Overview

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

CORPORATE AND OTHER

Certain items are not allocated to operating segments and are included in Corporate and Other. For 2011, Corporate and Other includes the gain/loss on debt extinguishments, cash liquidity in excess of the amount required by the business units that management determines is prudent

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for the overall company and prepayment penalties associated with debt repayments. In addition, we refined our capital and interest allocation methodologies for our segments in 2011. Management considered these to be changes in estimations to better refine segment profitability for users of the financial information on a go forward basis. The Company did not conform prior periods, but has included certain 2010 data in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Item 8. Financial Statements and Supplementary Data (Note 23 - Business Segment Information)* to assist in the year over year comparability.

For 2010, Corporate and Other included: (1) some mark-to-market adjustments on non-qualifying derivatives; (2) restructuring charges for severance and facilities exit activities; and (3) certain tax provisions and benefits.

For 2009, Corporate and Other included: (1) certain funding and liquidity costs, as segment results reflect debt transfer pricing that matched assets (as of the origination date) with liabilities from an interest rate and maturity perspective; (2) a portion of credit loss provisioning in excess of amounts recorded in the segments, primarily reflecting our qualitative determination of estimation risk; (3) dividends that were paid on preferred securities (now cancelled), as segment risk adjusted returns were based on the allocation of common equity; and (4) reorganization adjustments largely related to debt relief in bankruptcy.

Financial information about our segments is located in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Item 8. Financial Statements and Supplementary Data (Note 23 - Business Segment Information)*.

CIT BANK

CIT Bank is a state chartered bank located in Salt Lake City, Utah. It is subject to regulation and examination by the FDIC and the UDFI. CIT Bank raises deposits to fund its lending activities by issuing certificates of deposit (CDs), primarily through broker channels and its online bank. Assets primarily include bank-originated commercial loans and operating leases and liquidating government-guaranteed student loans. For the purpose of reporting CIT's consolidated balance sheet and segment information, assets and liabilities that are recorded in the Bank are included in the applicable segment. The commercial loans originated by the Bank are reported in the respective commercial segments, Corporate Finance, Transportation Finance, Trade Finance and Vendor Finance, while the student loans transferred to the Bank are reported in the Consumer segment.

CIT Bank continued to expand its business activities. In July 2011 the U.S. Vendor Finance platform transferred into CIT Bank, complementing the Bank's existing Corporate Finance middle-market lending activities and its small business lending activities, which were transferred during the 2011 first quarter. New business volume is originated in CIT Bank, while the Bank services the pre-existing portfolio, which was not part of the transfers. In October, CIT Bank launched an online bank that currently offers a range of FDIC-insured CDs (www.bankoncit.com).

2009 RESTRUCTURING

On November 1, 2009, the parent company (CIT Group Inc.) and one non-operating subsidiary, CIT Group Funding Company of Delaware LLC (Delaware Funding), filed prepackaged voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code (the Bankruptcy Code) in the U.S. Bankruptcy Court for the Southern District of New York. This bankruptcy filing was due to numerous factors, including: failure to realize some of the benefits of becoming a BHC, accelerating client credit line draw activity, deteriorating portfolio performance and debt rating downgrades, which in combination exacerbated our already strained liquidity situation. CIT emerged from bankruptcy on December 10, 2009, pursuant to the Modified Second Amended Prepackaged Reorganization Plan of CIT Group Inc. and CIT Funding of Delaware, LLC, dated December 7, 2009 (the Plan of Reorganization), which was confirmed by the U.S. Bankruptcy Court for the Southern District of New York (the Bankruptcy Court) on December 8, 2009 and attached to a Current Report on Form 8-K filed December 9, 2009. Neither the Plan of Reorganization nor any other documents filed with the Bankruptcy Court are incorporated by reference into this Form 10-K and such documents should not be considered or relied on in making any investment decisions involving our common stock or other securities.

The information contained in this annual report about CIT following our emergence from bankruptcy, including the financial statements and other information for the years ended December 31, 2011 and 2010, which reflect the impact of fresh start accounting adjustments, is not necessarily comparable with information provided for prior periods. Further discussion of these events and resultant financial statement impacts are located in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* (Introduction) and *Item 8. Financial Statements and Supplementary Data (Notes 1 and 26)*.

EMPLOYEES

CIT employed 3,526 people at December 31, 2011, of which 2,602 were employed in the U.S. and 924 outside the U.S.

COMPETITION

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

Many of our competitors are large companies with substantial financial, technological, and marketing resources. Our customer value proposition is primarily based on financing terms, structure, client service and price. From time to time, due to highly competitive markets, we may (i) lose market share if we are unwilling to match product structure, pricing, or terms of our competitors that do not meet our credit standards or return requirements or (ii) receive lower returns or incur higher credit losses if we match our competitors' product structure, pricing, or terms.

There has been substantial consolidation and convergence among companies in the financial services industry. The trend toward consolidation and convergence significantly increased the geographic reach of some of our competitors and hastened the globalization of the financial services markets. To take advantage of some of our most significant international challenges and opportunities, we will have to compete successfully with financial institutions that are larger, have better access to low cost funding, and may have a stronger local presence and longer operating history outside the U.S.

As a result, we tend not to compete on price, but rather on industry experience, asset and equipment knowledge, and customer service. The regulatory environment in which we and/or our customers operate also affects our competitive position.

REGULATION

Federal and state banking laws, regulations and policies extensively regulate us and CIT Bank. Such laws and regulations are intended primarily for the protection of depositors, customers and the federal deposit insurance funds, as well as to minimize systemic risk, and not for the protection of our shareholders or non-depository creditors. Bank regulatory agencies have broad examination and enforcement power over bank holding companies (BHCs) and their subsidiaries, including the power to impose substantial fines, limit dividends, restrict operations and acquisitions and require divestitures. BHCs and banks, as well as subsidiaries of both, are prohibited by law from engaging in practices that the relevant regulatory authority deems unsafe or unsound. CIT Group Inc. is a BHC subject to regulation and examination by the Board of Governors of the Federal Reserve System (FRB) and the Federal Reserve Bank of New York (FRBNY) under the Bank Holding Company Act (BHC Act). Under the system of functional regulation established under the BHC Act, the FRB supervises CIT, including all of its non-bank subsidiaries, as an umbrella regulator of the consolidated organization. CIT Bank is chartered as a state bank by the UDFI. CIT Group Inc.'s principal regulator is the FRB and CIT Bank's principal regulators are the FDIC and the UDFI.

Certain of our subsidiaries are subject to regulation by other governmental agencies. Student Loan Xpress, Inc., a Delaware corporation, conducts its business through various third party banks authorized by the Department of Education, including Fifth Third Bank, Manufacturers and Traders Trust Company, and The Bank of New York Mellon, as eligible lender trustees. CIT Small Business Lending Corporation, a Delaware corporation, is licensed by and subject to regulation and examination by the U.S. Small Business Administration. CIT Capital Securities L.L.C., a Delaware limited liability company, is a broker-dealer licensed by the Financial Industry Regulatory Authority (FINRA), and is subject to regulation by FINRA and the Securities and Exchange Commission (SEC).

Our insurance operations are primarily conducted through The Equipment Insurance Company, a Vermont corporation; CIT Insurance Agency, Inc., a Delaware corporation; and Equipment Protection Services (Europe) Limited, an Irish company. Each company is licensed to enter into insurance contracts and is subject to regulation and examination by insurance regulators. We have various other banking corporations in Brazil, France, Italy, and Sweden, each of which is subject to regulation and examination by banking and securities regulators. CIT Bank Limited, an English corporation, is licensed as a bank and broker-dealer and is subject to regulation and examination by the Financial Services Authority of the United Kingdom.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act makes extensive changes to the regulatory structure and environment affecting banks and bank holding companies, non-bank financial companies, broker dealers, and investment advisory and management firms. The Dodd-Frank Act requires extensive rulemaking by various regulatory agencies and will take several years to be fully implemented. See *Dodd-Frank Act* below.

8 CIT ANNUAL REPORT 2011**Cease and Desist Orders and Written Agreement**

On July 16, 2009, the FDIC and UDFI each issued a Cease and Desist Order to CIT Bank (together, the Orders) in connection with the diminished liquidity of Predecessor CIT. CIT Bank, without admitting or denying any allegations made by the FDIC and UDFI, consented and agreed to the issuance of the Orders. The Orders directed CIT Bank to take certain affirmative actions, including ensuring that it did not allow any extension of credit to CIT or any other affiliate of CIT Bank or engage in any covered transaction, declare or pay any dividends or other payments representing reductions in capital, or increase the amount of brokered deposits above the \$5.527 billion outstanding at July 16, 2009, without the prior written consent of the FDIC and the UDFI. CIT Bank received notice on April 14, 2011 from the FDIC and on April 18, 2011 from the UDFI that the Orders were terminated. The termination of the Orders did not have any significant impact on CIT Bank's business or operations.

On August 12, 2009, CIT entered into a Written Agreement with the FRBNY. The Written Agreement requires regular reporting to the FRBNY, the submission of plans related to corporate governance, credit risk management, capital, liquidity and funds management, the Company's business and the review and revision, as appropriate, of the Company's consolidated allowances for loan and lease losses methodology. CIT must obtain prior written approval by the FRBNY for payment of dividends and distributions, incurrence of debt, other than in the ordinary course of business, and the purchase or redemption of stock. The Written Agreement also requires CIT to notify the FRBNY prior to the appointment of new directors or senior executive officers, and places restrictions on indemnification and severance payments.

Pursuant to the requirements of the Written Agreement, CIT has increased its staffing of critical senior control functions, including corporate risk management, regulatory reporting, compliance, and internal audit. CIT also continues to refine and improve its credit evaluation processes and procedures, the calculation of its allowance for loan and lease losses, and its credit reporting to senior management and the Board of Directors, including providing additional training to credit officers. Under its capital and liquidity plans, CIT has retained significant cash balances to manage short term funding risk, continues to modify its debt structure to develop more diverse market access, and has enhanced its capital allocation model and stress tests to better monitor its capital requirements. While the significant cash balances carried for liquidity purposes has depressed CIT's net interest margin, the primary impact of the Written Agreement on CIT's financial results has been to increase expense levels as a result of additional hiring in control functions and additional expenditures on consultants and systems and technology most of which would have been incurred in any event.

Pursuant to the Written Agreement, the Board of Directors appointed a Special Compliance Committee of the Board to monitor and coordinate compliance with the Written Agreement. We provide periodic reports to the FRBNY on our progress in fulfilling the requirement of the Written Agreement. At year-end 2011, management believes it has made substantial progress in satisfying the requirements of the Written Agreement and continues to communicate closely with the FRBNY, which is in the process of reviewing and validating the remaining open items.

Banking Supervision and Regulation

We and our wholly-owned banking subsidiary, CIT Bank, are highly regulated at the federal and state levels. As a BHC, the BHC Act sets certain limitations on our activities, transactions with affiliates, and payment of dividends and sets certain standards for capital and liquidity, safety and soundness, and incentive compensation, among other matters.

The Dodd-Frank Act

The Dodd-Frank Act significantly restructures the financial regulatory regime in the United States, including through the creation of a new systemic risk oversight body, the Financial Stability Oversight Council (FSOC). The Dodd-Frank Act directs the FSOC to make recommendations to the FRB as to supervisory requirements and prudential standards applicable to systemically important financial institutions, including capital, leverage, liquidity and risk-management requirements. The Dodd-Frank Act mandates that the requirements applicable to systemically important financial institutions be more stringent than those applicable to other financial companies.

In addition to the framework for systemic risk oversight implemented through the FSOC, the Dodd-Frank Act broadly affects the financial services industry by creating a resolution authority, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies, and through numerous other provisions aimed at strengthening the sound operation of the financial services sector. Many of the Dodd-Frank Act's provisions could affect our ability to conduct our business, particularly with respect to the cost of capital. In addition to the

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effects noted below, some of the effects of the Dodd-Frank Act on our business include the:

- Establishment of a consumer financial protection bureau with broad authority to implement new consumer protection regulations and to examine and enforce compliance with federal consumer laws;
- Establishment of new derivatives standards to require greater transparency in over-the-counter derivatives markets and prohibiting insured depository institutions from conducting significant swaps-related activities;
- Requirement that any firm that organizes or initiates an asset-backed security transaction must retain a portion of the credit risk;
- Requirement that the SEC, the FRB, and other agencies jointly issue rules requiring enhanced reporting and regulation of incentive-based compensation structures at regulated entities, including BHCs, banks, registered broker-dealers, and registered investment advisors;
- Requirement that shareholders be permitted to cast (i) a non-binding vote on the Company's executive compensation at least once every three years and (ii) a non-binding vote on all compensation paid or payable to named executive officers related to any merger, acquisition or major asset sale in any proxy statement filed in connection with such transactions; and
- Requirement that the SEC issue rules requiring companies to develop claw-back policies to recoup all incentive based compensation paid to current or former executives during the three years in which a restatement is required when a company must restate its financial statements due to material noncompliance with any financial reporting requirement.

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The Dodd-Frank Act also requires the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds), with implementation starting as early as July 2012. The statutory provision is commonly called the Volcker Rule. In October 2011, federal regulators proposed rules to implement the Volcker Rule that included an extensive request for comments on the proposal, which were due by February 13, 2012. The proposed rules are highly complex, and many aspects of their application remain uncertain. Based on the proposed rules, CIT does not currently anticipate that the Volcker Rule will have a material effect on the operations of CIT and its subsidiaries. CIT would incur costs if it is required to adopt additional policies and systems to ensure compliance with the Volcker Rule. Until a final rule is adopted, the precise financial impact of the rule on CIT, its customers or the financial industry more generally, cannot be determined.

Many provisions in the Dodd-Frank Act remain subject to regulatory rule-making and implementation, the effects of which are not yet known.

The provisions of the Dodd-Frank Act and any rules adopted to implement those provisions as well as any additional legislative or regulatory changes may impact the profitability of our business activities, require us to change certain of our business practices, materially affect our business model or affect retention of key personnel, require us to raise additional regulatory capital, including additional Tier 1 capital, or expose us to additional costs (including increased compliance costs). These and other changes may also require us to invest significant management attention and resources to make any necessary changes and may adversely affect our ability to conduct our business as previously conducted or our results of operations or financial condition.

Bank Holding Company Activities

In general the BHC Act limits the business of bank holding companies that are not financial holding companies to banking, managing or controlling banks, performing servicing activities for subsidiaries, and engaging in activities that the FRB has determined, by order or regulation, are so closely related to banking as to be a proper incident thereto. Our activities generally conform to the requirements of the BHC Act. However, upon becoming a BHC, we were required to conform or divest a limited number of our activities and assets, comprised primarily of equity investments and certain real estate investment activities. We disposed of, or conformed to BHC Act requirements, all but one of our non-conforming equity investments, and the FRB granted us an extension of the period to conform or dispose of the remaining investment, which is subject to a contract of sale, to March 31, 2012.

Capital Requirements

As a BHC, CIT is subject to consolidated regulatory capital requirements administered by the FRB. CIT Bank is subject to similar capital requirements administered by the FDIC. The current risk-based capital guidelines applicable to CIT are based upon the 1988 capital accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply.

Basel I Requirements. We compute and report our risk-based capital ratios in accordance with the requirements set by the U.S. banking agencies based upon Basel I. As applicable to CIT Group, Tier 1 capital generally includes common shareholders' equity, retained earnings, and minority interests in equity accounts of consolidated subsidiaries, less the effect of certain items in accumulated other comprehensive income, goodwill and intangible assets, one-half of the investment in unconsolidated subsidiaries and other adjustments. Under currently applicable guidelines, it also includes qualifying non-cumulative perpetual preferred stock, a limited amount of trust preferred securities, and cumulative perpetual preferred stock, none of which CIT currently has outstanding. Tier 2 capital consists of the allowance for credit losses up to 1.25 percent of risk-weighted assets less one-half of the investment in unconsolidated subsidiaries and other adjustments. In addition, Tier 2 Capital includes perpetual preferred stock not qualifying as Tier 1 capital, qualifying mandatory convertible debt securities, and qualifying subordinated debt, none of which CIT currently has outstanding. The sum of Tier 1 and Tier 2 capital represents our qualifying Total Regulatory Capital. Under the capital guidelines of the FRB, assets and certain off-balance sheet commitments and obligations, which are assigned asset equivalent weightings, are divided into risk categories, each of which is assigned a risk weighting ranging from 0% (e.g. for U.S. Treasury Bonds) to 100%. The Dodd-Frank Act applies the same leverage and risk-based capital requirements that apply to insured depository institutions to BHCs such as CIT, which, among other things, will preclude CIT going forward from including in Tier 1 capital trust preferred securities or cumulative preferred stock, if any, issued on or after May 19, 2010. CIT has no such trust preferred securities or cumulative preferred stock outstanding.

CIT, like other BHCs, currently is required to maintain Tier 1 capital and total capital (the sum of Tier 1 and Tier 2 capital) equal to at least 4.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance sheet items, such as letters of credit). CIT Bank, like other depository institutions, is required to maintain equivalent capital levels under capital adequacy guidelines. In addition, for a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action, its Tier 1 and total capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively.

We have committed to the FRB to maintain a total capital ratio of 13%. The Tier 1 and total capital ratios at December 31, 2011 were 18.8% and 19.7%, respectively. The calculation of regulatory capital ratios is subject to review and consultation with the FRB, which may result in refinements to estimated amounts.

Leverage Requirements. BHCs and banks are also required to comply with minimum Tier 1 Leverage ratio requirements. The Tier 1 Leverage ratio is the ratio of a banking organization's Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). BHCs and FDIC-supervised banks that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted measure for market risk are required to maintain a minimum Tier 1

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Leverage Ratio of 3.0%. All other BHCs and FDIC-supervised banks are required to maintain a minimum Tier 1 Leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. In addition, for a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action, its Tier 1 Leverage ratio must be at least 5.0%.

CIT is not subject to an FRB directive to maintain a higher Tier 1 Leverage ratio. In connection with the FDIC's approval in December 2008 of CIT Bank's conversion from a Utah industrial bank to a Utah state bank, CIT Bank committed to maintain a Tier 1 Leverage Ratio of at least 15% for at least three years after conversion. At December 31, 2011, CIT Bank's Tier 1 leverage ratio was 24.7%.

