CIT GROUP INC
Form 10-Q
November 02, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

X	Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended September 30, 2018		Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 001-31369

CIT GROUP INC.

(Exact name of Registrant as specified in its charter)

Delaware	65-1051192
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
11 West 42nd Street New York, New York	10036
(Address of Registrant's principal executive offices)	(Zip Code)
(212) 461-5200	
(Registrant's telephone number)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No |_|

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

Yes |X| No |_|

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

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

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

Yes |_| No |X|

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

As of October 31, 2018, there were 105,592,774 shares of the registrant's common stock outstanding.

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Part One — Financial Information

Item 1. Financial Statements

CIT GROUP INC. AND SUBSIDIARIES

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

	September 30, 2018	December 31, 2017
Assets		
Cash and due from banks, including restricted balances of $22.8 at September 30, 2018 and $42.9 at December 31, 2017[1] (see Note 6 for amounts pledged)	$167.6	$278.6
Interest bearing deposits, including restricted balances of $79.1 at September 30, 2018 and $81.8 at December 31, 2017[1] (see Note 6 for amounts pledged)	1,199.9	1,440.1
Securities purchased under agreement to resell	200.0	150.0
Investment securities, including securities carried at fair value with changes recorded in net income of $44.0 at September 30, 2018 and $0.4 at December 31, 2017 (see Note 6 for amounts pledged)	6,339.5	6,469.9
Assets held for sale[1]	1,380.5	2,263.1
Loans (see Note 6 for amounts pledged)	30,495.8	29,113.9
Allowance for loan losses	(477.4)	(431.1)
Total loans, net of allowance for loan losses[1]	30,018.4	28,682.8
Operating lease equipment, net (see Note 6 for amounts pledged)[1]	6,888.7	6,738.9
Bank-owned life insurance	808.2	788.6
Goodwill	369.9	369.9
Other assets, including $129.3 at September 30, 2018 and $68.7 at December 31, 2017, at fair value	1,562.0	1,595.5
Assets of discontinued operations[1]	327.7	501.3
Total Assets	$49,262.4	$49,278.7

Liabilities		
Deposits	$30,825.0	$29,569.3
Credit balances of factoring clients	1,672.4	1,468.6
Other liabilities, including $195.5 at September 30, 2018 and $198.1 at December 31, 2017, at fair value	1,461.9	1,437.1
Borrowings, including $170.4 at September 30, 2018 and $1,626.3 at December 31, 2017 contractually due within twelve months	8,674.2	8,974.4
Liabilities of discontinued operations[1]	308.6	509.3
Total Liabilities	42,942.1	41,958.7
Stockholders' Equity		
Preferred Stock: $0.01 par value, 100,000,000 shares authorized, 325,000 shares issued and outstanding	325.0	325.0
Common Stock: $0.01 par value, 600,000,000 shares authorized		
Issued: 209,039,304 at September 30, 2018 and 207,628,491 at December 31, 2017	2.1	2.1
Outstanding: 110,565,933 at September 30, 2018 and 131,352,924 at December 31, 2017		
Paid-in capital	8,831.3	8,798.1
Retained earnings	2,182.3	1,906.5
Accumulated other comprehensive loss	(199.4)	(86.5)
Treasury stock: 98,473,371 shares at September 30, 2018 and 76,275,567 shares at December 31, 2017 at cost	(4,821.0)	(3,625.2)
Total Common Stockholders' Equity	5,995.3	6,995.0
Total Equity	6,320.3	7,320.0
Total Liabilities and Equity	$49,262.4	$49,278.7

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

Assets		
Cash and interest bearing deposits, restricted	$76.7	$80.4
Total loans, net of allowance for loan losses	3.0	119.1
Operating lease equipment, net	775.0	763.3
Total Assets	$854.7	$962.8
Liabilities		
Beneficial interests issued by consolidated VIEs (classified as long-term borrowings)	$462.7	$566.6
Total Liabilities	$462.7	$566.6