Basel II Requirements. In 2004, the Basel Committee published a new capital accord (Basel II) to replace Basel I. Basel II provides three approaches for setting capital standards for credit risk—foundation and advanced internal ratings-based approaches tailored to individual institutions' circumstances and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines. Basel II also sets capital requirements for operational risk and refines the existing capital

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requirements for market risk exposures.

The definitive final rule for implementing the advanced approaches of Basel II in the United States is based on Basel II's advanced internal ratings based approach and applies only to certain large or internationally active banking organizations, or "core banks" defined as those with consolidated total assets of \$250 billion or more or consolidated on-balance sheet foreign exposures of \$10 billion or more. Other U.S. banking organizations can elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but they are not required to apply them. The rule also allows a banking organization's primary federal supervisor to determine that the application of the rule would not be appropriate in light of the bank's asset size, level of complexity, risk profile or scope of operations. We do not meet the thresholds to be a "core bank" and are not required to comply with the advanced approaches of Basel II. In July 2008, the agencies issued a proposed rule that would give banking organizations that do not use the advanced approaches the option to implement a new risk-based capital framework which would adopt the standardized approach of Basel II for credit risk, the basic indicator approach of Basel II for operational risk, and related disclosure requirements. While this proposed rule generally parallels the relevant approaches under Basel II, it diverges where United States markets have unique characteristics and risk profiles. Comments on the proposed rule were due to the agencies by October 2008, but a definitive final rule has not been issued.

As required by the Dodd-Frank Act, in June 2011, the FRB, the Office of the Comptroller of the Currency (OCC), and the FDIC adopted regulations imposing a continuing "floor" of the Basel I-based capital requirements in cases where the Basel II-based capital requirements and any changes in capital regulations resulting from Basel III (see below) otherwise would permit lower requirements.

Basel III Requirements. In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as "Basel III". Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require BHCs and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity.

The Basel III final capital framework, among other things, (i) introduces as a new capital measure "Common Equity Tier 1" (CET1), (ii) specifies that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expands the scope of the adjustments as compared to existing regulations.

When fully phased in on January 1, 2019, Basel III will require banks to maintain (i) as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) as a newly adopted international standard, a minimum Tier 1 Leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter).

Basel III also provides for a "countercyclical capital buffer", generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented (potentially resulting in total buffers of between 2.5% and 5%).

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The Basel III final framework provides that its implementation will commence January 1, 2013. On that date, banking institutions will be required to meet the following minimum capital ratios:

- 3.5% CET1 to risk-weighted assets.
- 4.5% Tier 1 capital to risk-weighted assets.
- 8.0% Total capital to risk-weighted assets.

The Basel III final framework provides for a number of new deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights,

deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

The Basel III final framework provides that implementation of the deductions and other adjustments to CET1 will begin on January 1, 2014 and will be phased-in over a five-year period (20% per year). It also provides that the implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625% and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The U.S. banking agencies have indicated informally that they expect to propose regulations implementing Basel III in the first half of 2012. Accordingly, the schedule for implementation in the United States may not align with the implementation schedule provided for in the Basel III final framework. In addition to Basel III, Dodd-Frank requires or permits the federal banking agencies to adopt regulations affecting banking institutions' capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. Accordingly, the regulations ultimately applicable to CIT and CIT Bank may be substantially different from the Basel III final framework as published in December 2010.

Liquidity Requirements

Historically, regulation and monitoring of bank and BHC liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and BHCs to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the liquidity coverage ratio (LCR), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other, referred to as the net stable funding ratio (NSFR), is designed to promote more medium-and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements may create an incentive for banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. The Basel III liquidity framework contemplates that the LCR will be subject to an observation period continuing through mid-2013 and, subject to any revisions resulting from the analyses conducted and data collected during the observation period, implemented as a minimum standard on January 1, 2015. Similarly, it contemplates that the NSFR will be subject to an observation period through mid-2016 and, subject to any revisions resulting from the analyses conducted and data collected during the observation period, implemented as a minimum standard by January 1, 2018. These new standards are subject to further rulemaking and their terms may well change before implementation.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, establishes five capital categories for FDIC-insured banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A depository institution is deemed to be well capitalized, the highest category, if it has a total capital ratio of 10% or greater, a Tier 1 capital ratio of 6% or greater and a Tier 1 leverage ratio of 5% or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure. CIT Bank's capital ratios were all in excess of minimum guidelines for well capitalized at December 31, 2011 and 2010. Neither CIT nor CIT Bank is subject to any order or written agreement regarding any capital requirements, but each has committed to its principal regulator to maintain certain capital ratios above the minimum requirement, as described above under Capital Requirements, Basel I Requirements and Leverage Requirements.

FDICIA requires the applicable federal regulatory authorities to implement systems for prompt corrective action for insured depository institutions that do not meet minimum requirements. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, as the capital category of an institution declines. Undercapitalized depository institutions are required to submit a capital restoration plan. Although prompt corrective action regulations apply only to depository institutions and not to BHCs, the holding company must

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

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

Heightened Prudential Requirements for Large Bank Holding Companies

The Dodd-Frank Act imposes heightened prudential requirements on, among others, BHCs with at least \$50 billion in total consolidated assets, based on the average of total consolidated assets for the last four quarters, and requires the FRB to establish prudential standards for those large BHCs that are more stringent than those applicable to other BHCs. In December 2011, the FRB issued for public comment a notice of proposed rulemaking establishing enhanced prudential standards responsive to these provisions for risk-based capital requirements and leverage limits, liquidity requirements, risk-management requirements, stress testing, concentration limits, and a debt-to-equity limit for certain companies that the FSOC has determined pose a grave threat to

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financial stability. The FRB has discretionary authority to establish additional prudential standards, on its own or at the FSOC's recommendation, regarding contingent capital, enhanced public disclosures, short-term debt limits, and otherwise as it deems appropriate.

Most of the proposed rules will not apply to CIT for so long as its total consolidated assets remain below \$50 billion. However, if organic growth or growth through acquisitions causes CIT to have total consolidated assets of \$50 billion or more, these rules will apply. Two aspects of the proposed rules' requirements for annual stress testing of capital under one base and two stress scenarios and certain corporate governance provisions requiring, among other things, that each BHC establish a risk committee of its board of directors and that that committee include a risk expert apply to BHCs with total consolidated assets of \$10 billion or more, including CIT.

Acquisitions

Federal and state laws impose notice and approval requirements for mergers and acquisitions involving depository institutions or BHCs. The BHC Act requires the prior approval of the FRB for the direct or indirect acquisition by a BHC of more than 5% of any class of voting shares or all or substantially all of the assets of a commercial bank, savings and loan association, or BHC. In reviewing bank acquisition and merger applications, the bank regulatory authorities will consider among other things, the competitive effect of the transaction, financial and managerial issues including the capital position of the combined organization, convenience and needs factors, including the applicant's record under the Community Reinvestment Act of 1977 (CRA) and the effectiveness of the subject organizations in combating money laundering activities. In addition, other acquisitions by CIT may be subject to informal notice and approval by the FRB or other regulatory authorities.

Dividends

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

Under the terms of the Written Agreement, CIT cannot declare or pay dividends on common stock without the prior written consent of the FRBNY and the Director of the Division of Banking Supervision of the FRB.

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The ability of CIT Group Inc. to pay dividends on common stock may be affected by various minimum capital requirements, particularly the capital and non-capital standards established under FDICIA. The right of CIT Group Inc., our stockholders, and our creditors to participate in any distribution of the assets or earnings of its subsidiaries is further subject to prior claims of creditors of CIT Bank and other subsidiaries.

Utah state law imposes limitations on the payment of dividends by CIT Bank. A Utah state bank may declare a dividend out of the net profits of the bank, after providing for all expenses, losses, interest, and taxes accrued or due from the bank.

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

Under rules adopted by the FRB in November 2011, known as the Comprehensive Capital Analysis and Review (CCAR) Rules, BHCs with \$50 billion or more of total consolidated assets are required to submit annual capital plans to the FRB and generally may pay dividends and repurchase stock only under a capital plan as to which the FRB has not objected. The CCAR Rules will not apply to us for so long as our total consolidated assets remain below \$50 billion. However, we anticipate that our capital ratios reflected in the stress test calculations required of us as described under *Heightened Prudential Requirements for Large Bank Holding Companies*, above, will be an important factor considered by the FRB in evaluating whether proposed payments of dividends or stock repurchases may be an unsafe or unsound practice. The CCAR Rules, consistent with prior FRB guidance, provides that capital plans contemplating dividend payout ratios exceeding 30% of projected after-tax net income will receive particularly close scrutiny.

Source of Strength Doctrine and Liability of Commonly Controlled Institutions

The FRB historically has expected BHCs such as CIT to serve as a source of strength to subsidiary banks and to commit capital and other financial resources. The Dodd-Frank Act codified this policy as a statutory requirement. This support may be required at times when CIT may not be able to provide such support without adversely affecting its ability to meet other obligations. If CIT is unable to provide such support, the FRB could instead require the divestiture of CIT Bank and impose operating restrictions pending the divestiture. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, if a loss is suffered or anticipated by the FDIC either as a result of the failure of an FDIC-insured depository institution or related to FDIC assistance provided to such institution in danger of failure, the other FDIC-insured depository institutions controlled by a BHC may be assessed for the FDIC's loss, subject to certain exceptions. At this time, CIT Bank is the only insured depository institution controlled by CIT for this purpose. However, if CIT were to control other FDIC-insured depository institutions in the future, the cross-guarantee would apply to all such FDIC-insured depository institutions.

Enforcement Powers of Federal Banking Agencies

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

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directors, to administrative sanctions and potentially substantial civil and criminal penalties.

Resolution Planning

As required by the Dodd-Frank Act, the FRB and FDIC have jointly issued a final rule that requires certain organizations, including BHCs with consolidated assets of \$50 billion or more, to report periodically to regulators a resolution plan for their rapid and orderly resolution in the event of material financial distress or failure. Such a resolution plan must, among other things, ensure that its depository institution subsidiaries are adequately protected from risks arising from its other subsidiaries. The final rule sets specific standards for the resolution plans, including

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requiring a strategic analysis of the plan's components, a description of the range of specific actions the company proposes to take in resolution, and a description of the company's organizational structure, material entities, interconnections and interdependencies, and management information systems, among other elements. If CIT's total consolidated assets increase to \$50 billion or more, it would become subject to this requirement.

Orderly Liquidation Authority

The Dodd-Frank Act creates the Orderly Liquidation Authority (OLA), a resolution regime for systemically important non-bank financial companies, including BHCs, under which the FDIC may be appointed receiver to liquidate such a company if the company is in danger of default and presents a systemic risk to U.S. financial stability. This determination must come after super-majority recommendations by the FRB and the FDIC and consultation between the Treasury Secretary and the President. This resolution authority is similar to the FDIC resolution model for depository institutions, with certain modifications to reflect differences between depository institutions and non-financial companies and to reduce disparities between the treatment of creditors' claims under the U.S. Bankruptcy Code and in an orderly liquidation authority proceeding compared to those that would exist under the resolution model for insured depository institutions.

An Orderly Liquidation Fund will fund OLA liquidation proceedings through borrowings from the Treasury Department and risk-based assessments made, first, on entities that received more in the resolution than they would have received in liquidation to the extent of such excess, and second, if necessary, on BHCs with total consolidated assets of \$50 billion or more. If an orderly liquidation is triggered, CIT, if its total consolidated assets increase to \$50 billion or more, could face assessments for the Orderly Liquidation Fund. We do not yet have an indication of the level of such assessments.

FDIC Deposit Insurance

Deposits of CIT Bank are insured by the FDIC Deposit Insurance Fund (DIF) up to applicable limits and are subject to premium assessments. In February 2011, the FDIC issued a final rule that changes the deposit insurance assessment base from total domestic deposits to average consolidated total assets minus average tangible equity, as required by the Dodd-Frank Act, effective April 1, 2011. The final rule also revised the deposit insurance assessment pricing methods and assessment rate schedules.

The revised assessment system applies different methods to small institutions, such as CIT Bank, with assets of less than \$10 billion, and large institutions with assets of greater than \$10 billion. Small institutions are broken down into four risk categories according to their capitalization levels and supervisory evaluations. Small institutions that are well-capitalized and are assigned to the highest supervisory group (those determined to be financially sound institutions with only a few minor weaknesses) are assigned to Risk Category I, for which initial assessment rates are based on a combination of financial ratios and supervisory ratings (its CAMELS ratings). Small institutions that are not well-capitalized or are assigned to lower supervisory groups are assigned to Risk Categories II through IV, each of which has an associated initial assessment rate. The initial base assessment rate for Risk Category I ranges from 5-9 basis points on an annualized basis (basis points representing cents per \$100 of assessable assets). The initial base assessment rate for Risk Categories II through IV are set at 14, 23 and 35 basis points on an annualized basis, respectively. After the effect of potential base rate adjustments described below (but not including the depository institution debt adjustment), the total base assessment rate could range from 2.5 to 9 basis points on an annualized basis for Risk Category I and from 9 to 24, 18 to 33 and 30 to 45 basis points on an annualized basis for Risk Categories II through IV, respectively.

For larger institutions, the FDIC created a two scorecard system, one for most large institutions that have more than \$10 billion in assets and another for highly complex institutions that have over \$50 billion in assets and are fully owned by a parent with over \$500 billion in assets. Each scorecard has a performance score and a loss-severity score that is combined to produce a total score, which is translated into an initial assessment rate. In calculating these scores, the FDIC has continued to utilize a bank's capital level and CAMELS ratings, has introduced certain new financial measures to assess an institution's ability to withstand asset-related stress and funding-related stress, and has eliminated the use of risk categories and long-term debt issuer ratings. The FDIC also has the ability to make discretionary adjustments to the total score, up or down, by a maximum of 15 basis points, based upon significant risk factors that are not adequately captured in the scorecard. The total score translates to an initial base assessment rate on a non-linear, sharply-increasing scale. For large institutions, the initial base assessment rate ranges from 5 to 35 basis points on an annualized basis. After the effect of potential base rate adjustments described below (but not including the depository institution debt adjustment), the total base assessment rate could range from 2.5 to 45 basis points on an annualized basis.

The potential adjustments to an institution's initial base assessment rate include (i) a potential decrease of up to 5 basis points for certain long-term unsecured debt (unsecured debt adjustment) and, (ii) except for well-capitalized institutions with a CAMELS rating of 1 or 2, a potential increase of up to 10 basis points for brokered deposits in excess of 10% of domestic deposits (brokered deposit adjustment). As the DIF reserve ratio grows, the rate schedule will be adjusted downward. Additionally, the rule includes a new adjustment for depository institution debt whereby an institution must pay an additional premium (the depository institution debt adjustment) equal to 50 basis points

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on every dollar (above 3% of an institution's Tier 1 capital) of long-term, unsecured debt held that was issued by another insured depository institution (excluding debt guaranteed under the Temporary Liquidity Guarantee Program).

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

In November 2009, the FDIC required all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. As of December 31, 2009, and each quarter thereafter, each insured institution is required to record an expense for its regular quarterly assessment and an offsetting credit to the prepaid assessment until the prepaid asset is exhausted. Once the asset is exhausted, the institution will resume paying and accounting for deposit insurance assessments quarterly. Any further special assessments that the FDIC levies will be recorded as an expense during the appropriate period.

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

Transactions with Affiliates

Transactions between CIT Bank and CIT Group Inc. and its subsidiaries and affiliates are regulated by the FRB and the FDIC pursuant to Sections 23A and 23B of the Federal Reserve Act. These regulations limit the types and amounts of transactions (including loans due and credit extensions from CIT Bank) that may take place and generally require those transactions to be on an arms-length basis and, in the case of extensions of credit, be secured by specified amounts and types of collateral. The Dodd-Frank Act significantly expands the coverage and scope of the limitations on affiliate transactions within a banking organization and changes the procedure for seeking exemptions from these restrictions. These regulations generally do not apply to transactions between CIT Bank and its subsidiaries. For example, commencing in July 2012, Dodd-Frank also expands the definition of a covered transaction to include derivatives transactions and securities lending transactions with a non-bank affiliate under which a bank (or its subsidiary) has credit exposure (with the term credit exposure to be defined by the FRB under its existing rulemaking authority). Collateral requirements will apply to such transactions as well as to certain repurchase and reverse repurchase agreements.

In 2009, pursuant to an exemption from Section 23A granted by the FRB, CIT transferred approximately \$5.7 billion of student loan assets and related debt to CIT Bank. In connection with this transfer, CIT is required to repurchase any transferred assets that become 30 days past due at the end of each quarter, or to reimburse CIT Bank for write-downs of the transferred assets, or to contribute cash to CIT Bank to ensure it holds the required risk-based capital related to the transferred assets.

Safety and Soundness Standards

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

Insolvency of an Insured Depository Institution

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

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

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

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would be treated differently from, and could receive, if anything, substantially less than, CIT Bank's depositors.

Consumer Financial Protection Bureau Supervision

The newly formed Consumer Financial Protection Bureau (CFPB) is authorized to interpret and administer federal consumer financial laws, and to examine and enforce compliance with those laws by depository institutions with assets over \$10 billion. Depository institutions, such as CIT Bank, with \$10 billion or less in assets will also be subject to the CFPB's jurisdiction, but consumer compliance examination and enforcement authority will generally remain with their federal prudential regulator, which in CIT Bank's case is the FDIC. The CFPB will focus on:

- risks to consumers and compliance with the federal consumer financial laws, when it evaluates the policies and practices of a financial institution;
- the markets in which firms operate and risks to consumers posed by activities in those markets;
- depository institutions that offer a wide variety of consumer financial products and services;
- depository institutions with a more specialized focus; and
- non-depository companies that offer one or more consumer financial products or services.

Community Reinvestment Act

The CRA requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. Furthermore, banking regulators take into account CRA ratings when considering approval of a proposed transaction. CIT Bank received a rating of Satisfactory on its most recent examination by the FDIC.

Incentive Compensation

The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, such as CIT and CIT Bank, having at least \$1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, which may become effective before the end of 2012. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which CIT may structure compensation for its executives.

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

Other Regulation

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

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

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

WHERE YOU CAN FIND MORE INFORMATION

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

The Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those

reports, as well as our Proxy Statement, are available free of charge on the Company's Internet site at <http://www.cit.com> as soon as reasonably practicable after such material is electronically filed with the SEC. Copies of our Corporate Governance Guidelines, the Charters of the Audit Committee, the Compensation Committee, the Nominating and Governance Committee, and the Risk Management Committee, and our Code of Business Conduct are available, free of charge, on our internet site at <http://www.cit.com>, and printed copies are available by contacting Investor Relations, 1 CIT Drive, Livingston, NJ 07039 or by telephone at (973) 740-5000.

GLOSSARY OF TERMS

Accretable / Non-accretable fresh start accounting adjustments reflect components of the fair value adjustments to assets and liabilities. Accretable adjustments flow through the related line items on the statement of operations (interest income, interest expense, other income and depreciation expense) on a regular basis over the remaining life of the asset or liability. These primarily relate to interest adjustments on loans and leases, as well as debt. Non-accretable adjustments, for instance credit related write-downs on loans, become adjustments to the basis of the asset and flow back through the statement of operations only upon the occurrence of certain events, such as repayment.

Average Earning Assets (AEA) is computed using month end balances and is the average of finance receivables (defined below), operating lease equipment, and financing and leasing assets held for sale, less the credit balances of factoring clients. We use this average for certain key profitability ratios, including return on AEA and Net Finance Revenue as a percentage of AEA.

Average Finance Receivables (AFR) is computed using month end balances and is the average of finance receivables (defined below), which includes loans and finance leases. We use this average to measure the rate of net charge-offs for the period.

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

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

Finance Receivables include loans and capital lease receivables. In certain instances, we use the term *Loans* to also mean loans and capital lease receivables, as presented on the balance sheet.

Financing and Leasing Assets include finance receivables, operating lease equipment, and assets held for sale.

Fresh Start Accounting (FSA) was adopted upon emergence from bankruptcy. FSA recognizes that CIT has a new enterprise value following its emergence from bankruptcy and requires asset values to be remeasured using fair value in accordance with accounting requirements for business combinations. The excess of reorganization value over the fair value of tangible and intangible assets was recorded as goodwill. In addition, FSA also requires that all liabilities, other than deferred taxes, be stated at fair value. Deferred taxes are determined in conformity with accounting requirements for Income Taxes.

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

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

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

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Lower of Cost or Market (LOCOM) relates to the carrying value of an asset. The cost refers to the current book balance, and if that balance is higher than the market value, an impairment charge is reflected in the current period statement of operations.

Net Finance Revenue is a non-GAAP measurement and reflects Net Interest Revenue plus rental income on operating leases less depreciation on operating lease equipment, which is a direct cost of equipment ownership. This subtotal is a key measure in the evaluation of our business.

Net Interest Revenue reflects interest and fees on loans and interest/dividends on investments less interest expense on deposits and long term borrowings.

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

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

Non-performing Assets include non-accrual assets (described above) and assets received in satisfaction of loans (repossessed assets).

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Other Income includes rental income on operating leases, syndication fees, gains from dispositions of receivables and equipment, factoring commissions, loan servicing and other fees. As a result of FSA, recoveries on pre-FSA loan charge-offs are included in other income.

Regulatory Credit Classifications used by CIT are as follows: Pass assets do not meet the criteria for classification in one of the other categories; Special Mention assets exhibit potential weaknesses that deserve management's close attention and if left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects; Classified assets range from: 1) assets that 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. Loans rated as substandard, doubtful and loss are considered classified loans. Classified loans plus special mention loans are considered criticized loans. Substandard (a substandard asset is inadequately protected by the current sound worth and paying capacity of the borrower, and is characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected); Doubtful (a doubtful asset has weaknesses that make collection or liquidation in full unlikely on the basis of current facts, conditions, and values) and Loss (a loss asset is considered uncollectible and of little or no value and is generally charged off).

Reorganization Adjustments, include items directly related to the 2009 reorganization of our business, including gains from the discharge of debt, offset by professional fees and other costs.

Reorganization Equity Value is the value attributed to the new entity and is generally viewed as the estimated fair value of the entity considering market valuations of comparable companies, historical merger and acquisition prices and discounted cash flow analyses.

Residual Values represent the estimated value of equipment at the end of the lease term. For operating leases, it is the value to which the asset is depreciated at the end of its estimated useful life.

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

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

Tangible Metrics, including tangible capital, exclude goodwill and intangible assets. We use tangible metrics in measuring book value.

Tier 1 Capital and Tier 2 Capital are regulatory capital as defined in the capital adequacy guidelines issued by the Federal Reserve. Tier 1 Capital is total stockholders' equity reduced by goodwill and intangibles and adjusted by elements of other comprehensive income and other items. Tier 2 Capital consists of, among other things, other preferred stock that does not qualify as Tier 1, mandatory convertible debt, limited amounts of subordinated debt, other qualifying term debt, and allowance for credit losses up to 1.25% of risk weighted assets.

Total Capital is the sum of Tier 1 and Tier 2 capital, subject to certain adjustments, as applicable.

Total Net Revenue is a non-GAAP measurement and is the combination of net interest revenue and other income less depreciation expense on operating lease equipment. This amount excludes provision for credit losses from total revenue and is a measurement of our revenue growth.

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

Troubled Debt Restructuring occurs when a lender, for economic or legal reasons, grants a concession to the borrower related to the borrower's financial difficulties that it would not otherwise consider.

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

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

Item 1: Business Overview

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Item 1A. Risk Factors

RISK FACTORS

The operation of our business pursuant to a banking model, the continued economic uncertainty in the U.S. and other regions of the world, and the effects of the transactions that were effectuated in our 2009 bankruptcy reorganization each involve various elements of risk and uncertainty. You should carefully consider the risks and uncertainties described below before making a decision whether to invest in the Company. Additional risks that are presently unknown to us or that we currently deem immaterial may also impact our business.

Risks Related to Our Strategy and Business Plan

We must continue refining and implementing our strategy and business plan, which is based upon assumptions and analyses developed by us, including with respect to capital and liquidity, business strategy, and operations. If these assumptions and analyses prove to be incorrect, we may be unsuccessful in executing our strategy and business plan in the time frame available to us, which could have a material adverse effect on our business, financial condition and results of operations.

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We must continue to address a number of strategic issues that affect our business, including with respect to capital and liquidity, business strategy, and operations. Among the capital and liquidity issues, we must address how we will use our excess capital, as well as our approach to the capital markets, including the amount, availability, and cost of both secured and unsecured debt. If we are unable to access the capital markets on a cost-effective, sustainable basis, we will have to rely more heavily on a bank-centric financing model, which involves significant challenges as described below. See *Risks Related to Capital and Liquidity*. Among the business strategy issues, we must address our funding model, which platforms to operate within CIT Bank or at the holding company level, the scope of our international operations, and whether to acquire any new business platforms, or to expand, contract, or sell any existing platforms. We may from time to time evaluate acquisitions or divestitures, including acquisitions or divestitures which could be material. Among operational issues, we must continuously originate new business, service our existing portfolio, and upgrade our policies, procedures, and systems. There is no assurance that we will be able to implement our strategic decisions effectively, and it may be necessary to refine, supplement, or modify our business plan and strategy in significant ways. If we are unable to fully implement our business plan and strategy, it may have a material adverse effect on our business, results of operations and financial position.

Our strategy and business plan relies upon assumptions, analyses, and financial forecasts developed by us, including with respect to revenue growth, earnings, interest margins, cash flow, liquidity and financing sources, customer confidence, retention of key employees, and the overall strength and stability of general economic conditions. Financial forecasts are inherently subject to many uncertainties and are necessarily speculative, and it is likely that one or more of the assumptions and estimates that are the basis of these financial forecasts will not be accurate. Accordingly, our actual financial condition and results of operations may differ, perhaps materially, from what we have forecast. There can be no assurance that the results or developments contemplated by our strategy and business plan will occur or, if they do occur, that they will have the anticipated effects on us and our subsidiaries or our businesses or operations. The failure of any such results or developments to materialize as anticipated could materially adversely affect the successful execution of our strategy and business plan. In addition, the accounting treatment required for our bankruptcy reorganization may have an impact on our results going forward.

Risks Related to Capital and Liquidity

If the Company does not maintain sufficient capital to satisfy the FRBNY, the FDIC and the UDFI, there could be an adverse effect on the manner in which we do business, or we could become subject to various enforcement or regulatory actions.

When we became a bank holding company and CIT Bank converted from a Utah industrial bank to a Utah state bank, we committed to the FRBNY to maintain a total risk-based capital ratio of at least 13% for the bank holding company and to the FDIC to maintain for at least a three year period a Tier 1 leverage capital ratio of at least 15% for CIT Bank. Although our capital levels currently exceed the minimum levels committed to with the regulators, future losses may reduce our capital levels and we have no assurances that we will be able to maintain our regulatory capital at satisfactory levels based on the current level of performance of our business. Failure to maintain the appropriate capital levels would adversely affect the Company's status as a bank holding company, have a material adverse effect on the Company's financial condition and results of operations, and subject the Company to a variety of enforcement actions, as well as certain restrictions on its business. In addition to the requirement to be well-capitalized, the Company and CIT Bank are subject to regulatory guidelines that involve qualitative judgments by regulators about the entities' status as well-managed, about the safety and soundness of the entities' operations, including their risk management, and about the entities' compliance with obligations under the Community Reinvestment Act of 1977, and failure to meet those standards may have a material adverse effect on our business.

If we incur future losses and as a result do not maintain sufficient regulatory capital, the FRBNY and the FDIC could take action to require the Company to divest its interest in CIT Bank or otherwise limit access to CIT Bank by the Company and its creditors. The FDIC, in the case of CIT Bank, and the FRBNY, in the case of the Company, could place restrictions on the ability of CIT Bank and the Company to take certain actions without the prior approval of the applicable regulators. If we are unable to implement our strategy and business plan, including a long-term funding plan, and access the credit markets to meet our capital and liquidity needs in the future, or if we otherwise suffer adverse effects on our liquidity and operating results, we may be subject to formal and informal enforcement actions by the FRBNY and the FDIC, we may be forced to divest CIT Bank, and/or CIT Bank may be placed in FDIC conservatorship or receivership or suffer other consequences. Such actions could impair our ability to

position.

Our liquidity and/or ability to issue debt in the capital markets will be affected by our capital structure and level of encumbered assets, the performance of our business, market conditions, credit ratings, and regulatory or contractual restrictions. Inadequate liquidity could materially adversely affect our future business operations. Also, if we are unable to generate sufficient cash flow from operations to satisfy our obligations as they come due, it would adversely affect our future business operations.

As a result of our 2009 bankruptcy reorganization, we emerged from bankruptcy with a significant amount of high cost debt. While we have refinanced or redeemed the majority of this indebtedness, the cost of our debt remains high relative to other large financial institutions. We are in the process of redeeming our remaining outstanding Series A Notes and expect to complete the redemption in March of 2012. Once we have redeemed these Series A Notes, the liens securing our outstanding Series C Notes and Revolving Credit Facility will be released upon completion of certain administrative requirements.

We believe that conducting a greater proportion of our business activities within CIT Bank will facilitate greater funding stability. CIT Bank has access to certain funding sources, such as insured deposits, that are not available to non-banking institutions. However, CIT Bank generally cannot fund any of CIT's businesses conducted outside the Bank and we will need to obtain funding for those businesses in the capital markets and through third-party bank borrowings. Access to the capital markets may be dependent upon our ratings from credit rating agencies, which currently are not investment grade.

There can be no assurance that we will be able to access the capital markets at attractive pricing and terms and at volumes that meet our expectations and needs. If we are unable to do so, it would adversely affect our business, operating results and financial condition. After we redeem our remaining Series A Notes, we will continue to have a significant amount of high cost indebtedness and other obligations, which will continue to impact our net interest margin and profitability. Even if we successfully implement our strategy and business plan, obtain additional financing from third party sources to continue operations, and successfully operate our business, our liquidity may be inadequate to expand our business, upgrade our operations, or make necessary capital expenditures and we may be required to sell assets or engage in other capital generating actions over and above our normal financing activities or cut back or eliminate other programs that are important to the future success of our business. In addition, as part of our business, we enter into financial commitments and extend lines of credit, and our customers and counterparties might respond to any weakening of our liquidity position by requesting quicker payment, requiring additional collateral, or increasing draws on our outstanding commitments and lines of credit. If this were to happen, our need for cash would be intensified and it could have a material adverse effect on our business, financial condition, or results of operations.

If we are unable to maintain profitability, we may not be able to generate sufficient cash flow from operations in the future to allow us to service our debt, pay our other obligations as required and make necessary capital expenditures, in which case we may need to dispose of additional assets and/or minimize capital expenditures and/or try to raise additional financing. There is no assurance that any of these alternatives would be available to us, if at all, on satisfactory terms.

Our business may be adversely affected if we do not successfully expand our deposit-taking capabilities at CIT Bank.

There is no assurance that CIT Bank will become a reliable funding source as to either the amount of borrowings we might need or the cost of funding. This will depend in significant part on the ability of CIT Bank to attract deposits, which currently is limited by its lack of a branch network and its historical reliance upon brokered deposits, and on whether CIT Bank will be accepted by depositors and lenders as a reliable borrower. In October 2011, CIT Bank launched a retail online banking platform that currently offers a range of certificates of deposit directly to consumers as well as to institutions. While CIT Bank plans to expand the retail online banking platform to diversify the types of deposits that it accepts, such expansion may require significant time and effort to implement. In addition, the acquisition of a retail branch network will be subject to regulatory approval, which may not be obtained. We are likely to face significant competition for deposits from stronger bank holding companies who are similarly seeking larger and more stable pools of funding. If CIT Bank is unable to expand its deposit-taking capability, it could have a material adverse effect on our business, results of operations, and financial position.

Many of our regulated subsidiaries could be negatively affected by a decrease in regulatory capital levels or a failure to improve our performance.

In addition to CIT Bank, we have a number of other regulated subsidiaries that may be affected by a decrease in our regulatory capital levels or a failure to improve our performance. In particular, the regulators of our banking subsidiaries in the United Kingdom, Sweden, France and Brazil, as well as our Small Business Lending and insurance subsidiaries, may take action against such entities, including limiting or prohibiting transactions with CIT Group Inc. and/or seizing such entities if we experience a decrease in our regulatory capital levels or a failure to improve our performance.

Risks Related to Regulatory Obligations and Limitations

We are currently subject to the Written Agreement, which may adversely affect our business. In addition, our business may be adversely affected if we do not successfully implement our plan to transform our compliance, risk management, finance, treasury, operations, and other areas of our business to meet the standards of a bank holding company.

Under the terms of the Written Agreement, the Company provided the FRBNY with (i) a corporate governance plan, focusing on strengthening internal audit, risk management, and other control functions, (ii) a credit risk management plan, (iii) a written program to review and revise, as appropriate, its program for determining, documenting and recording the allowance for loan and lease losses, (iv) a capital plan for the Company and CIT Bank, (v) a liquidity plan, including meeting short term funding needs and longer term funding, without relying on government programs or Section 23A waivers, and (vi) a business plan, and we

Item 1A: Risk Factors

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have updated various of these plans on a periodic basis. The Written Agreement also prohibits the Company, without the prior approval of the FRBNY, from paying dividends, paying interest on subordinated debt, incurring or guaranteeing debt outside of the ordinary course of business, prepaying debt, or purchasing or redeeming the Company's stock. Under the Written Agreement, the Company must comply with certain procedures and restrictions on appointing or changing the responsibilities of any senior officer or director, restricting the provision of indemnification to officers and directors, and restricting the payment of severance to employees.

When we converted our business to a banking model, we identified areas that required improved policies and procedures to meet the regulatory requirements and standards for banks and bank holding companies, including but not limited to compliance, risk management, finance, treasury, and operations. During 2010 and 2011, we developed and implemented project plans to improve policies, procedures, and systems in the areas identified and we continue to make improvements on an ongoing basis.

The additional resources hired for internal audit, risk management, and other control functions, and the cost of implementing other measures to comply with the Written Agreement has increased our expenses for the foreseeable future. If we do not comply with the terms of the Written Agreement, it could result in additional regulatory action and it could have a material adverse effect on our business. If we have not identified all of the required improvements, particularly in our control functions, or if we are unsuccessful in implementing the policies, procedures, and systems that have been identified, or if we do not implement the policies, procedures, and systems quickly enough, we may not be able to operate our business as efficiently as we need to. In addition, we could be subject to a variety of formal and informal enforcement actions that could result in the imposition of certain restrictions on our business, or preclude us from making acquisitions, and such actions could impair our ability to execute our business plan and have a material adverse effect on our business, results of operations, or financial position.

Our business, financial condition and results of operations could be adversely affected by regulations to which we are subject as a result of becoming a bank holding company, by new regulations or by changes in other regulations or the application thereof.

The financial services industry, in general, is heavily regulated. We are subject to the comprehensive, consolidated supervision of the Federal Reserve, including risk-based and leverage capital requirements and information reporting requirements. In addition, CIT Bank is subject to supervision by the FDIC and UDFI, including risk-based capital requirements and information reporting requirements. This regulatory oversight is established to protect depositors, federal deposit insurance funds and the banking system as a whole, and is not intended to protect debt and equity security holders.

Proposals for legislation to further regulate, restrict, and tax certain financial services activities are continually being introduced in the United States Congress and in state legislatures. The agencies regulating the financial services industry also periodically adopt changes to their regulations. In recent years, regulators have increased significantly the level and scope of their supervision and their regulation of the financial services industry. We are unable to predict how this increased supervision will be fully implemented or the form or nature of any future changes to statutes or regulations, including the interpretation or implementation thereof. Such increased supervision and regulation could significantly affect our ability to conduct certain of our businesses, including some of our material businesses, in a cost-effective manner, or could restrict the type of activities in which we are permitted to engage, or subject us to stricter and more conservative capital, leverage, liquidity, and risk management standards. Any such action could affect us in substantial and unpredictable ways, could significantly increase our costs and limit our growth opportunities, and could have an adverse effect on our business, financial condition and results of operations.