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

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CIT GROUP INC. AND SUBSIDIARIES

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income				
Interest and fees on loans	$417.4	$403.5	$1,233.8	$1,236.9
Other interest and dividends	56.2	50.5	164.6	151.0
Interest income	473.6	454.0	1,398.4	1,387.9
Interest expense				
Interest on borrowings	90.8	84.1	268.8	267.8
Interest on deposits	123.1	92.6	330.8	281.2
Interest expense	213.9	176.7	599.6	549.0
Net interest revenue	259.7	277.3	798.8	838.9
Provision for credit losses	38.1	30.1	139.8	84.2
Net interest revenue, after credit provision	221.6	247.2	659.0	754.7
Non-interest income				
Rental income on operating leases	264.3	252.3	779.2	754.8
Other non-interest income	86.2	63.3	326.3	227.0
Total non-interest income	350.5	315.6	1,105.5	981.8
Total revenue, net of interest expense and credit provision	572.1	562.8	1,764.5	1,736.5
Non-interest expenses				
Depreciation on operating lease equipment	78.0	71.1	231.6	222.0
Maintenance and other operating lease expenses	56.6	57.9	177.5	165.0
Operating expenses	263.3	277.3	812.1	884.5
Loss on debt extinguishment and deposit redemption	3.5	53.5	22.9	218.3
Total non-interest expenses	401.4	459.8	1,244.1	1,489.8
Income from continuing operations before (benefit) provision for income taxes	170.7	103.0	520.4	246.7
Provision (benefit) for income taxes	41.3	(119.8)	140.0	(95.5)
Income from continuing operations	129.4	222.8	380.4	342.2
Discontinued Operations				
Income (loss) from discontinued operations, net of taxes	2.1	(1.9)	(8.8)	95.4
Loss (gain) on sale of discontinued operations, net of taxes	—	(1.3)	(16.3)	118.6
Total income (loss) from discontinued operations, net of taxes	2.1	(3.2)	(25.1)	214.0
Net Income	$131.5	$219.6	$355.3	$556.2
Preferred dividends	—	—	9.4	—
Net income available to common shareholders	$131.5	$219.6	$345.9	$556.2
Income from continuing operations available to common shareholders	$129.4	$222.8	$371.0	$342.2
Basic income per common share				
Income from continuing operations	$1.15	$1.66	$3.04	$1.98

Income (loss) from discontinued operations	0.02	(0.02)	(0.21)	1.24
Basic income per share	$1.17	$1.64	$2.83	$3.22
Diluted income per common share				
Income from continuing operations	$1.13	$1.64	$3.01	$1.96
Income (loss) from discontinued operations	0.02	(0.03)	(0.21)	1.23
Diluted income per share	$1.15	$1.61	$2.80	$3.19
Average number of common shares (thousands)				
Basic	112,842	133,916	122,185	172,682
Diluted	114,007	136,126	123,338	174,201
Dividends declared per common share	$0.25	$0.15	$0.57	$0.45

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

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CIT GROUP INC. AND SUBSIDIARIES

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

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net Income	$131.5	$219.6	$355.3	$556.2
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	7.3	11.1	0.7	54.6
Net unrealized gains (losses) on available for sale securities	(30.6)	3.9	(116.9)	10.6
Changes in benefit plans net gain (loss) and prior service (cost)/credit	—	0.1	3.8	1.6
Other comprehensive income (loss), net of tax	(23.3)	15.1	(112.4)	66.8
Comprehensive income	$108.2	$234.7	$242.9	$623.0

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

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CIT GROUP INC. AND SUBSIDIARIES