Most of the activities in which we currently engage are permissible activities for a bank holding company. However, since we are not a financial holding company, certain of our businesses were not permissible under regulations applicable to a bank holding company, including certain real estate investment and equity investment activities. When the Federal Reserve approved our application to become a bank holding company, we were required to conform those activities to the requirements imposed on a bank holding company or divest them. We have conformed or divested all of our impermissible real estate and equity investments, except for one equity investment, which we have contracted to sell. The sale is subject to regulatory approval by the Federal Energy Regulatory Commission. The Federal Reserve extended the period to conform or divest the remaining impermissible equity investment to March 31, 2012. This impermissible investment continues to require management attention and still remains subject to periodic reporting and review by the Federal Reserve.

The financial services industry is also heavily regulated in many jurisdictions outside of the United States. We have subsidiaries in various countries that are licensed as banks, banking corporations, broker-dealers, and insurance companies, all of which are subject to regulation and examination by banking, securities, and insurance regulators in their home jurisdiction. In certain jurisdictions, including the United Kingdom, the local banking regulators expect the local regulated entity to maintain contingency plans to operate on a stand-alone basis in the event of a crisis. Given the evolving nature of regulations in many of these jurisdictions, it may be difficult for us to meet all of the regulatory requirements, establish operations and receive approvals. Our inability to remain in compliance with regulatory requirements in a particular jurisdiction could have a material adverse effect on our operations in that market and on our reputation generally.

We are also affected by the economic and other policies adopted by various governmental authorities and bodies in the U.S. and other jurisdictions. For example, the actions of the Federal Reserve and international central banking authorities directly impact our cost of funds for lending, capital raising and investment activities and may impact the value of financial instruments we hold. In addition, such changes in monetary policy may affect the credit quality of our customers. Changes in domestic and international monetary policy are beyond our control and difficult to predict.

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The Dodd-Frank Act and related regulations may adversely affect our business, financial condition, liquidity, or results of operations.

The Dodd-Frank Act establishes a Financial Stability Oversight Council (FSOC) chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk and, among other things, includes provisions affecting (i) corporate governance and executive compensation of all companies whose securities are registered with the SEC, (ii) FDIC insurance assessments, which will be based on asset levels rather than deposit levels, (iii) minimum capital levels for bank holding companies, (iv) derivatives activities, proprietary trading, and private investment funds offered by financial institutions, and (v) the regulation of large financial institutions. The Dodd-Frank Act also creates a new Consumer Financial Protection Bureau with power to promulgate and enforce consumer protection laws.

At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting regulations may adversely impact us. However, compliance with these new laws and regulations may increase our costs, limit our ability to pursue attractive business opportunities, cause us to modify our strategies and business operations, and increase our capital requirements, any of which may have a material adverse impact on our business, financial condition, liquidity, or results of operations.

Risks Related to the Operation of Our Businesses

We may be adversely affected if we do not maintain adequate internal control over financial reporting, which could result in a material misstatement of the Company's annual or interim financial statements.

Management of CIT is responsible for establishing and maintaining adequate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A failure to maintain adequate internal control over financial reporting may result in an inability to (i) maintain records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

As of December 31, 2010, management of CIT identified a series of deficiencies that in aggregate were determined to be a material weakness related to the Company's application of Fresh Start Accounting (FSA). Specifically, the Company did not have effective controls over the processes to ensure proper accretion of discounts for loan prepayments, modifications, and charge-offs. Although the Company has determined as of December 31, 2011 that this material weakness has been remediated, it resulted in a material misstatement of interest income and other income and the restatement of the Company's consolidated financial statements for the first three quarterly periods in the year ended December 31, 2010.

If we identify additional, future material weaknesses, or if material weaknesses exist that we fail to identify, our risk will be increased that a material misstatement to the annual or interim financial statements will not be prevented or detected on a timely basis. Any such potential material misstatement, if not prevented or detected, could have a material adverse effect on our business, results of operations, and financial condition.

Our reserves for credit losses, including the related non-accretable fair value discount component of the fresh start accounting adjustments, may prove inadequate.

Our business depends on the creditworthiness of our customers and their ability to fulfill their obligations to us. We maintain a consolidated reserve for credit losses on finance receivables that reflects management's judgment of losses inherent in the portfolio. We periodically review our consolidated reserve for adequacy considering economic conditions and trends, collateral values, and credit quality indicators, including past charge-off experience and levels of past due loans, past due loan migration trends, and non-performing assets. Our credit losses were significantly more severe from 2007 to 2009 than in prior economic downturns, due to a significant decline in real estate values, an increase in the proportion of cash flow loans versus asset based loans in our corporate finance segment, the limited ability of borrowers to restructure their liabilities or their business, and reduced values of the collateral underlying the loans.

Our reserves for credit losses, including the related non-accretable fair value discount component of the fresh start accounting adjustments may prove inadequate. While our portfolio credit quality improved in 2011 following the significant deterioration in the credit worthiness of our customers and the value of collateral underlying our receivables in prior years, particularly 2008 and 2009, the economic environment is dynamic, and our credit quality could decline again in the future. Our reserves may not keep pace with changes in the credit-worthiness of our customers or in collateral values. If the credit quality of our customer base declines, if the risk profile of a market, industry, or group of customers changes significantly, or if the markets for accounts receivable, equipment, real estate, or other collateral deteriorates significantly, any or all of which would adversely affect the adequacy of our reserves for credit losses, it could have a material adverse effect on our business, results of operations, and financial position.

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

Item 1A: Risk Factors

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Uncertainties related to our business may result in the loss of or decreased business with customers.

Our business depends upon our customers believing that we will be able to provide them with funding on a timely basis through a wide range of quality products. Many of our customers rely upon our funding to provide them with the working capital necessary to operate their business or to fund capital improvements that allow them to maintain or expand their business. In many instances, these funding requirements are time sensitive. If our customers are uncertain as to our ability to continue to provide them with funding on a timely basis or to provide the same breadth and quality of products, we may be unable to attract new customers and we may experience lower business or a loss of business with our existing customers.

We may not be able to achieve adequate consideration for the disposition of assets or businesses.

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As part of our strategy and business plan, we may consider a number of measures designed to manage our business, asset levels, credit exposures, or liquidity position, including potential business or asset sales. There can be no assurance that we will be successful in completing all or any of these transactions, because there may not be a sufficient number of buyers willing to enter into a transaction, we may not receive sufficient consideration for such businesses or assets, the process of selling businesses or assets may take too long to be a significant source of liquidity, or lenders or noteholders with consent rights may not approve a sale of assets. These transactions, if completed, may reduce the size of our business and we may not be able to replace the volume associated with these businesses. From time to time, we also receive inquiries from third parties regarding our potential interest in disposing of other types of assets, such as student lending and other commercial finance or vendor finance assets, which we may or may not choose to pursue.

As a result of economic cycles and other factors, the value of certain assets classes may fluctuate and decline below their historic cost. If CIT is holding such asset classes, whether as equipment held for lease or as collateral for loans, we may not recover our carrying value if we sell such assets. In addition, potential purchasers may be unwilling to pay an amount equal to the face value of a loan or lease if the purchaser is concerned about the quality of the Company's credit underwriting. Further, some potential purchasers will intentionally submit bids with purchase prices below the face value of a loan or lease if the purchaser suspects that the seller is under pressure to sell and cannot afford to negotiate the price. There is no assurance that we will receive adequate consideration for any asset or business dispositions. For example, certain dispositions in 2008 and 2009 resulted in the Company recognizing significant losses. As a result, our future disposition of businesses or asset portfolios could have a material adverse effect on our business, financial condition and results of operations.

When we sold our home lending business in 2008, the Purchaser agreed to assume our repurchase obligations related to representations and warranties that we made in earlier transactions with Government Sponsored Entities (GSEs), investors in mortgage backed securities originated by our home lending business, or monoline home lenders. If any claims are brought under such repurchase obligations and the Purchaser is unable to meet its obligations under such claims, then we may be subject to claims under such repurchase obligations as the originator of the underlying residential mortgage loans.

Recently, certain lenders have been subject to claims by GSEs, monoline home lenders, and investors in mortgage backed securities of a breach of representations and warranties with respect to the residential mortgage loans and residential mortgage backed securities previously transferred to such GSEs, monoline home lenders, or investors. In certain instances, the lenders who originated the underlying residential mortgage loans have reached settlements with purchasers or investors requiring the original lender to repurchase all or a portion of the underlying residential mortgage loans at a significant cost to the original lender.

In 2008, we entered into a purchase agreement (the Purchase Agreement) to sell our residential mortgage lending business, including the related residential mortgage loan portfolio and mortgage backed securities, to a company created by a private equity fund for the purpose of entering into the Purchase Agreement (the Purchaser). Prior to the sale of our home lending business to the Purchaser, we periodically had securitized a portion of the residential mortgage loans that we originated, and we sold residential mortgage loans or residential mortgage backed securities to GSEs, monoline home lenders, and investors. Pursuant to the Purchase Agreement with the Purchaser, we made certain representations and warranties regarding the business and portfolio, nearly all of which have since expired.

In addition, the Purchaser agreed to assume all repurchase obligations for residential mortgage loans under the securitization and loan sale agreements entered into prior to the Purchase Agreement and scheduled as part of the Purchase Agreement.

The Purchaser has not given any indication that it has been subject to significant repurchase obligations or that it does not intend to honor its agreement to assume such repurchase obligations. However, if the Purchaser is subject to repurchase obligations and is unable or unwilling to accept responsibility for such repurchase obligations, and particularly if the Purchaser does not have sufficient capital to address such repurchase obligations, then we may become subject to claims under such repurchase obligations. If we become responsible for such repurchase obligations to third parties, it may have a material adverse effect on our results of operations and financial condition.

We are restricted from paying dividends on our common stock.

Under the terms of the Written Agreement, we are restricted from declaring dividends on our common stock without prior written approval of the FRBNY. We are not currently paying dividends on our common stock. Even when the Written Agreement is terminated, we cannot determine when, if ever, we will be able to pay dividends on our common stock in the future. We do not anticipate the return of capital during 2012.

Uncertainties related to our business, as well as the corporate governance requirements imposed under the Dodd-Frank Act, may create a distraction for employees and may otherwise materially adversely affect our ability to retain existing employees and/or attract new employees.

Our future results of operations will depend in part upon our ability to retain existing highly skilled and qualified employees and to attract new employees. Failure to continue to attract and retain such individuals could materially adversely affect our ability to compete. If we are significantly limited or unable to attract and retain key personnel, or if we lose a significant number of key employees, or if employees are distracted due to concerns about the future prospects and profitability of our business, it could have a material adverse effect on our ability to successfully operate our business or to meet our operations, risk management, compliance, regulatory, and financial reporting requirements.

Under the Dodd-Frank Act, we are required to allow shareholders to cast a non-binding vote on (i) executive compensation at least once every three years and (ii) all compensation paid or payable to named executive officers related to any merger, acquisition, or major asset sale in any proxy statement filed in connection with such transactions. The Dodd-Frank Act also requires the SEC to issue rules requiring companies to develop claw-back policies to recoup all incentive based compensation paid to current or former executives during the three years on which a restatement is required when a company must restate its financial statements due to material noncompliance with any financial reporting requirement. The compensation provisions of the Dodd-Frank Act, as well as other non-compensation provisions, such as those restricting banks and bank holding companies from engaging in certain activities, could have a material adverse effect on our ability to recruit and retain individuals with the experience and skill necessary to manage successfully our business through its current difficulties and during the long term.

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

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

A decrease in the market value of leased equipment at a rate greater than the rate we projected, whether due to rapid technological or economic obsolescence, unusual wear and tear on the equipment, excessive use of the equipment, recession or other adverse economic conditions, or other factors, would adversely affect the current values or the residual values of such equipment.

Further, certain equipment residual values, including commercial aerospace residuals, are dependent on the manufacturers' or vendors' warranties, reputation, and other factors, including market liquidity. In addition, we may not realize the full market value of equipment if we are required to sell it to meet liquidity needs or for other reasons outside of the ordinary course of business. Consequently, there can be no assurance that we will realize our estimated residual values for equipment.

The degree of residual realization risk varies by transaction type. Capital leases bear the least risk because contractual payments cover approximately 90% of the equipment's cost at the inception of the lease. Operating leases have a higher degree of risk because a smaller percentage of the equipment's value is covered by contractual cash flows at lease inception. Leveraged leases bear the highest level of risk as third parties have a priority claim on equipment cash flows. A significant portion of our leasing portfolios are comprised of operating leases, and a portion is comprised of leveraged leases, both of which increase our residual realization risk.

We are currently involved, and may from time to time in the future be involved, in a number of judicial, regulatory, and arbitration proceedings related to the conduct of our business, the results of which could have a material adverse effect on our business, financial condition, or results of operation.

We are currently involved, and from time to time in the future may be involved, in a number of judicial, regulatory, and arbitration proceedings relating to matters that arise in connection with the conduct of our business (collectively, "Litigation"). In view of the inherent difficulty of predicting the outcome of Litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages, we cannot state with confidence what the eventual outcome of the pending Litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter will be, if any. Although we have established reserves for certain matters, the actual results of resolving such matters may be substantially higher than the amounts reserved, or judgments may be rendered, or fines or penalties assessed in matters for which we have no reserves. Adverse judgments, fines or penalties in one or more Litigation matters could have a material adverse effect on our business, financial condition, or results of operation.

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

We and our subsidiaries are party to various financing arrangements, commercial contracts and other arrangements that give, or in some cases may give, the counterparty the ability to exercise rights and remedies upon the occurrence of a material adverse effect or material adverse change (or similar event), certain insolvency events, a default under certain specified other obligations or a failure to comply with certain financial covenants. Deterioration in our business and that of certain of our subsidiaries may make it more likely that counterparties will seek to exercise rights and remedies under these arrangements. The counterparty could have the ability, depending on the arrangement, to, among other things, require early repayment of amounts owed by us or our subsidiaries and in some cases payment of penalty amounts. If the ability of any counterparty to exercise such rights and remedies is triggered and we are unsuccessful in avoiding or minimizing the adverse consequences discussed above, such consequences could have a material

adverse effect on our business, results of operations, and financial position.

Adverse or volatile market conditions could continue to negatively impact fees and other income.

A portion of our revenue base is generated through loan syndication fees and participation income, advisory fees, servicing fees, and other types of fee income, which are recorded in other income. In addition, we also generate significant fee income from our factoring business. These revenue streams are dependent on market conditions and the confidence of clients, customers, and syndication partners in our ability to perform our obligations, and, therefore, are more volatile than interest payments on loans and rentals on leased equipment. Current market conditions, including lower liquidity levels in the syndication market, have significantly reduced our syndication activity, and have resulted in significantly lower fee income. In addition, if our clients, customers, or syndication partners become concerned about our ability to meet our obligations on a transaction, it may become more difficult for us to originate new transactions, to syndicate transactions that we originate, or to participate in syndicated transactions originated by others, which could further negatively impact our fee income and have a material adverse effect on our business. If we are unable to sell or syndicate a transaction after it is originated, we will end up holding a larger portion of the transaction and assuming greater underwriting risk than we originally intended, which could increase our capital and liquidity requirements to support our business or expose us to the risk of valuation allowances for assets held for sale. If the capital markets are disrupted or if we otherwise fail to produce increased fees and other income, it could adversely affect our financial position and results of operations.

Investment in and revenues from our foreign operations are subject to various risks and requirements associated with transacting business in foreign countries.

An economic recession or downturn, increased competition, or business disruption associated with the political or regulatory environments in the international markets in which we operate could adversely affect us.

In addition, our foreign operations generally conduct business in foreign currencies, which subject us to foreign currency exchange rate fluctuations. These exposures, if not effectively hedged could have a material adverse effect on our investment in international operations and the level of international revenues that we generate from international financing and leasing transactions. Reported results from our operations in foreign countries may fluctuate from period to period due to exchange rate movements in relation to the U.S. dollar, particularly exchange rate movements in the Canadian dollar, which is our largest non-U.S. exposure.

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

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

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

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

Historically, we generally employed a matched funding approach to managing our interest rate risk, including matching the repricing characteristics of our assets with our liabilities. In many instances, we implemented our matched funding strategy through the use of interest rate swaps and other derivatives. Most of our interest rate swaps and other hedging transactions were terminated during our 2009 reorganization, and we continue to reestablish counterparty relationships to facilitate hedging where economically appropriate. In addition, the restructuring resulted in the conversion of our debt to U.S. dollar-denominated, fixed rate liabilities. The restructuring and the derivative terminations left us in an asset sensitive position as our assets will reprice faster than our liabilities. Although interest rates are currently lower than usual, as interest rates rise and fall over time, any significant decrease in market interest rates may result in a decrease in net interest margins to the extent that we are not match funded. Likewise, our non-U.S. dollar denominated debt was converted to U.S. dollars resulting in foreign currency transactional and translational exposures. Our transactional exposures may result in income statement losses should related foreign currencies depreciate relative to the U.S. dollar and our equity account may be similarly impacted as a result of foreign currency movements. Beginning in the second half of 2007, credit spreads for almost all financial institutions, and particularly our credit spreads, widened dramatically and made it highly uneconomical for us to borrow in the unsecured debt markets to fund loans to our customers. In addition, the widening of our credit spreads relative to the credit spreads of many of our competitors placed

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us at a competitive disadvantage and made it more difficult to maintain our interest margins. If we are unable to obtain funding, either in the capital markets or through bank deposits, in sufficient amounts and at an economical rate that is competitive with other banks and lenders, we will be operating at a competitive disadvantage and it may have a material adverse effect on our business, financial condition, and results of operations.

A substantial portion of our loans and other financing products bear interest at floating interest rates. If interest rates increase, monthly interest obligations owed by our customers to us will also increase. Demand for our loans or other financing products may decrease as interest rates rise or if interest rates are expected to rise in the future. In addition, if prevailing interest rates increase, some of our customers may not be able to make the increased interest payments or refinance their balloon and bullet payment transactions, resulting in payment defaults and loan impairments. Conversely, if interest rates remain low, our customers may refinance the loans they have with us at lower interest rates, or with others, leading to lower revenues.

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

Prolonged economic weakness, or other adverse economic or financial developments in the U.S. or global economies in general, or affecting specific industries, geographic locations and/or products, would likely further impact credit quality as borrowers may fail to meet their debt payment obligations, particularly customers with highly leveraged loans. Adverse economic conditions have and could further result in declines in collateral values, which also decreases our ability to fund against collateral. Accordingly, higher credit and collateral related losses could impact our financial position or operating results.

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

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

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

We compete primarily on the basis of pricing, terms and structure. If we are unable to match our competitors' terms, we could lose market share. Should we match competitors' terms, it is possible that we could experience lower returns and/or increased losses. We also may be unable to match competitors' terms as a result of our current or future financial condition.

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

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical and recordkeeping errors, and computer or telecommunications systems malfunctions. Our businesses are dependent on our ability to process a large number of increasingly complex transactions. If any of our financial, accounting, or other data processing systems fail or have other significant shortcomings, we could be materially adversely affected. We are similarly dependent on our employees. We could be materially adversely affected if one of our employees causes a significant operational break-down or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. Third parties with which we do business could also be sources of operational risk to us, including relating to break-downs or failures of such parties' own systems or employees. Any of these occurrences could result in a diminished ability for us to operate one or more of our businesses, or cause financial loss, potential liability to clients, inability to secure insurance, reputational damage and regulatory intervention, which could materially adversely affect us.

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

Information security risks for large financial institutions such as CIT have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer

Item 1A: Risk Factors

systems and networks. Our businesses rely on our digital technologies, computer and email systems, software, and networks to conduct their operations. Although we believe we have robust information security procedures and controls, our technologies, systems, networks, and our customers' devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of CIT's or our customers' confidential, proprietary and other information, or otherwise disrupt CIT's or its customers' or other third parties' business operations.

Third parties with which we do business or that facilitate our business activities, including vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints.

Although to date we have not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the prominent size and scale of CIT and its role in the financial services industry, our plans to continue to implement our Internet banking channel strategies and develop additional remote connectivity solutions to serve our customers when and how they want to be served, our expanded geographic footprint and international presence, the outsourcing of some of our business operations, and the continued uncertain global economic environment. As a result, cyber security and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for CIT. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

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

Item 1B. Unresolved Staff Comments

There are no unresolved SEC staff comments.

Item 2. Properties

CIT operates in the United States, Canada, Europe, Latin America, and Asia. CIT occupies approximately 1.5 million square feet of office space, the majority of which is leased.

Item 3. Legal Proceedings

CIT is currently involved, and from time to time in the future may be involved, in a number of judicial, regulatory, and arbitration proceedings relating to matters that arise in connection with the conduct of its business (collectively, *Litigation*), certain of which *Litigation* matters are described in *Note 20 Contingencies of Item 8. Financial Statements and Supplementary Data*. In view of the inherent difficulty of predicting the outcome of *Litigation* matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages, CIT cannot state with confidence what the eventual outcome of the pending *Litigation* will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter may be, if any. In accordance with applicable accounting guidance, CIT establishes reserves for *Litigation* when those matters present loss contingencies as to which it is both probable that a loss will occur and the amount of such loss can be reasonably estimated. Based on currently available information, CIT believes that the results of *Litigation* that is currently pending, taken together, will not have a material adverse effect on the Company's financial condition, but may be material to the Company's operating results or cash flows for any particular period, depending in part on its operating results for that period. The actual results of resolving such matters may be substantially higher than the amounts reserved.

For more information about pending legal proceedings, including an estimate of certain reasonably possible losses in excess of reserved amounts, see *Note 20 Contingencies of Item 8. Financial Statements and Supplementary Data*.

Item 4. Mine Safety Disclosures

Not applicable.

PART TWO

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

Market Information CIT's common stock trades on the New York Stock Exchange (NYSE) under the symbol CIT. On December 10, 2009, CIT issued 200 million shares of new common stock to unsecured holders of debt in conjunction with our emergence from Chapter 11 proceedings.

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

Common Stock

	2011		2010	
	High	Low	High	Low
First Quarter	\$ 49.01	\$41.82	\$39.23	\$28.37
Second Quarter	\$ 44.33	\$39.60	\$41.75	\$33.81
Third Quarter	\$ 44.74	\$30.27	\$40.82	\$33.26
Fourth Quarter	\$ 36.60	\$29.12	\$47.10	\$39.46

Holders of Common Stock As of February 17, 2011, there were 118,409 beneficial owners of common stock.

Dividends We have not declared nor paid any common stock dividends on the shares of common stock during 2010 and 2011. We do not anticipate the return of capital during 2012.

Securities Authorized for Issuance Under Equity Compensation Plans Our equity compensation plans in effect following the Effective Date were approved by the Court and do not require shareholder approval. Equity awards associated with these plans are presented in the following table.

	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plan approved by the Court	68,100	\$30.76	8,478,343*

* Excludes the number of securities to be issued upon exercise of outstanding options and 1,051,632 shares underlying outstanding awards granted to employees and/or directors that are unvested and/or unsettled.

We had no other equity compensation plans that were not approved by the Court or by shareholders. For further information on our equity compensation plans, including the weighted average exercise price, see *Item 8. Financial Statements and Supplementary Data, Note 18 Retirement, Other Postretirement and Other Benefit Plans*.

Issuer Purchases of Equity Securities There were no purchases of equity securities made during 2011 and there are no repurchase plans or programs under which shares may be purchased.

Unregistered Sales of Equity Securities There were no sales of common stock during 2011, however, there were issuances of common stock under equity compensation plans and an employee stock purchase plan.

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On December 10, 2009, the Effective Date of our Plan of Reorganization, we provided for 600,000,000 shares of authorized common stock, par value \$0.01 per share, of which 200,000,000 shares were issued, and 100,000,000 shares of authorized new preferred stock, par value \$0.01 per share, of which no shares were issued. We reserved 10,526,316 shares of common stock for future issuance under the Amended and Restated CIT Group Inc. Long-Term Incentive Plan.

Based on the Confirmation Order, the Company relied on Section 1145(a)(1) of the United States Bankruptcy Code to exempt from the registration requirements of the Securities Act of 1933, as amended, the issuance of the new securities.

Shareholder Return The following graph shows the semi-annual cumulative total shareholder return for common stock during the period from December 10, 2009 to December 31, 2011. Five year historical data is not presented since we emerged from bankruptcy on December 10, 2009 and the stock performance of CIT's common stock is not comparable to the performance of pre-bankruptcy CIT's common stock. The chart also shows the cumulative returns of the S&P 500 Index and S&P Banks Index for the same period. The comparison assumes \$100 was invested on December 10, 2009 (the date our new common stock began trading on the NYSE). Each of the indices shown assumes that all dividends paid were reinvested.

Item 5: Market for Registrant's Common Equity

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2009 returns based on opening prices on December 10, 2009, the effective date of the Company's plan of reorganization, through year-end. The opening prices were: CIT: \$27.00, S&P 500: 1098.69, and S&P Banks: 124.73.

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Item 6. Selected Financial Data

The following table sets forth selected consolidated financial information regarding our results of operations, balance sheets and certain ratios. The Company has revised its financial results for the years ended December 31, 2011 and 2010, and the respective quarters in those years, from the results released in the Company's January 31, 2012 Earnings Release and Current Report on Form 8-K filing. The revision relates to the correction of certain deferred tax balances. The impact of this correction is a \$1.1 million and \$1.9 million reduction in Net Income for the years ended December 31, 2011 and 2010, respectively, and a \$0.01 reduction in Diluted Earnings per Share for each year.

As detailed in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*, upon emergence from bankruptcy on December 10, 2009, CIT adopted fresh start accounting effective December 31, 2009, which resulted in data subsequent to adoption not being comparable to data in periods prior to emergence. Therefore, balance sheet information for CIT at December 31, 2011, 2010 and 2009 and statement of operations information for the years ended December 31, 2011 and 2010 are presented separately. Data for the year ended December 2009 and at or for the years ended December 2008, 2007 and 2006 represent amounts for Predecessor CIT. Predecessor CIT presents the operations of the home lending business as a discontinued operation. The data presented below is explained further in, and should be read in conjunction with, *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Item 7A. Quantitative and Qualitative Disclosures about Market Risk* and *Item 8. Financial Statements and Supplementary Data*.

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

	CIT			Predecessor CIT		
	At or for the Years Ended December 31,			At or for the Years Ended December 31,		
	2011	2010	2009	2009	2008	2007
Net interest revenue	\$ (561.0)	\$ 645.6	\$	\$ (302.8)	\$ 499.1	\$ 821.1
Total other income	2,621.7	2,651.3		1,567.1	2,460.3	3,567.8
Reorganization items and fresh start adjustments				4,225.6		
Per Common Share Data						
Book value per common share	\$ 44.30	\$ 44.51	\$ 41.99	\$	\$ 13.22	\$ 34.02
Performance Ratios						
Net finance revenue as a percentage of average earnings assets	1.54%	3.96%		0.76%	2.05%	2.71%

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	CIT			Predecessor CIT		
Total ending equity to total ending assets	19.7%	17.3%	13.9%	10.1%	7.7%	
Loans including receivables pledged	\$ 19,885.5	\$ 24,628.6	\$ 35,162.8	\$ 53,126.6	\$ 53,760.9	
Operating Lease Equipment, net	11,991.6	11,139.8	10,911.9	12,706.4	12,610.5	
Total cash and interest bearing deposits	7,435.6	11,204.2	9,826.2	8,365.8	6,752.5	
Total debt and deposits	32,481.8	38,565.1	48,489.8	66,377.5	69,018.3	
Total stockholders equity	8,891.0	8,920.8	8,401.4	8,124.3	6,960.6	
Non-accrual loans as a percentage of finance receivables	3.53%	6.57%	4.48%	6.86%	2.66%	0.89%
Reserve for credit losses as a percentage of finance receivables	2.05%	1.69%		4.34%	2.06%	1.07%
Tier 1 Capital	18.8%	19.0%	14.2%	9.4%	N/A	

Item 6: Selected Financial Data

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The following table presents CIT's individual components of net interest revenue and operating lease margins. The data for 2011 and 2010 is impacted by FSA and the Company's borrowing rates. There is no impact from accretion or amortization of FSA adjustments in 2009.

Average Balances(1) and Associated Income for the year ended: (dollars in millions)

	CIT		Predecessor CIT
	December 31, 2011	December 31, 2010	December 31, 2009

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	CIT						Predecessor CIT	
	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)	Average Balance	Interest
Investments	1,955.0	10.6	0.54%	395.3	12.1	3.06%	487.0	10.0
U.S.	19,491.1	1,613.2	8.77%	24,646.5	2,739.6	11.54%	39,479.0	1,612.5
Total loans and leases(2)	24,181.4	2,198.8	9.53%	30,926.5	3,693.9	12.31%	48,531.6	2,313.5
Operating lease equipment, net(4)								
Non-U.S. operating lease equipment, net(4)	6,095.9	664.3	10.90%	6,062.7	588.7	9.71%	6,876.9	477.1
Total earning assets(2)	45,050.9	\$3,324.5	7.56%	52,439.1	\$4,696.0	9.11%	68,668.6	\$3,120.1
Cash due from banks	269.0			290.8			538.1	
All other non-interest earning assets	3,098.4			3,521.7			5,735.9	
Average Liabilities								
Deposits	\$ 4,796.6	\$ 111.2	2.32%	\$ 4,780.1	\$ 87.4	1.83%	\$ 4,238.6	\$ 150.5
Total interest-bearing liabilities	35,128.1	2,794.6	7.96%	43,636.6	3,080.0	7.06%	62,037.4	2,664.9

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CIT

Predecessor CIT

	CIT		Predecessor CIT	
Non-U.S. credit balances of factoring clients	2.4	11.1		29.9
Other liabilities	2,828.8	2,724.2		3,209.1
Stockholders equity	8,950.2	8,690.7		6,381.7
Net revenue spread		(0.40)%		2.05%
Net revenue/yield on earning assets(2)	\$ 529.9	1.21%	\$ 1,616.0	3.14%
				\$ 455.2

- (1) *The average balances presented are derived based on month-end balances during the year. Tax-exempt income was not significant in any years presented. Average rates are impacted by FSA accretion and amortization. 2009 Predecessor CIT average balances represent balances pre-FSA.*
- (2) *The rate presented is calculated net of average credit balances for factoring clients.*
- (3) *Non-accrual loans and related income are included in the respective categories.*
- (4) *Operating lease rental income is a significant source of revenue; therefore, we have presented the net revenues.*
- (5) *Interest and average rates include FSA accretion, including amounts accelerated due to redemptions or extinguishments, as well as prepayment penalties on the Series A Notes, the Series B Notes and the First Lien Term Loan, which were prepaid in 2011 and 2010.*

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The table below disaggregates CIT's year-over-year changes (2011 versus 2010 and 2010 versus Predecessor CIT 2009) in net interest revenue and operating lease margins as presented in the preceding tables between volume (level of lending or borrowing) and rate (rates charged)

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customers or incurred on borrowings). 2011 and 2010 data is impacted by FSA accretion and the Company's borrowing rates. 2009 was impacted by increases in our borrowing spreads (over Libor) due to market dislocation, our distressed circumstances and higher costs for maintaining liquidity, and lower asset yields due to lower market rates. See *Net Finance Revenue* section for further discussion.

Changes in Net Interest Income (dollars in millions)

	2011 Compared to 2010			2010 Compared to Predecessor CIT 2009		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
	Volume	Rate	Net	Volume	Rate	Net
Interest Income						
Loans and leases (including held for sale)						
U.S.	\$ (452.1)	\$ (674.3)	\$ (1,126.4)	\$ (1,711.2)	\$ 2,838.3	\$ 1,127.1
Non-U.S.	(198.6)	(170.1)	(368.7)	(422.1)	675.4	253.3
Total loans and leases	(650.7)	(844.4)	(1,495.1)	(2,133.3)	3,513.7	1,380.4
Deposits with banks	(7.7)	12.3	4.6	7.0	(26.0)	(19.0)
Investments	8.5	(10.0)	(1.5)	(2.8)	4.9	2.1
Interest income	(649.9)	(842.1)	(1,492.0)	(2,129.1)	3,492.6	1,363.5
Operating lease equipment, net(1)	20.3	100.2	120.5	(184.1)	396.5	212.4
Interest Expense						
Interest on deposits	0.4	23.4	23.8	9.9	(73.0)	(63.1)
Interest on long-term borrowings(2)	(754.2)	445.0	(309.2)	(1,458.9)	1,937.1	478.2
Interest expense	(753.8)	468.4	(285.4)	(1,449.0)	1,864.1	415.1
Net finance revenue	\$ 124.2	\$ (1,210.3)	\$ (1,086.1)	\$ (864.2)	\$ 2,025.0	\$ 1,160.8

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

(2) Includes prepayment penalties and acceleration of FSA accretion resulting from redemptions and extinguishments of Series A Notes, Series B Notes and the First Lien Term Loan.

Item 6: Selected Financial Data

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The average long-term borrowings balances presented below, both quarterly and for the full year, are derived based on daily balances and the average rates are based on a 30 days per month day count convention. The average rates include FSA accretion, including amounts accelerated due to redemptions or extinguishments, as well as prepayment penalties on the Series A Notes, the Series B Notes and the First Lien Term Loan, which were prepaid in 2011 and 2010. The debt coupon rates at December 31, 2011, on a pre-FSA basis, are as follows: Secured Borrowings 2.47%, Secured Series A Notes 7.00%, Secured Series C Notes (exchanged from Series A Notes) 7.00%, Secured Series C Notes: \$1.3 billion at 5.25% and \$0.7 billion at 6.625%, and Other Debt 6.05%. The aggregate portfolio weighted average at December 31, 2011 was 5.15%.

Average Daily Long-term Borrowings Balances and Rates (dollars in millions)

Quarters Ended

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	December 31, 2011			September 30, 2011			June 30, 2011		
	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)
First Lien Term Loan(2)(3)				1,581.8	(58.2)	(14.72)%	3,040.8	50.7	6.02%
Secured Series A Notes(2)(3)	5,962.5	217.1	14.56%	7,801.2	294.5	15.10%	15,363.0	539.3	14.56%
Secured Series C Notes	2,000.0	30.1	6.02%	2,000.0	30.1	6.02%	2,000.0	30.1	6.02%
Other Debt	86.2	2.8	12.99%	119.0	3.8	12.84%	146.8	4.4	12.84%

	Year Ended			Year Ended		
	December 31, 2011			December 31, 2010		
	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)
First Lien Term Loan(2)(3)	1,916.3	42.9	2.24%	4,907.4	455.9	9.29%
Secured Series A Notes(2)(3)	11,970.8	1,538.0	12.85%	18,915.0	1,779.2	9.41%
Secured Series C Notes	1,505.5	91.1	6.05%			
Other Debt	127.9	15.6	12.20%	206.8	22.0	10.64%

- (1) The increase in average rate reflects the impact of accelerated FSA accretion on redeemed debt related to a student lending securitization.
- (2) The increase to interest and applicable annualized rate reflect accelerated FSA accretion due to the repayment and prepayment penalties as noted below.
- (3) The interest expense for the Secured Borrowings, the First Lien Term Loan, Series A Notes (including those exchanged) and Series B Notes include the following accelerated FSA accretion (amortization) and prepayment penalties:

	Quarters Ended			
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011

	Quarters Ended			
Secured Series A Notes accelerated FSA	64.3	87.4	113.3	24.7
Secured Series B Notes accelerated FSA				(13.5)
Secured Borrowings student lending facility	88.0			

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	Years Ended December 31,	
	2011	2010
First Lien Term Loan prepayment penalty		89.0
Secured Series A Notes prepayment penalty	99.2	
Secured Series B Notes prepayment penalty	15.0	48.9
Total accelerated FSA and prepayment penalty	\$ 393.4	\$ 52.1

Item 6: Selected Financial Data

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

BACKGROUND

Founded in 1908, CIT Group Inc. (we, CIT or the Company), a Delaware Corporation, is a bank holding company (BHC) that provides commercial financing and leasing products and other financial services to small and middle market businesses across a wide variety of industries. CIT became a bank holding company in December 2008 and CIT Bank, a Utah state-chartered bank, is the Company's principal bank

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subsidiary.