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

	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Minority Interests	Total Equity
December 31, 2017	$ 325.0	$ 2.1	$ 8,798.1	$ 1,906.5	$ (86.5)	$ (3,625.2)	$ —	$ 7,320.0
Adoption of Accounting Standard Updates 2016-01, 2016-16, and 2018-02	—	—	—	0.7	(0.5)	—	—	0.2
Net income	—	—	—	355.3	—	—	—	355.3
Other comprehensive loss, net of tax	—	—	—	—	(112.4)	—	—	(112.4)
Dividends paid	—	—	—	(80.2)	—	—	—	(80.2)
Share repurchases	—	—	—	—	—	(1,167.2)	—	(1,167.2)
Amortization of restricted stock, stock option and performance shares expenses	—	—	31.0	—	—	(28.6)	—	2.4
Employee stock purchase plan	—	—	2.2	—	—	—	—	2.2
September 30, 2018	$ 325.0	$ 2.1	$ 8,831.3	$ 2,182.3	$ (199.4)	$ (4,821.0)	$ —	$ 6,320.3
December 31, 2016	$ —	$ 2.1	$ 8,765.8	$ 1,553.0	$ (140.1)	$ (178.1)	$ 0.4	$ 10,003.1
Adoption of Accounting Standard Update 2016-09	—	—	1.0	(1.0)	—	—	—	—
Net income	—	—	—	556.2	—	—	—	556.2
Other comprehensive income, net of tax	—	—	—	—	66.8	—	—	66.8
Dividends paid	—	—	—	(82.4)	—	—	—	(82.4)
Issuance of preferred stock	325.0	—	(7.0)	—	—	—	—	318.0
Share repurchases	—	—	(9.6)	—	—	(3,416.5)	—	(3,426.1)

Amortization of restricted stock, stock option and performance shares expenses	—	—	34.8	—	—	(20.8)	—	14.0
Employee stock purchase plan	—	—	2.1	—	—	—	—	2.1
Other	—	—	—	—	—	—	(0.4)	(0.4)
September 30, 2017	$ 325.0	$ 2.1	$ 8,787.1	$ 2,025.8	$ (73.3)	$ (3,615.4)	$ —	$ 7,451.3

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

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CIT GROUP INC. AND SUBSIDIARIES

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

	Nine Months Ended September 30,	
	2018	2017
Cash Flows From Operations		
Net income	$355.3	$556.2
Adjustments to reconcile net income to net cash flows from operations:		
Provision for credit losses	139.8	84.2
Depreciation on operating lease equipment	231.6	222.0
Amortization of stock compensation expenses	31.0	34.8
Net gain on asset sales and impairments on assets held for sale	(73.7)	(278.6)
Loss on debt extinguishment and other deposit redemption	22.9	256.6
Provision for deferred income taxes	79.9	0.6
(Increase) decrease in finance receivables held for sale	(97.4)	43.4
(Increase) decrease in other assets	(92.0)	147.8
Decrease in other liabilities	(81.8)	(721.0)
Other operating activities	176.3	60.2
Net cash flows provided by operations	691.9	406.2
Cash Flows From Investing Activities		
Changes in loans, net	(1,439.0)	602.3
Purchases of investment securities	(2,129.5)	(4,465.2)
Proceeds from sales and maturities of investment securities	2,087.3	3,189.8
Proceeds from asset and receivable sales	1,266.8	792.3
Proceeds from sale of commercial air	—	10,026.0
Purchases of assets to be leased and other equipment	(470.6)	(660.2)
Proceeds from sale of OREO, net of repurchases	52.9	82.7
Purchase of bank owned life insurance	—	(650.0)
Other investing activities	29.2	56.3
Net cash flows (used in) provided by investing activities	(602.9)	8,974.0
Cash Flows From Financing Activities		
Proceeds from the issuance of term debt and FHLB advances	4,061.4	1,668.1
Repayments of term debt, FHLB advances, and net settlements	(4,424.2)	(9,231.3)
Net increase (decrease) in deposits	1,257.2	(2,707.3)
Repurchase of common stock	(1,167.2)	(3,425.5)
Net proceeds from issuance of preferred stock	—	318.0

Dividends paid	(80.2)	(82.4)
Other financing activities	(86.3)	(11.6)
Net cash flows used in financing activities	(439.3)	(13,472.0)
Effect of exchange rate changes on cash and cash equivalents	(8.6)	15.2
Decrease in cash, cash equivalents and restricted cash	(358.9)	(4,076.6)
Cash, cash equivalents, and restricted cash beginning of period	1,726.4	7,195.4
Cash, cash equivalents, and restricted cash end of period	$1,367.5	$3,118.8
Supplementary Cash Flow Disclosures		
Interest paid	$(626.4)	$(776.1)
Federal, foreign, state and local income taxes (paid) refunded, net	$(20.8)	$(38.0)
Supplementary Non Cash Flow Disclosure		
Transfer of assets from held for investment to held for sale	$280.0	$2,074.6
Transfer of assets from held for sale to held for investment	$50.1	$122.6
Deposits on flight equipment purchases applied to acquisition of flight equipment purchases, and origination of finance leases, capitalized interest, and buyer furnished equipment	$—	$91.2
Transfers of assets to OREO	$30.8	$85.3
Capital lease unexercised bargain purchase options	$—	$17.5
Commitments extended during the period on affordable housing investment credits	$64.1	$60.1

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

	As of September 30,	
	2018	2017
Cash and due from banks, including restricted balances of $22.8 and $60.8 at September 30, 2018 and September 30, 2017, respectively	$167.6	$453.4
Interest bearing deposits, including restricted balances of $79.1 and $90.1 at September 30, 2018 and September 30, 2017, respectively	1,199.9	2,658.9
Cash included in assets of discontinued operations	—	6.5
Total cash, cash equivalents, and restricted cash shown in the Statements of Cash Flows	$1,367.5	$3,118.8

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

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

NOTE 1 — BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CIT Group Inc., together with its subsidiaries (collectively "we", "our", "CIT" or the "Company"), is a bank holding company ("BHC") and a financial holding company ("FHC"). CIT was formed in 1908 and provides financing, leasing and advisory services principally to middle-market companies in a wide variety of industries, primarily in North America. CIT also provides banking and related services to commercial and individual customers through its banking subsidiary, CIT Bank, N.A. ("CIT Bank" or the "Bank"), which includes 69 branches located in Southern California and its online bank, bankoncit.com.

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

BASIS OF PRESENTATION

Basis of Financial Information

These consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial information and accordingly do not include all information and note disclosures required by generally accepted accounting principles in the United States of America (“GAAP”) for complete financial statements. The financial statements in this Form 10-Q, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of CIT’s financial position, results of operations and cash flows in accordance with GAAP. These consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K").

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

Principles of Consolidation

The accompanying consolidated financial statements include financial information related to CIT and its majority-owned subsidiaries and those VIEs where the Company is the primary beneficiary.

In preparing the consolidated financial statements, all significant intercompany accounts and transactions have been eliminated. Assets held in an agency or fiduciary capacity are not included in the consolidated financial statements.

The current period's results of operations do not necessarily indicate the results that may be expected for any other interim period or for the full year as a whole.

Discontinued Operations

Discontinued Operations as of September 30, 2018 and December 31, 2017 included assets and liabilities of (i) the Business Air business and (ii) the Financial Freedom business. Income from discontinued operations reflects the activities of the Business Air and Financial Freedom businesses for the quarter and nine months ended September 30, 2018 and 2017, and Commercial Air (a component of Aerospace) for the nine months ended September 30, 2017. We completed the sale of our Commercial Air business on April 4, 2017.

The Financial Freedom business, a former division of CIT Bank that serviced reverse mortgage loans, was acquired in conjunction with the OneWest Transaction in 2015 and was sold on May 31, 2018. The sale included all the operations, mortgage servicing rights and related servicing assets and liabilities, although certain assets and liabilities of the Financial Freedom business were still held by CIT Bank at September 30, 2018 and will continue to be held until the required investor consent is received to qualify for sale treatment. See further discussion in Note 2 — Discontinued Operations. In conjunction with the sale of the Financial Freedom business, the Company also sold its reverse mortgage portfolio, comprised of loans and related other real estate owned ("OREO") assets previously reported in continuing operations, and which was serviced by the Financial Freedom business. (Collectively, the sale of the Financial Freedom business and the reverse mortgage portfolio is referred to as the "Financial Freedom Transaction"). See further discussion in Note 3 — Loans.