CIT operates primarily in North America, with locations in Europe, Latin America and Asia and has four commercial business segments Corporate Finance, Trade Finance, Transportation Finance and Vendor Finance. We also own and manage a pool of liquidating consumer loans, predominantly government guaranteed student loans, that are reported in the Consumer segment.

As of December 31, 2011 the Company had 3,526 employees and over \$45 billion in assets.

During 2011, a portfolio of approximately \$423 million, \$546 million and \$644 million of financing and leasing assets at December 31, 2011, 2010 and 2009, respectively, and other infrastructure was transferred from Corporate Finance to Vendor Finance as management determined the activity in this portfolio was more in line with Vendor Finance offerings. All prior period data, including operating results and credit metrics, has been conformed to the current presentation.

On November 1, 2009, CIT filed a prepackaged voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code and emerged on December 10, 2009. The terms *we*, *CIT* and *Company*, when used with respect to periods commencing after emergence from bankruptcy, are references to Successor CIT, and when used with respect to periods prior to emergence, are references to Predecessor CIT. Financial information about Successor CIT reflects the impact of fresh start accounting (*FSA*), unless otherwise indicated. Historical financial statements of Predecessor CIT are presented separately from CIT due to the impacts from FSA, which makes comparisons to 2009 less relevant.

Management's Discussion and Analysis of Financial Condition and Results of Operations and *Quantitative and Qualitative Disclosures about Market Risk* contain financial terms that are relevant to our business and a glossary of key terms used is included in Part I *Item 1. Business Section*.

Management uses certain non-GAAP financial measures in its analysis of the financial condition and results of operations of the Company. See *Non-GAAP Financial Measurements* for a reconciliation of these to comparable GAAP measures.

2011 PRIORITIES AND COMMENTARY

Our 2011 priorities were developed to further advance our broader strategic initiatives focused on improving our financial strength, enhancing our business model, and further improving our approach to risk management and control functions.

The following highlights some of our accomplishments:

1. Focus on growth in our four core businesses, both domestically and internationally

Increased new business activity. Committed new business volume was approximately \$9.4 billion for 2011, up 83% from 2010. Funded new business volume increased 73% over 2010 to \$7.8 billion, reflecting an increase of more than double in Transportation Finance and Corporate Finance, and an increase in Vendor Finance of 11%. Excluding the impact of portfolios that have been sold, Vendor Finance volume was up 28%.

Stabilized the client base in Trade Finance and factoring volume was up 2%, excluding the volume from our German operation, which is winding down. Total factoring volume of \$25.9 billion was down 3% from 2010 as growth in CIT's ongoing factoring operations was offset by lower German volume.

Grew commercial assets in fourth quarter. Commercial financing and leasing assets increased \$0.9 billion during the fourth quarter to \$27.9 billion, as funded volume exceeded sales and collections, but were down \$0.8 billion for the year. Operating lease equipment increased \$850 million during 2011 to \$12.0 billion, reflecting deliveries of aircraft and purchases of railcars.

2. Improve profitability, including reducing our cost of capital and operating expenses

Redeemed or extinguished over \$9.5 billion of high cost debt in 2011, including:

- \$5.8 billion of 7% Series A Second-Priority Secured Notes (*Series A Notes*).
- \$3 billion of First Lien Term Loan.

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- \$0.75 billion of 10.25% Series B Second-Priority Secured Notes (Series B Notes).

Entered into or renewed over \$7.5 billion of secured financings in 2011, including:

- Issued \$2 billion of new Series C Second-Priority Secured Notes (Series C Notes).
- Entered into a \$2 billion Revolving Credit and Guaranty Agreement (the Revolving Credit Facility) resulting in lower costs and improved liquidity management flexibility.
- Executed over \$3.5 billion of financings in aggregate secured by railcars, aircraft, government guaranteed student loans, trade receivables and equipment leases.

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These activities, in conjunction with net deposit growth of \$1.7 billion, reduced our weighted average coupon rates on outstanding deposits and long-term borrowings to 4.71% at December 31, 2011 from 5.31% at December 31, 2010. Including the \$3.25 billion Series C offering in February 2012 and \$6.5 billion of Series A redemptions either announced or completed during the first quarter of 2012, the weighted average coupon rates on outstanding deposits and long-term borrowings would have been 4.28% at December 31, 2011.

These transactions are further described in Funding, Liquidity and Capital later in the MD&A and in Item 8 Financial Data and Supplementary Data, Note 8 Long Term Borrowings. The impact of the debt redemptions and extinguishment transactions on the 2011 statement of operations is summarized later in this section under 2011 Financial Overview.

In February 2012, we closed a private placement of \$3.25 billion aggregate principal amount of Series C Notes, consisting of \$1.5 billion principal amount due 2015 (the 2015 Notes) and \$1.75 billion principal amount due 2019 (the 2019 Notes). The 2015 Notes priced at par and bear interest at a rate of 4.75% and the 2019 Notes priced at par and bear interest at a rate of 5.50%. Following the redemption of an additional \$2.5 billion of Series A Notes in the first quarter of 2012, we announced on February 7, 2012, our intention to redeem the remaining Series A Notes of approximately \$4 billion on March 9, 2012. The approximately \$6.5 billion of Series A redemptions during the first quarter of 2012 in aggregate will result in the acceleration of FSA discount, and therefore increase first quarter 2012 interest expense, by up to \$600 million. The final amount of FSA to be accelerated will not be known until after the final redemption has occurred.

As discussed further in Funding, Liquidity and Capital , once the Company s remaining Series A Notes cease to be outstanding on March 9, 2012, all the collateral and subsidiary guarantees under the Series C Notes will be automatically released. In addition, all the collateral and subsidiary guarantees under the Revolving Credit Facility will also be released upon our completion of certain requirements as set forth under the Revolving Credit Facility, except for subsidiary guarantees from eight of the Company s domestic operating subsidiaries (Continuing Guarantors). With the redemption of the remaining Series A Notes, the Cash Sweep requirement will also be eliminated.

Addressed the restrictive covenants contained in debt incurred as part of our 2009 restructuring:

- We successfully completed an exchange offer in June 2011 through which approximately \$8.8 billion of Series A Notes were exchanged for new Series C Notes. We also completed a consent solicitation in June 2011 through which the covenants in the Series A Notes maturing in 2015, 2016 and 2017, other than the Cash Sweep, were amended to generally conform to the less restrictive covenants in the outstanding Series C Notes.
- Following the redemption in full of the 2014 Series A Notes in October 2011, most of the restrictive covenants under the Series A Notes were eliminated, providing the Company with greater financing and operating flexibility.

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Reduced operating expenses for 2011 (exclusive of restructuring charges) 9% from 2010. Employee headcount at December 31, 2011 was 3,526, down 7% from a year ago, reflecting the sale of the Dell Canada operations, outsourcing and other efficiency actions.

3. Expand the role of CIT Bank, both in asset origination and funding capabilities

- Increased asset origination activity. 2011 committed loan volume rose to \$4.4 billion from \$1.2 billion for 2010, of which \$3.2 billion was funded, up from \$0.7 billion during 2010. The increase includes higher volumes from each of the commercial segments. Bank originations represented approximately 72% of the Company's total U.S. funded volume in 2011 and approximately 39% for 2010.
- Diversified deposit sources. Issued approximately \$2.6 billion of deposits in 2011, primarily brokered deposits, at an average rate of 1.6%. Launched a retail online banking platform in October that currently offers a range of CDs directly to consumers and institutions. Non-brokered deposits issued during the fourth quarter totaled \$0.6 billion at an average rate of 1.5%.
- Obtained the necessary regulatory approvals and transferred into the Bank the Small Business Lending platform in March 2011 and the U.S. Vendor Finance platform in July 2011. Also, during 2011 the Bank began to purchase and lease railcars.
- The Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions (UDFI) terminated their Cease and Desist Orders against CIT Bank in April 2011.

During 2011 we also continued to advance business priorities relating to risk management, compliance and control functions. At year-end 2011, management believes it has made substantial progress in satisfying the requirements of the Written Agreement and continues to communicate closely with the FRBNY, which is in the process of reviewing and validating the remaining open items.

2011 FINANCIAL OVERVIEW

The Company has revised its financial results for the years ended December 31, 2011 and 2010, and the respective quarters in those years, from the results released in the Company's January 31, 2012 Earnings Release and Current Report on Form 8-K filing. The revision relates to the correction of certain deferred tax balances. The impact of this correction is a \$1.1 million and \$1.9 million reduction in Net Income for the years ended December 31, 2011 and 2010, respectively, and a \$0.01 reduction in Diluted Earnings per Share for each year.

Net income for the year ended December 31, 2011 was \$27 million, \$0.13 per diluted share. This compares to net income of \$524 million, \$2.61 per diluted share, for the year ended December 31, 2010. The decline reflects reduced benefits from fresh start accounting (FSA) accretion reflecting acceleration of debt FSA (increase to interest expense), lower asset levels and loss on debt extinguishments, which offset benefits resulting from our liability management initiatives, lower credit costs and reduced operating expenses. The components of FSA accretion and amortization are detailed in the following section Fresh Start Accounting . The net loss for the year ended December 31, 2009 of \$4 million reflected high credit costs, impairment charges, FSA adjustments and preferred dividends, all of which offset the benefit from reorganization items.

Item 7: Management's Discussion and Analysis

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Pre-tax income for 2011 was \$190 million, compared to \$779 million in 2010. Both periods reflect benefits from FSA accretion; however, the benefit during 2011 was down significantly due to lower asset levels as well as significant acceleration of debt FSA discount (increase to interest expense), prepayment penalties and loss on extinguishment associated with the repayment of high cost debt. As presented in the table below, pre-tax income before FSA accretion and the impacts of debt related penalties and losses on extinguishment was \$302 million in 2011, compared to a pre-tax loss of \$575 million in 2010. Pre-tax income totaled \$50 million for 2009, which included reorganization items and FSA adjustments, but did not have FSA accretion.

The following table presents the pre-tax results, and adjusts for FSA accretion and debt related transaction costs. This is a non-GAAP measurement.

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(dollars in millions)	Years Ended December 31,	
	2011	2010
Net FSA Accretion (excluding debt related acceleration)	(416.9)	(1,406.1)
Pre-tax Income (Loss) Excluding Net FSA Accretion	52.5	(712.8)
Debt Related Loss on Debt Extinguishments	134.8	

Net finance revenue⁽¹⁾ (NFR) totaled \$530 million for 2011 and \$1.6 billion for 2010. The decline from a year ago reflects less FSA accretion and a lower level of earning assets, which offset improved funding costs. Average earning assets of \$34.3 billion decreased \$6.5 billion from a year ago, largely due to asset sales. Net FSA accretion included in NFR totaled \$25 million for 2011 and \$1.4 billion for 2010. Before FSA accretion and debt prepayment penalties, NFR was \$619 million for 2011 and \$357 million for 2010. NFR totaled \$455 million in 2009.

Net finance revenue as a percentage of average earning assets (finance margin) was 1.54%, compared to 3.96% for 2010. Excluding FSA and debt prepayment penalties, adjusted net finance margin was 1.61%, up from 0.75% in 2010. The 2011 finance margin reflected stabilizing asset yields and reduced debt costs, partially offset by lower benefits from the GSI Facilities discussed in Funding, Liquidity and Capital.

Net operating lease revenue⁽¹⁾ increased from \$1.0 billion in 2010 to \$1.1 billion in 2011 due to lower depreciation expense on operating lease equipment and higher asset balances. The decrease in depreciation expense is primarily due to operating lease equipment moved to held for sale, for which depreciation expense is no longer recognized.

Provision for credit losses for 2011 was \$270 million, down from \$820 million in 2010, which included a reserve build of \$416 million for the establishment of loan loss reserves post the adoption of FSA. The 2011 trend in provisions reflects a continued reduction in specific reserves, and improved portfolio credit quality, including lower net charge-offs and non-accrual balances. The provision for 2009 totaled \$2.7 billion, reflecting a weak credit environment and higher asset level.

Other income (excluding operating lease rentals) for 2011 was \$956 million, down 5% from 2010. The decline reflects lower recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale and higher impairment charges on assets held for sale, which offset higher asset sales gains and fees and other revenue. Other income was a net charge of \$335 million in 2009 reflecting a change in derivative fair value under the CFL Facility, losses on assets sold at a discount, losses on derivatives and foreign currency exchange impact.

Operating expenses were \$891 million for 2011, down 13% from 2010, largely on lower compensation and benefits. Headcount at year end 2011 declined 7% from the prior year to 3,526. Operating expenses for 2009 were \$1,150 million and included higher compensation and benefit costs reflecting headcount of 4,293 and \$98 million of professional fees related to the restructuring.

Provision for income taxes was \$159 million for 2011, compared to \$251 million for 2010. The tax provision predominantly reflects provisions for taxable income generated by our international operations and no income tax benefit on our U.S. losses. The 2011 provision also includes deferred tax expense resulting from a change in the Company's assertions regarding indefinite reinvestment for certain unremitted foreign earnings, which was primarily driven by the fourth quarter re-evaluation of the Company's debt and capital structures of its subsidiaries. The income tax benefit for 2009 was \$133.2 million, which was primarily driven by the recognition of net deferred tax assets resulting from FSA write-downs of assets used in the Company's international operations. See *Income Taxes* for further details.

Total assets at December 31, 2011 were \$45.2 billion, down \$6.2 billion from a year ago. Cash and short-term investments totaled \$8.4 billion, down \$2.8 billion reflecting liability management initiatives, including debt repayments. Loans held for investment decreased \$4.7 billion during 2011 to \$19.9 billion primarily due to asset sales, run-off of the consumer portfolio and the transfer of student loans to held for sale. Assets held for sale totaled \$2.3 billion, including nearly \$1.7 billion of student loans. Operating lease equipment increased \$850 million to \$12.0 billion, reflecting deliveries of aircraft and purchases of railcars. Total assets at December 31, 2009 were \$60.5 billion, primarily reflecting portfolio loans of \$35.2 billion and operating leases of \$10.9 billion. The decline in loans from 2009 reflects the strategic sales of non-core portfolios, run-off of the consumer portfolio and portfolio collections in excess of new volume.

Funded new business volume of \$7.8 billion increased 73% from 2010 while committed new business volume of \$9.4 billion increased 83% from a year ago. Both metrics include an increase

(1) *Net finance revenue, average earning assets and net operating lease revenue are non-GAAP measures; see reconciliation of non-GAAP to GAAP financial information.*

of more than double in Transportation Finance and Corporate Finance volumes, while Vendor Finance increases were tempered by portfolio sales. Excluding portfolios sold, Vendor Finance volume was up 28%. Funded volumes were \$7.0 billion in 2009. Factoring volume was up 2%, excluding the volume from our German operation, which is winding down. Total factoring volume of \$25.9 billion was down 3% from 2010 as growth in CIT's ongoing factoring operations was offset by lower German volume.

Credit metrics improved as net charge-offs, non-accrual loans and inflows to non-accruals declined from 2010. Net charge-offs were \$265 million, down from \$465 million in 2010. The favorable comparisons were driven primarily by Vendor Finance, which had strong recoveries in 2011 and in 2010 reported higher charge-offs relating to liquidating portfolios and the acceleration of delinquency-based charge-offs. Net charge-offs do not reflect recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale. Recoveries on these loans are recorded in other income and totaled \$124 million in 2011 and \$279 million for 2010. Non-accrual loans were \$702 million at December 31, 2011, down \$915 million from the prior year, as all commercial segments reported declines, both in amount and as a percentage of receivables.

PRIOR PERIOD REVISIONS

As part of a management review of operational procedures, it was determined that refunds of unresolved credits are owed to certain Trade Finance customers (i.e. typically retailers). Although not material to any given period, the aggregate amount of the credits is approximately \$68 million, approximately 0.02% of the factoring volume for the affected periods, which accumulated over the ten year period ending in early 2011. Approximately \$66 million of the balance relates to activity that occurred prior to December 31, 2009, the convenience date for our adoption of FSA. When reviewing this error in conjunction with other immaterial errors impacting prior periods, management concluded that the corrections did not, individually or in the aggregate, result in a material misstatement of the Company's consolidated financial statements for any prior period, but correcting these items in the 2011 fourth quarter would have been material to the 2011 statement of operations.

As it relates to the Trade Finance obligation, we recorded a liability and a charge to income in 2009 of approximately \$66 million, with the remainder of the liability and charge to income being recorded in 2010 (\$1.8 million) and 2011 (\$0.5 million). As a result of our adoption of FSA, the recognition of the \$66 million liability in 2009 resulted in a corresponding increase to goodwill.

Management will revise in subsequent quarterly filings on Form 10-Q and has revised in Item 8 Financial Data and Supplementary Data, Note 27 Select Quarterly Data, its previously reported financial statements for 2011, 2010 and 2009. All prior period data reflects the revised balances.

2012 PRIORITIES

Our 2012 priorities were developed to further advance our broader strategic initiatives centered on improving our financial strengths, enhancing our business model, and further improving our approach to risk management and control functions.