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are included in the Company's 2017 Form 10-K. Effective January 1, 2018, CIT changed its accounting policy for revenue recognition resulting from the adoption of Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers and subsequent related Accounting Standards Updates ("ASUs"). There were no other material changes to policies during the nine months ended September 30, 2018. Refer to Other Newly Adopted Accounting Standards for other ASUs adopted in 2018.

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

Revenue Recognition

On January 1, 2018, CIT adopted ASU 2014-09, Revenue Recognition - Revenue from Contracts with Customers (ASC 606) and subsequent related ASUs. ASU 2014-09 establishes the principles to apply in determining the amount and timing of revenue recognition. The core principle is that a company will recognize revenue when it transfers control of goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The guidance introduces a five-step, principle-based model, requiring more judgment than under previous GAAP to determine when and how revenue is recognized. The standard defers to existing guidance where revenue recognition models are already in place.

"Interest Income" and "Rental Income on Operating Leases", CIT's two largest revenue items, are out of scope of the new guidance, as are many other revenues relating to other financial assets and liabilities, including loans, leases, securities, and derivatives. As a result, the implementation of the new guidance was limited to certain revenue streams within Non-Interest Income, including some immaterial bank related fees and gains or losses related to the sale and disposition of leased equipment and OREO, which is accounted for under ASC 610-20, Gains and Losses From the Derecognition of Nonfinancial Assets, and requires the Company to apply certain recognition and measurement principles of ASC 606.

CIT evaluated its in-scope revenue streams under the five-step model and concluded that ASU 2014-09 did not materially impact the current practice of revenue recognition as ASC 606 is consistent with the current accounting policy being applied by the Company for these revenues. Therefore, no change in the timing or amount of income recognized was identified. CIT also determined that costs incurred to obtain or fulfill contracts and financing components relating to in-scope revenue streams were immaterial to the Company.

Non-interest revenue, including amounts related to the sale and disposition of leased equipment and OREO, is recognized at an amount reflecting the consideration received, or expected to be received, when control of goods or services is transferred, which generally occurs when services are provided or control of leased equipment or OREO is liquidated.

ASU 2014-09 was adopted using the modified retrospective transition method. CIT elected to apply this guidance only to contracts that were not completed at the date of the initial application. The adoption did not have a significant impact on CIT’s financial statements or disclosures. No adjustment to the opening balance of retained earnings was necessary.

Interest income on held for investment ("HFI") loans is recognized using the effective interest method or on a basis approximating a level rate of return over the life of the asset. Interest income includes components of accretion of the fair value discount on loans and lease receivables recorded in connection with Purchase Accounting Adjustments (“PAA”), which are accreted using the effective interest method as a yield adjustment over the remaining contractual term of the loan and recorded in interest income. If the loan is subsequently classified as assets held for sale ("AHFS"), accretion (amortization) of the discount (premium) will cease.

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

The recognition of interest income (including accretion) on commercial loans (exclusive of small ticket commercial loans) is suspended and an account is placed on non-accrual status when, in the opinion of management, full collection of all principal and interest due is doubtful. All future interest accruals, as well as amortization of deferred fees, costs, purchase premiums or discounts are suspended. To the extent the estimated cash flows, including fair value of collateral, does not satisfy both the principal and accrued interest outstanding, accrued but uncollected interest at the date an account is placed on non-accrual status is reversed and charged against interest income. Subsequent interest received is applied to the outstanding principal balance until such time as the account is collected, charged-off or returned to accrual status. Loans that are on cash basis nonaccrual do not accrue interest income; however, payments designated by the borrower as interest payments may be recorded as interest income. To qualify for this treatment, the remaining recorded investment in the loan must be deemed fully collectable.

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

The recognition of interest income on reverse mortgages is suspended upon the latter of the foreclosure sale date or date on which marketable title has been acquired (i.e., property becomes OREO).

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

Purchased credit impaired ("PCI") loans in pools that the Company may modify as TDRs are not within the scope of the accounting guidance for TDRs.

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

Other Newly Adopted Accounting Standards

The following pronouncements were issued by the Financial Accounting Standards Board ("FASB") and adopted by CIT as of January 1, 2018. Refer to Note 1 - Business and Summary of Significant Accounting Policies on Form 10-Q for the quarter ended March 31, 2018 for a detailed description of these pronouncements:

- ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.
- ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10).
- ASU 2016-16, Income Taxes (Topic 740): Intra - Entity Transfers of Assets Other Than Inventory.
- ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.
- ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash.
- ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business.
- ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.
- ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting.
- ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.

The following pronouncements were issued by FASB and adopted by CIT as of July 1, 2018.

Intangibles – Goodwill and Other – Internal-Use Software

ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new guidance provides that costs incurred during the application development stage of implementation would generally be capitalized, whereas costs incurred during the preliminary project and post implementation stages would generally be expensed as incurred.

CIT early adopted ASU 2018-15 as of July 1, 2018 by applying the guidance prospectively to all implementation costs incurred after the date of adoption. Capitalized implementation costs and amortization expense related to the development of internal financial planning and workflow tools are reflected in "Other assets" and "Operating expenses" within the Company's Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Income, respectively. The adoption did not have a material impact on CIT's consolidated financial statements and disclosures.

Fair Value Measurement

ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, amends ASC 820 to add, remove, and modify fair value measurement disclosure requirements. Entities are permitted to early adopt any removed or modified disclosure requirements and delay adoption of the added disclosure requirements until the standard effective date of January 1, 2020.

CIT early adopted the removed and modified disclosure requirements in ASU 2018-13 as of July 1, 2018. The amendment on changes to the narrative description of measurement uncertainty was applied prospectively for the most recent period presented. All other amendments were applied retrospectively to all periods presented. The adoption of this standard did not have a material impact on CIT’s disclosures as disclosure enhancements are more qualitative in nature.

Recent Accounting Pronouncements

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

Standard	Summary of Guidance	Effect on CIT's Financial Statements
ASU 2017-08, Receivables -Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities Issued March 2017	•ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. •The new guidance applies to all entities that hold investments in callable debt securities for which the amortized cost basis exceeds the amount repayable by the issuer at the earliest call date (i.e., at a premium). •This guidance must be adopted on a modified retrospective basis through a cumulative-effect adjustment to retained earnings.	•Effective for CIT as of January 1, 2019. •Based on CIT’s evaluation, the adoption of this standard is not expected to have a material impact on CIT’s consolidated financial statements as unamortized premiums on debt securities are immaterial. However, CIT will continue to assess new securities purchased in 2018. •CIT does not intend to early adopt this standard.

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

ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting Issued June 2018	•ASU 2018-07 supersedes ASC 505-50, Equity—Equity-Based Payments to Non-Employees and expands the scope of ASC 718 to include all share-based payment arrangements related to the acquisition of goods and services from both nonemployees and employees. As a result, most of the guidance in ASC 718 associated with employee share-based payments, including most of its requirements related to classification and measurement, applies to nonemployee share-based payment arrangement. •An entity should use a modified retrospective transition approach, with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year, for all (1) liability-classified nonemployee awards that have not been settled as of the adoption date and (2) equity-classified nonemployee awards for which a measurement date has not been established.	•Effective for CIT as of January 1, 2019. •CIT is currently evaluating the impact of this ASU; however, CIT does not expect this standard to have a material impact on its consolidated financial statements and disclosures as current accounting for nonemployee share-based payment is consistent with the requirements for employee share-based awards. •CIT does not intend to early adopt this standard.
ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans- General (Subtopic 715-20: Disclosure Framework -Changes to the Disclosure Requirements for Defined Benefit Plans Issued August 2018	•ASU 2018-14 adds, removes, and clarifies disclosure requirements related to defined benefit pension and postretirement plans. •ASU 2018-14 should be applied on a retrospective basis to all periods presented.	•Effective for CIT as of January 1, 2021. However, early adoption is permitted. •The adoption of this standard is not expected to have a material impact on CIT’s disclosures as disclosure enhancements are more qualitative in nature.