Specific business objectives established for 2012 include:

- Accelerate Growth and Business Development Initiatives
- Improve Profitability While Maintaining Financial Strength
- Advance Transformation of Funding Profile
- Continue to Enhance Internal Controls and Regulatory Relationships

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PERFORMANCE MEASUREMENTS

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

KEY PERFORMANCE METRICS	MEASUREMENTS
<i>Asset Generation</i> to originate new business and build earning assets.	-Origination volumes; and -Financing and leasing assets balances
<i>Revenue Generation</i> lend money at rates in excess of cost of borrowing, earn rentals on the equipment we lease commensurate with the risk, and generate other revenue streams.	-Net finance revenue and other income; -Asset yields and funding costs; -Net finance revenue as a percentage of average earning assets (AEA); and -Operating lease revenue as a percentage of average operating lease equipment (AOL).
<i>Credit Risk Management</i> accurately evaluate credit worthiness of customers, maintain high-quality assets and balance income potential with loss expectations.	-Net charge-offs; -Non-accrual loans; classified assets; delinquencies; and -Loan loss reserve
<i>Equipment and Residual Risk Management</i> appropriately evaluate collateral risk in leasing and lending transactions and remarket equipment at lease termination	-Equipment utilization; -Value of equipment; and -Gains and losses on equipment sales.
<i>Expense Management</i> maintain efficient operating platforms and related infrastructure.	-Operating expenses and trends; and -Operating expenses as percentage of financing and leasing assets.
<i>Profitability</i> generate income and appropriate returns to shareholders.	-Net income per common share (EPS); -Net income as a percentage of average earning assets (ROA); and -Net income as a percentage of average common equity (ROE).
<i>Capital Management</i> maintain a strong capital position.	-Tier 1 and Total capital ratio; and -Tier 1 capital as a percentage of adjusted average assets (Tier 1 Leverage Ratio).
<i>Liquidity Risk</i> maintain access to ample funding at competitive rates.	-Cash and short term investment securities; -Committed and available funding facilities; and -Debt maturity profile.
<i>Market Risk</i> substantially insulate profits from movements in interest and foreign currency exchange rates.	-Net Interest Income (NII); and -Economic Value of Equity (EVE).

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Upon emergence from bankruptcy in 2009, CIT applied Fresh Start Accounting (FSA) in accordance with generally accepted accounting principles in the United States of America (GAAP). Accretion and amortization of certain FSA adjustments are reflected in operating results for 2011 and 2010 and described below.

The implementation of FSA resulted in the establishment of a new basis of accounting for the majority of the Company's assets and liabilities as of December 31, 2009 based upon the December 31, 2009 fair values for those assets and liabilities. The adoption of FSA also resulted in the elimination of the allowance for loan losses (ALLL), which was effectively recorded as discounts on loans in adjusting to then fair values. A portion of this discount is attributable to embedded credit losses at December 31, 2009. As a result, our reported charge-offs and the carrying values of our non-accrual loans are reduced in the post-emergence periods from what would have been reported without FSA. Though FSA reduced the carrying values of non-accrual loans, it did not impact the classification of the applicable loans as non-accrual loans, impaired loans or trouble debt restructurings.

FSA has considerable impact on our Net Finance Revenue and Credit Metrics trends. Net finance revenue reflects the accretion of the FSA adjustments to the loans and leases, as well as debt. Because FSA impacts the credit metrics trends, we analyze charge-offs, non-accrual / impaired loans, and TDRs both including and excluding the effects of FSA. As noted above, FSA had the effect of lowering the carrying amount of our loans and leases and eliminating the ALLL as of December 31, 2009. Since the emergence date, we gradually increased the ALLL to reflect the accretion of discounts on the pre-emergence portfolio (which increases the carrying value and the need for credit reserves) and to provide reserves on post-emergence loans and leases. Charge-offs of post-FSA (GAAP) loans are lower as their carrying value is lower compared to pre-FSA balances.

Given the ongoing impact of FSA on CIT's financial statements and credit metrics, the results are not generally comparable with those of other financial institutions. Whereas other financial institutions may be experiencing current credit trends resulting in declining reserves, CIT's allowance remained relatively flat.

Accretable and non-accretable discounts are tracked on a loan-by-loan basis. We record the transfer of loans to assets held for sale (HFS) in accordance with guidance in ASC 310-10-35-49. Upon transfer of a loan to HFS, it is carried at the lower of cost or fair value, which establishes a new basis for the loan and eliminates the specific accretable and non-accretable discounts. With the elimination of the specific accretable and non-accretable discount, there is no accretable discount to accrete into income in future periods. Contractual interest earned on loans while in HFS is recorded in Finance income. Gain or loss on the sale of the asset is recognized at the time of sale and is determined by comparing the proceeds received with the carrying value.

The following table presents FSA adjustments by balance sheet caption (dollars in millions):

Fresh Start Accounting: (Discount)/Premium

Accretable	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	December 31, 2009
Loans	\$ (621.8)	\$ (830.7)	\$ (976.5)	\$ (1,222.9)	\$ (1,438.9)	\$ (3,307.5)
Operating lease equipment, net	(2,803.1)	(2,837.5)	(2,891.6)	(2,952.9)	(3,020.9)	(3,237.9)
Intangible assets	63.6	73.5	84.1	99.1	119.2	225.1
Other assets	(113.1)	(139.1)	(165.4)	(195.4)	(225.6)	(320.8)
Total assets	\$ (3,474.4)	\$ (3,733.8)	\$ (3,949.4)	\$ (4,272.1)	\$ (4,566.2)	\$ (6,641.1)
Deposits	\$ 14.5	\$ 19.3	\$ 24.4	\$ 30.5	\$ 38.5	\$ 90.5
Long-term borrowings	(2,018.9)	(2,288.6)	(2,436.8)	(2,735.3)	(2,948.5)	(3,396.5)
Other liabilities	25.7	37.3	47.9	79.0	112.2	311.7
Total liabilities	\$ (1,978.7)	\$ (2,232.0)	\$ (2,364.5)	\$ (2,625.8)	\$ (2,797.8)	\$ (2,994.3)
Non-accretable						
Loans	\$ (62.5)	\$ (110.5)	\$ (121.5)	\$ (255.6)	\$ (363.4)	\$ (1,654.1)
Goodwill	330.8	330.8	330.8	340.4	340.4	346.4
Total assets	\$ 268.3	\$ 220.3	\$ 209.3	\$ 84.8	\$ (23.0)	\$ (1,307.7)
Other liabilities	\$ 197.9	\$ 258.5	\$ 277.0	\$ 321.5	\$ 360.2	\$ 351.6
Total liabilities	\$ 197.9	\$ 258.5	\$ 277.0	\$ 321.5	\$ 360.2	\$ 351.6

The table below presents fresh start accretion and amortization based on the contractual maturities of the underlying assets and liabilities that have an accretable discount, with the accretable discount accreted/(amortized) based on a level yield basis. Actual results will differ from

contractual realization when timing or amounts of payments received differ from contractual amounts due and when timing or amounts of payments made differ from contractual amounts owed. Differences will also occur if the

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assets are sold prior to their maturity, if the assets are transferred to held for sale, or if they become non-accrual and accretion is ceased. The differences from the estimates could vary materially and are inherently subject to significant uncertainties that may be beyond the control of the Company.

Accretion/(Amortization) of Fresh Start Accounting Adjustments (dollars in millions)

	Accretable Discount		Total Accretable Discount
	2012	2013 & Thereafter	
Interest income	\$ 180.7	\$ 441.1	\$ 621.8
Interest expense	(442.8)	(1,561.6)	(2,004.4)
Rental income on operating leases	(23.9)	(39.7)	(63.6)
Other income	18.9	94.2	113.1
Depreciation expense	223.3	2,579.8	2,803.1
Other liabilities	24.2	1.5	25.7
Total pretax impact	\$ (19.6)	\$ 1,515.3	\$ 1,495.7

Interest income is increased by the FSA accretion on loans, which primarily relates to Consumer (\$0.3 billion) and Corporate Finance (\$0.2 billion). Due to the contractual maturity of the underlying loans, the majority of the accretion on consumer loans will be over a longer time period, generally 10 years, while most commercial loan accretion income will be realized within the next 2 years. In addition to the scheduled accretion on loans recorded with each scheduled payment, the decline in accretable balance was accelerated during 2011 primarily as a result of asset sales. The declines in non-accretable balances were primarily due to asset sales and prepayments, and also reflect charge-offs.

Interest expense is increased by the FSA accretion of the long-term borrowings adjustment, which is recognized over the contractual maturity of the underlying debt. If the debt is repaid prior to its contractual maturity, and the repayment is accounted for as a debt extinguishment, accretion of the FSA discount on the underlying debt would be accelerated. If the repayment is accounted for as a debt modification, the FSA discount is amortized over the term of the new financing on an effective yield method. Debt maturity terms are: 2015–2017 for the Series A Notes (with the announced redemption of the remaining Series A Notes in March 2012, if the criteria for debt extinguishment accounting is met, then all of the associated FSA accretion displayed in the following table will be reflected in CIT's 2012 first quarter results), 2015–2017 for the Series C Notes that were exchanged from Series A, and 2011–2040 for the other secured borrowings, of which over 80% is expected to be recognized by 2019. See Funding, Liquidity and Capital and Item 8 Financial Statements and Supplementary Data, Note 28 Subsequent Events for additional information on Series A Notes redemptions.

The following table summarizes the estimated scheduled FSA accretion on the Series A Notes, Series C Notes and secured borrowings. The table assumes repayment of the Series A Notes on its scheduled due date except for the FSA related to the \$2 billion redemption in January 2012 which is reflected in 2012. As noted above, the Company announced its intention to redeem the remaining Series A Notes in March 2012. If the criteria for debt extinguishment are met, then all of the Series A Notes accretable discount will be recorded in CIT's first quarter 2012 results. Differences will also occur if contractual cash flows related to assets underlying the secured borrowings are received faster than obligated. The differences from the estimates could vary materially and are inherently subject to significant uncertainties that may be beyond the Company's control.

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Debt Type	Outstanding FSA Balance	2012	2013	2014	2015	2016 and Thereafter
Series A Notes(1)	\$ (618.1)	\$ (213.3)	\$ (86.7)	\$ (95.5)	\$ (105.3)	\$ (117.3)
Series C Notes(2)	(805.7)	(144.4)	(158.7)	(174.4)	(168.5)	(159.7)
Secured Borrowings	(545.2)	(94.1)	(75.1)	(55.3)	(37.2)	(283.5)
Other Debt	(49.9)	(2.0)	(2.2)	(2.5)	(2.9)	(40.3)
Deposits	14.5	11.0	4.3	0.6	(0.4)	(1.0)
Total	\$(2,004.4)	\$(442.8)	\$(318.4)	\$(327.1)	\$(314.3)	\$(601.8)

(1) The 2012 amount includes approximately \$130 million of FSA accretion related to the \$2 billion redemption in January 2012. Since CIT had not announced by December 31, 2011 its intention to redeem either the \$500 million of Series A Notes in February 2012 or the remaining \$4 billion Series A Notes in March 2012, the FSA accretion relating to these is reflected in each year until its stated maturity.

(2) The FSA discount relates to the Series A Notes that were exchanged to Series C Notes.

Depreciation expense is reduced by the accretion of the operating lease equipment discount, which relates primarily to Transportation Finance aircraft and rail operating lease assets. We estimate an economic average life before disposal of these assets of approximately 15 years for aerospace assets and 30 years for rail assets.

In conjunction with FSA, operating lease rentals were adjusted as of the emergence date. As a result, an intangible asset was recorded to adjust these contracts that were, in aggregate, above then current market rental rates. These adjustments (net) will be amortized, thereby lowering rental income (a component of Other Income) over the remaining term of the lease agreements

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on a straight line basis. Rental income is reduced by accretion of the intangible assets, which is based on the contractual maturity of the underlying operating lease. The majority of the remaining accretion has a contractual maturity of less than two years.

Goodwill, which is non-accretable, was recorded to reflect the excess of the reorganization equity value over the fair value of tangible and identifiable intangible assets, net of liabilities.

Other assets relates primarily to a discount on receivables from GSI in conjunction with the GSI Facilities as further described under Funding, Liquidity and Capital . The discount is accreted to Other Income over the expected payout of the receivables. Based on current estimates, approximately 54% of the remaining discount will be recognized within the next four years.

Other liabilities relates primarily to a non-accretable liability recorded to reflect the current fair value of aircraft purchase commitments outstanding at the time. As the aircraft are purchased, through 2018, the cost basis of the assets will be reduced by the associated liability.

The following table summarizes the impact of accretion and amortization of FSA adjustments on the Consolidated Statement of Operations for the years ended December 31:

Accretion/(Amortization) of Fresh Start Accounting Adjustments (dollars in millions)

2011						
Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Consumer	Corporate and Other	Total CIT

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2011

Interest income	\$ 466.5	\$ 61.1	\$	\$ 136.3	\$ 81.5	\$	\$ 745.4
Interest expense	(366.0)	(230.8)	(19.7)	(89.5)	(151.7)	(46.3)	(904.0)
Rental income on operating leases		(56.1)					(56.1)
Depreciation expense	4.5	225.4		10.1			240.0
FSA net finance revenue	105.0	(0.4)	(19.7)	56.9	(70.2)	(46.3)	25.3
Other income	86.5	17.3			8.6		112.4
Total	\$ 191.5	\$ 16.9	\$ (19.7)	\$ 56.9	\$ (61.6)	\$ (46.3)	\$ 137.7

2010

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Consumer	Corporate and Other	Total CIT
Interest income	\$ 1,099.6	\$ 105.4	\$ 15.4	\$ 281.3	\$ 118.8	\$	\$ 1,620.5
Interest expense	(218.2)	(103.9)	(8.1)	(41.6)	(24.7)	1.8	(394.7)
Rental income on operating leases		(103.7)					(103.7)
Depreciation expense	7.6	232.6		34.2			274.4
FSA net finance revenue	889.0	130.4	7.3	273.9	94.1	1.8	1,396.5
Other income	73.3	14.7			7.3	0.1	95.4
Total	\$ 962.3	\$ 145.1	\$ 7.3	\$ 273.9	\$ 101.4	\$ 1.9	\$ 1,491.9

Listed below is the accretion/(amortization) of the accretable discount for the years ended December 31, 2011 and 2010 based on the remaining contractual maturities of the underlying assets and liabilities that had an accretable discount at December 31, 2010 and 2009 and the actual results recorded in the years ended December 31, 2011 and 2010. The variance from contractual maturity amounts is due primarily to payments that were received or made on an accelerated basis (as compared to the contractual amounts due).

(dollars in millions)	2011		2010	
	Contractual Accretion/ (Amortization)	Actual Accretion/ (Amortization)	Contractual Accretion/ (Amortization)	Actual Accretion/ (Amortization)
Interest income	\$ 664.2	\$ 745.4	\$ 1,051.0	\$ 1,620.5
Interest expense	(529.3)	(904.0)	(417.4)	(394.7)
Rental income on operating leases	(50.7)	(56.1)	(90.6)	(103.7)
Depreciation expense	246.5	240.0	276.9	274.4
FSA net finance revenue	330.7	25.3	819.9	1,396.5
Other income	59.1	112.4	128.3	95.4
Total pretax impact	\$ 389.8	\$ 137.7	\$ 948.2	\$ 1,491.9

Item 7: Management's Discussion and Analysis

NET FINANCE REVENUE⁽²⁾

The following tables present management's view of consolidated margin and include the net interest spread we make on loans and on the equipment we lease, in dollars and as a percent of average earning assets.

Net Finance Revenue (dollars in millions)

	Years Ended December 31,		
	CIT		Predecessor CIT
	2011	2010	2009
Interest income	\$ 2,233.6	\$ 3,725.6	\$ 2,362.1
Rental income on operating leases	1,665.7	1,645.8	1,901.7
Finance revenue	3,899.3	5,371.4	4,263.8
Interest expense	(2,794.6)	(3,080.0)	(2,664.9)
Depreciation on operating lease equipment	(574.8)	(675.4)	(1,143.7)
Net finance revenue	\$ 529.9	\$ 1,616.0	\$ 455.2
Average Earning Assets (AEA)	\$34,336.5	\$40,844.4	\$59,990.8
As a % of AEA:			
Interest income	6.50%	9.12%	3.94%
Rental income on operating leases	4.85%	4.03%	3.17%
Finance revenue	11.35%	13.15%	7.11%
Interest expense	(8.14)%	(7.54)%	(4.44)%
Depreciation on operating lease equipment	(1.67)%	(1.65)%	(1.91)%
Net finance revenue	1.54%	3.96%	0.76%
As a % of AEA by Segment:			
Corporate Finance	3.02%	6.85%	2.25%
Transportation Finance	2.15%	1.40%	2.19%
Trade Finance	(1.27)%	(3.70)%	2.39%
Vendor Finance	7.04%	8.69%	2.90%
Commercial Segments	3.20%	4.68%	2.41%
Consumer	(0.31)%	1.28%	(0.24)%

Average earning assets are less than comparable balances in Item 6 (Average Balance Sheet tables) due to the exclusion of deposits with banks and other investments and the inclusion of credit balances of factoring clients.

(2) Net finance revenue and average earning assets are non-GAAP measures; see reconciliation of non-GAAP to GAAP financial information.

Net finance revenue (NFR) declined from a year ago as a lower level of earning assets and less FSA accretion offset the benefit from improved funding costs. Average earning assets declined 16% from 2010 largely due to asset sales and repayments. Net FSA accretion increased NFR by \$25 million during 2011, compared to an increase of approximately \$1.4 billion in 2010, due to lower interest income accretion and higher debt discount recognition reflecting accelerated debt payments. Likewise, NFR as a percentage of average earning assets (Net Finance Margin) declined from the prior year due in large part to a reduction in net FSA benefit.

Interest expense for 2011 included the impact of over \$9.5 billion in debt redemptions and extinguishments as management continued to reduce CIT's cost of capital via the repayment of high cost debt. Interest expense in 2011 included a total of \$279 million of accelerated FSA net

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accretion and \$114 million of prepayment penalties. During 2011, we redeemed or repurchased approximately \$5.8 billion of principal balance of Series A Notes, extinguished the \$3 billion First Lien Term Loan, and redeemed the remaining amount of Series B Notes of \$752 million. We also redeemed at par the remaining balance of \$500 million of Education Funding Capital Trust-II, a student lending securitization established in 2003, as the funding cost under this student lending securitization would have increased materially due to a ratings downgrade of the securitization debt by one of the rating agencies. Most of the student loans underlying this securitization were refinanced through the CFL Facility as discussed under Funding, Liquidity and Capital . Since this debt was specific to Consumer, that segment was charged the FSA acceleration, which totaled approximately \$88 million. Accelerated FSA accretion and prepayment penalties on debt not specific to a segment were not allocated to the segments in 2011.