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

ASU 2016-02, Leases (Topic 842), and subsequent related ASUs Issued February 2016	•The new leasing standard modifies the accounting, presentation, and disclosures for both lessors and lessees. •Lessees will need to recognize all leases longer than twelve months on the consolidated balance sheets as lease liabilities with corresponding right-of-use (“ROU”) assets. The FASB retained a dual model, requiring leases to be classified as either operating or finance leases. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit thresholds. •Lessor accounting remains similar to the current model, but updated to align with certain changes to the lessee model (e.g., certain definitions, such as initial direct costs, have been updated) and the new revenue recognition standard. The lessor model retains the approach for operating and capital/finance leases. •The new standard requires lessors to separate lease components from non-lease components that transfer a good or service to the customer. The lease component will be accounted for using an approach that is substantially equivalent to existing guidance. The non-lease component will be accounted for by lessors in accordance with the revenue recognition guidance or other applicable accounting	•Effective for CIT as of January 1, 2019. CIT expects to use the effective date of January 1, 2019 as the date of initial application. Consequently, disclosures required under the new standard will commence as of January 1, 2019. CIT does not anticipate any significant cumulative-effect adjustment to retained earnings as of January 1, 2019 as a result of adopting the new standard. •CIT is continuing to evaluate the impact where it is both a lessee and a lessor: oLessee Accounting: CIT expects to recognize a lease liability, with a corresponding ROU asset, based on the present value of unpaid lease payments for existing operating leases longer than twelve months as of the date of adoption. The ROU asset will be adjusted per Topic 842 transition guidance for existing balances of accrued and prepaid rent, unamortized lease incentives provided by lessors, and restructuring reserve. As a result, upon adoption CIT expects to recognize a ROU asset and a corresponding lease liability in the approximate range of $220 million to $275 million in its consolidated balance sheets. oLessor accounting: CIT expects to elect the “package of practical expedients”, which permits the Company not to reassess its prior conclusions regarding lease identification, lease classification and initial direct costs. CIT does not expect the new rules to have a significant impact on classification of leases as finance or operating. Most of CIT’s finance leases will be classified as sales-type leases under ASC 842. No gain or loss would typically be recognized at lease commencement for new equipment as there will be no difference between equipment fair value and carrying amount. CIT expects to apply the operating lease practical expedient to its Rail portfolio leases and not separate non-lease components of railcar maintenance services from lease components. CIT is analyzing the impact of changes to the definition of ‘initial direct costs’ under the new guidance. Due to the narrower definition of initial direct costs, CIT expects to recognize increased upfront expenses partially offset over time by higher yield over the lease term.

guidance.

•The new standard also provides lessors with an operating lease practical expedient, by class of underlying asset, not to separate non-lease components from the associated lease component if both of the following are met: (i) the timing and pattern of transfer of the nonlease components and associated lease component are the same and (ii) the lease component, if accounted for separately, would be classified as an operating lease.

•The new standard has a narrower definition of initial direct costs, and certain incremental costs previously eligible for capitalization will be expensed as incurred.

•A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose its date of initial application as either: (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted.