In August 2011, CIT established a \$2 billion Revolving Credit Facility (the Revolving Credit Facility), which currently has an interest rate of LIBOR + 2.75% (with no floor) but can adjust down to as low as LIBOR + 2.00% based on CIT 's senior unsecured

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credit rating. In March 2011, we issued \$2 billion of new secured Series C Notes, consisting of \$1.3 billion of three year 5.25% fixed rate notes and \$700 million of seven year 6.625% fixed rate notes. We also renewed or closed various other secured financings at attractive rates throughout the year, which are described in Funding, Liquidity and Capital .

Deposits have increased, both in dollars and proportion of total fundings (19% at December 31, 2011 as compared to 12% at December 31, 2010). The weighted average rate of deposits at December 31, 2011 was 2.68%, compared to 3.13% at the end of 2010. For the year, the average rate of deposits was 2.79% in 2011, compared to 2.98% in the prior year.

As a result of our 2011 debt restructurings and the increased proportion of deposits to our total funding, we reduced weighted average coupon rates of outstanding deposits and long-term borrowings to 4.71% at December 31, 2011 from 5.31% at December 31, 2010. Including the \$3.25 billion Series C offering in February 2012 and \$6.5 billion of Series A redemptions either announced or completed during the first quarter of 2012, the weighted average coupon rates on outstanding deposits and long-term borrowings would have been 4.28% at December 31, 2011. See *Select Financial Data* section for more information on debt rates.

Subsequent to 2011:

- During January and February 2012, we redeemed \$2.5 billion of Series A Notes and on February 7, 2012, we announced the redemption of all the remaining approximately \$4 billion of Series A Notes on March 9, 2012. If the criteria for debt extinguishment are met, then these redemptions in aggregate will result in the acceleration of FSA discount and therefore increase first quarter 2012 interest expense by up to \$600 million. The final amount of FSA to be accelerated will not be known until after the final redemption has occurred.
- On February 7, 2012, we closed a private placement of \$3.25 billion aggregate principal amount of Series C Notes, consisting of \$1.5 billion principal amount due 2015 at a rate of 4.75% and \$1.75 billion principal amount due 2019 at a rate of 5.50%.

Net finance revenue for 2010 reflects net FSA accretion of \$1,397 million. Exclusive of net FSA accretion, the decline from 2009 reflects lower earning assets and high cash balances, partially offset by interest expense savings from the accelerated repayment of high-cost debt and higher net operating lease revenues. As a result of our portfolio optimization efforts, our earning asset base declined throughout 2010. The asset decline was partially offset by new business volume and growth in operating lease assets. High debt costs remained a contributing factor in the low margin rate during 2010 and 2009. During 2010, we prepaid approximately \$4.5 billion of our high cost first lien debt and refinanced the remaining \$3 billion at a lower cost and redeemed \$1.4 billion of the 10.25% Series B Notes. Interest expense for 2010 included prepayment penalty fees of \$138 million. There was no impact from accretion or amortization of FSA adjustments for 2009.

As detailed in the following table, NFR as a percentage of AEA for 2011 and 2010 includes significant impact from net accretion as a result of FSA and debt prepayment penalties.

Adjusted Net Finance Revenue as a % of AEA

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	Years Ended December 31			
	2011		2010	
Net finance revenue	\$ 529.9	1.54%	\$ 1,616.0	3.96%
FSA impact on net finance revenue	(25.3)	(0.23)%	(1,396.5)	(3.50)%
Secured debt prepayment penalties	114.2	0.30%	137.9	0.29%
Adjusted net finance revenue	\$ 618.8	1.61%	\$ 357.4	0.75%

Net finance revenue is a non-GAAP measure, see non-GAAP financial information.

Net Finance Margin excluding FSA and prepayment penalties improved over the prior year as lower funding costs and stabilizing asset yields partially offset reduced benefits from the GSI Facilities. While the benefits from the GSI Facilities were down, net finance margin continues to benefit from discount recapture stemming from collateral prepayments on the underlying securities. Generally, 2011 new business yields in Corporate Finance were up modestly on average but the market remains bifurcated with continued pricing pressure on traditional retail asset-based lending (ABL) and stability in cash flow loans. Utilization rates in air and rail assets in Transportation Finance were strong; rail lease rates continued to improve and air lease rate reflected some compression. Asset yields vary by vendor program, geography and types of credit in Vendor Finance, but were relatively stable in 2011.

Margin also continues to be impacted by our changing business mix, in which cash, student loans and liquid investments continue to represent a significant portion of the overall balance sheet. Growth in the relative proportion of commercial loans and leases, the continued refinancing of debt at lower rates and the proportion of deposits to total fundings should benefit margin.

Excluding FSA and the effect of prepayment penalties on high-cost debt, margin during 2010 grew sequentially during the first three quarters due to a decrease in high cost debt. During the fourth quarter, our yield compressed as the sale of non-strategic consumer receivables (which carried higher yields and a higher risk profile) in Vendor Finance and the pressure on rental margins, including the impact from the return of aircraft from a bankrupt carrier, more than offset the benefits of paying down high cost debt. In addition, there was a higher proportion of average cash in the fourth quarter.

Net finance revenue during 2009 also reflected the declining asset base as well as lower operating lease margins, maintaining cash balances, losses related to the unwinding of terminated swaps, joint venture related activities, and higher non-accrual loans. In addition, although market interest rates declined and remained low, the decline in benchmark rates was offset by CIT's higher funding spreads, reducing net finance revenue percentage. Incrementally higher borrowing costs were associated with secured borrowings, including the Credit Facility and Expansion Facility.

Item 7: Management's Discussion and Analysis

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Net Operating Lease Revenue⁽³⁾ as a % of Average Operating Leases (AOL) (dollars in millions)

	Years Ended December 31,		
	CIT		Predecessor CIT
Rental income on operating leases	14.85%	14.99%	14.46%
Net operating lease revenue %	9.72%	8.84%	5.76%

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Years Ended December 31,

	Years Ended December 31,		
Net operating lease revenue	\$ 1,090.9	\$ 970.4	\$ 758.0

(3) *Net operating lease revenue and average operating lease equipment are non-GAAP measures; see reconciliation of non-GAAP to GAAP financial information.*

Net operating lease revenue increased in amount (components of which are provided in the Net Finance Revenue table above) and as a percentage of AOL, benefiting from lower depreciation expense in Vendor Finance (discussed further below). Net operating lease revenue also benefited from FSA accretion of approximately \$184 million in 2011 and \$171 million in 2010.

Net operating lease revenue for the aerospace and rail portfolios improved modestly from 2010, as higher utilization in the rail portfolio mitigated some renewal rate pressure, and aerospace benefited from lower maintenance costs. Utilization in both aerospace and rail car portfolios remains strong. All commercial aircraft except one were leased at December 31, 2011. Rail fleet utilization, including commitments, increased to 97% from 94% a year ago.

The 2011 results benefitted from lower depreciation expense, primarily in the Vendor Finance business, as a result of certain operating lease equipment being recorded as held for sale. When a long-lived asset is classified as held for sale, depreciation expense is no longer recognized but the asset is evaluated for impairment with any such charge recorded in other income. As a result, net operating lease revenue includes rental income on operating lease equipment classified as held for sale, but there is no related depreciation expense. Operating lease equipment in assets held for sale totaled \$233 million at December 31, 2011, primarily reflecting assets relating to the previously announced Dell Europe platform sale in Vendor Finance and aerospace equipment. The amount of depreciation expense not recognized on operating lease equipment in assets held for sale in 2011 was approximately \$68 million and not significant in 2010 and 2009.

During 2010, net operating lease revenue before FSA adjustments decreased slightly, as higher asset balances were offset by downward pressure on lease rents. Net operating lease revenue is primarily generated from the aircraft and rail transportation portfolios. Utilization remained strong in aerospace. Rail utilization rates, including customer commitments to lease, improved to 94% from 90% at December 31, 2009 on modest increases in activity across most major car types. Market rents improved modestly, but 2010 renewal rates remained under pressure.

Net operating lease revenue for 2009 of \$758 million was down 8% from 2008 as the relatively strong performance of the commercial aerospace portfolio was offset by decreased rentals in rail. Rail lease and utilization rates were under pressure during 2009 as carriers and shippers reduced their fleets and returned cars to us. At December 31, 2009, our commercial aircraft portfolio was essentially all leased, while rail utilization decreased to 90% from 95% at December 31, 2008. See *Concentrations Operating Leases* for additional information.

CREDIT METRICS

Management analyzes credit trends both before and after FSA in order to provide comparability with our longer-term credit trends (which included pre-emergence / historical accounting) and credit trends experienced by other market participants.

Consistent with modest growth in the U.S. economy, the credit quality of our portfolio improved in 2011, particularly in the second half of the year, as charge-offs, non-accrual loans and the provision for credit losses declined sequentially in every quarter of 2011, ending the year considerably below 2010 in all three metrics. The improvement was broad-based across the Commercial segments.

As a percentage of average finance receivables, net charge-offs in the Commercial segments were 1.68% in the current year versus 2.04% in 2010. Non-accrual loans in the Commercial segments declined 57% to \$701 million (4.61% of Finance receivables) at December 31, 2011 from \$1.6 billion (9.77%) at December 31, 2010. The provision for credit losses was \$270 million for the year, down from \$820 million in 2010. In addition to the improved credit metrics, the 2010 provision included amounts to rebuild an allowance following the reversal / re-characterization of the previous amount as fresh start discount in December 2009 in conjunction with the Company's emergence from bankruptcy. Net charge-offs were particularly low in the fourth quarter of 2011, approaching historical low levels, in part reflecting continued strong recoveries. Given the recent high level of recoveries and our focus on prudent growth, which will likely increase finance receivables next year, management expects the provision for credit losses to increase from this fourth quarter level in 2012.

Our credit metrics stabilized beginning in the second half of 2010. Non-accrual loans declined from a peak of \$2.1 billion at the end of the second quarter to \$1.6 billion at December 31, 2010, as additions to non-accrual loans dropped significantly in the second half. Charge-offs, while high compared to historical standards, were considerably below 2009 levels. Credit performance throughout 2009 was impacted negatively by ongoing economic weakness globally. Non-accrual loans and charge-offs increased significantly, particularly in the commercial real estate, printing, publishing, energy, lodging, leisure and small business lending sectors. Our Corporate Finance cash flow loan portfolio was most severely impacted. As a result, we had a higher provision for loan losses and increased our allowance for loan losses significantly from prior year levels.

As a result of adopting FSA, the allowance for loan losses at December 31, 2009 was eliminated and effectively recorded as discounts on loans as part of the fair value of finance receivables. A portion of the discount attributable to embedded credit losses is recorded as non-accretable discount and is utilized as such losses occur, primarily on impaired, non-accrual loans. Any incremental deterioration of loans in this group results in incremental provisions or charge-offs. Improvements or increases in forecasted cash flows in excess of the non-accretable discount will reduce any allowance on the loan established after emergence from bankruptcy. Once such allowance (if any) has been reduced and the account is returned to accruing status, the non-accretable discount is reclassified to accretable discount and is recorded as finance income over the remaining life of the account. For performing pre-emergence loans, an allowance for loan losses is established to the extent our estimate of inherent loss exceeds the FSA discount. Recoveries on pre-emergence (2009 and prior) charge-offs are reflected in other income, and totaled \$86 million and \$279 million for 2011 and 2010, respectively.

The allowance for loan losses is intended to provide for losses inherent in the portfolio based on estimates of the ultimate outcome of collection efforts, realization of collateral values, and other pertinent factors, such as estimation risk related to performance in prospective periods. We may make adjustments to the allowance depending on general economic conditions and specific industry weakness or trends in our portfolio credit metrics, including non-accrual loans and charge-off levels and realization rates on collateral.

Our allowance for loan losses includes: (1) specific reserves for impaired loans, (2) non-specific reserves for estimated losses inherent in non-impaired loans based on our projected loss levels and (3) a qualitative adjustment to the reserve for economic risks, industry and geographic concentrations, and other factors not adequately captured in our methodology. Our policy is to recognize losses through charge-offs when there is high likelihood of loss after considering the borrower's financial condition, underlying collateral and guarantees, and the finalization of collection activities.

Qualitative adjustments largely related to instances where management believes that the Company's current risk ratings in selected portfolios do not fully reflect the corresponding inherent risk. The qualitative adjustments did not exceed 10% of the total allowance at any of the presented periods and are recorded by class and included in the allowance for loan losses.

See *Risk Factors* for additional discussion on allowance for loan losses.

The following table presents detail on our allowance for loan losses, including charge-offs and recoveries:

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

	Years Ended December 31				
	CIT		Predecessor CIT		
	2011	2010	2009	2008	2007
Allowance beginning of period	\$ 416.2	\$	\$ 1,096.2	\$ 574.3	\$ 577.1
Provision for credit losses(1)	269.7	820.3	2,660.8	1,049.2	241.8
Change related to new accounting guidance(2)		68.6			
Other(1)	(12.9)	(8.2)	(12.2)	(36.8)	(64.6)
Net additions	256.8	880.7	2,648.6	1,012.4	177.2
Gross charge-offs	(368.8)	(510.3)	(2,068.2)	(557.8)	(265.4)
Recoveries(3)	103.6	45.8	109.6	67.3	85.4
Net Charge-offs	(265.2)	(464.5)	(1,958.6)	(490.5)	(180.0)

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Years Ended December 31

Allowance before fresh start adjustments	407.8	416.2	1,786.2)	1,096.2	574.3
Fresh start adjustments			(1,786.2)		
Allowance end of period	\$ 407.8	\$ 416.2	\$	\$ 1,096.2	\$ 574.3
Loans					
Commercial Segments loans	\$ 15,202.8	\$ 16,552.7	\$ 25,479.2	\$ 40,654.0	\$ 41,581.2
Consumer loans	4,682.7	8,075.9	9,683.7	12,472.6	12,179.7
Total loans	\$ 19,885.5	\$ 24,628.6	\$ 35,162.8	\$ 53,126.6	\$ 53,760.9
Allowance					
Commercial Segments	\$ 407.8	\$ 416.2	\$	\$ 857.9	\$ 512.2
Consumer				238.3	62.1
Total allowance for credit losses	\$ 407.8	\$ 416.2	\$	\$ 1,096.2	\$ 574.3

Item 7: Management's Discussion and Analysis

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- (1) Includes amounts related to reserves on unfunded loan commitments, letters of credit and for deferred purchase agreements, which are reflected in other liabilities.
- (2) Reflects reserves associated with loans consolidated in accordance with 2010 adoption of accounting guidance on consolidation of variable interest entities.
- (3) Recoveries for the years ended December 31, 2011 and 2010 do not include \$124.1 million and \$278.8 million of recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale, which are included in Other Income.

The following table summarizes the components of the provision and allowance:

(dollars in millions)	Provision for Credit Losses		Allowance for Loan Losses	
	2011	2010	2011	2010
For the years ended /at December 31:				
Specific reserves on impaired loans	\$ (66.7)	\$ 121.3	\$ 54.6	\$ 121.3
Non-specific reserves	71.2	234.5	353.2	294.9
Net charge-offs	265.2	464.5		
Totals	\$ 269.7	\$ 820.3	\$ 407.8	\$ 416.2

The allowance for loan losses as a percentage of finance receivables was 2.05% (2.68% for Commercial segments), up from 1.69% (2.51% for Commercial segments) at December 31, 2010. Management also analyzes the amount of coverage on a pre-FSA basis by combining the non-accretable discount balance and the allowance for loan losses. On this basis, the ratio of total allowance and non-accretable FSA discount to pre-FSA loans was 2.29%, compared to 2.95% at December 31, 2010. For the commercial segments, total reserves on this basis were 3.00% and 4.31% as of December 31, 2011 and December 31, 2010, respectively. The consumer segment has lower reserves because it consists primarily of U.S. Government guaranteed student loans.

FSA discount and allowance balances by segment are presented in the following tables:

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At December 31, 2011

	Finance Receivables pre FSA	FSA Accretable Discount	FSA Non- accretable Discount(1)	Finance Receivables post FSA	Allowance for Credit Losses	Net Carrying Value
Corporate Finance	\$ 7,089.2	\$(178.7)	\$(47.8)	\$ 6,862.7	\$(262.2)	\$ 6,600.5
Transportation Finance	1,564.0	(77.0)		1,487.0	(29.3)	1,457.7
Trade Finance	2,431.4			2,431.4	(29.0)	2,402.4
Vendor Finance	4,495.9	(62.8)	(11.4)	4,421.7	(87.3)	4,334.4
Commercial Segments	15,580.5	(318.5)	(59.2)	15,202.8	(407.8)	14,795.0
Consumer	4,989.3	(303.3)	(3.3)	4,682.7		4,682.7
Total	\$20,569.8	\$(621.8)	\$(62.5)	\$19,885.5	\$(407.8)	\$19,477.7

At December 31, 2010

	Finance Receivables pre FSA	FSA Accretable Discount	FSA Non- accretable Discount(1)	Finance Receivables post FSA	Allowance for Credit Losses	Net Carrying Value
Corporate Finance	\$ 8,995.8	\$(611.4)	\$(311.5)	\$ 8,072.9	\$(304.0)	\$ 7,768.9
Transportation Finance	1,537.3	(145.3)	(1.7)	1,390.3	(23.7)	1,366.6
Trade Finance	2,387.4			2,387.4	(29.9)	2,357.5
Vendor Finance	4,925.8	(183.6)	(40.1)	4,702.1	(58.6)	4,643.5
Commercial Segments	17,846.3	(940.3)	(353.3)	16,552.7	(416.2)	16,136.5
Consumer	8,584.6	(498.6)	(10.1)	8,075.9		8,075.9
Total	\$26,430.9	\$(1,438.9)	\$(363.4)	\$24,628.6	\$(416.2)	\$24,212.4

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At December 31, 2009

	Finance Receivables pre FSA	FSA Accretable Discount	FSA Non- accretable Discount(1)	Finance Receivables post FSA	Allowance for Credit Losses	Net Carrying Value
Corporate Finance	\$ 14,673.2	\$(1,848.2)	\$(885.8)	\$ 11,939.2	\$	\$ 11,939.2
Transportation Finance	2,082.2	(271.4)	(2.1)	1,808.7		1,808.7
Trade Finance	3,008.4	(10.6)				