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

ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments Issued June 2016	•Introduces a forward-looking "expected loss" model (the "Current Expected Credit Losses" ("CECL") model) to estimate credit losses to cover the full remaining expected life of the portfolio upon adoption, rather than the incurred loss model under current U.S. GAAP, on certain types of financial instruments. •It eliminates existing guidance for PCI loans, and requires recognition of an allowance for expected credit losses on financial assets purchased with more than insignificant credit deterioration since origination (PCD loans). •Loans previously classified as PCI will be considered PCD at adoption, with credit related discount reflected in ALLL and loan balance. •It amends existing impairment guidance for AFS securities to incorporate an allowance, which will allow for reversals of impairment losses in the event that the credit of an issuer improves. •In addition, it expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the ALLL. •Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted (modified-retrospective approach).	•Effective for CIT as of January 1, 2020. Early adoption is permitted; however, CIT does not intend to early adopt the guidance. •CIT management has established a project team and an oversight committee to assess the impact of this guidance and implement this standard. The Company has completed the vendor selection process to provide the platform for CECL aggregation, analytics, and reporting. •While CIT is currently in the process of evaluating the impact of the amended guidance on its Condensed Consolidated Financial Statements, it currently expects the ALLL to increase upon adoption given that the allowance will be required to cover the full remaining expected life of the portfolio upon adoption, rather than the incurred loss model under current U.S. GAAP. The extent of this increase is still being evaluated and will depend on economic conditions and the composition of CIT's loan and lease portfolios at adoption date.

NOTE 2 — DISCONTINUED OPERATIONS

Aerospace

As discussed in Note 2 — Discontinued Operations in our Annual Report on Form 10-K for the year ended December 31, 2017, the activity for 2017 in the following tables included Commercial Air, which was sold on April 4, 2017. The following condensed financial information also reflects the Business Air business for the quarter and nine months ended September 30, 2018 and as of September 30, 2018 and December 31, 2017.The balances for the nine months ended September 30, 2017 included both Business Air and Commercial Air.

Condensed Balance Sheet — Aerospace (dollars in millions)

	September 30, 2018	December 31, 2017
Net Loans	$ 110.6	$ 165.8
Operating lease equipment, net	-	18.4
Other assets	0.9	-
Assets of discontinued operation	$ 111.5	$ 184.2
Other liabilities	$ 1.4	$ 8.8
Liabilities of discontinued operation	$ 1.4	$ 8.8

Condensed Statement of Income — Aerospace (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income	$1.9	$3.0	$6.1	$26.8
Interest expense	0.7	1.2	2.6	98.5
Rental income on operating leases	—	2.0	0.5	310.7
Other income	1.7	—	0.9	13.4
Maintenance and other operating lease expenses	—	—	—	4.2
Operating expenses	0.5	1.0	1.3	39.6
Loss on debt extinguishment[1]	—	—	—	39.0
Income from discontinued operation before provision for income taxes	2.4	2.8	3.6	169.6
Provision for income taxes	0.7	0.3	1.0	71.0
(Loss) gain on sale of discontinued operation, net of taxes	—	(1.3)	—	118.6
Income from discontinued operation, net of taxes	$1.7	$1.2	$2.6	$217.2

[1] The Company repaid approximately $1 billion of secured borrowings in the first quarter of 2017 within discontinued operations and recorded a loss of $39 million in relation to the extinguishment of those borrowings.

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

Condensed Statement of Cash Flows — Aerospace (dollars in millions)

	Nine Months Ended September 30,	
	2018	2017
Net cash flows (used in) provided by operations	$(4.2)	$32.7
Net cash flows provided by investing activities	75.7	10,247.7

Reverse Mortgage Servicing

The Financial Freedom business, a former division of CIT Bank that serviced reverse mortgage loans, was acquired in conjunction with the OneWest Transaction in 2015 and was sold on May 31, 2018. As part of the Financial Freedom Transaction, the sale of the Financial Freedom business included all the operations, mortgage servicing rights and related servicing assets and liabilities. During the second quarter of 2018, CIT recognized a net pre-tax loss on disposal of the Financial Freedom business of $22 million in discontinued operations primarily related to reserves and transaction costs. CIT has agreed to indemnify the purchaser for potential loan defects and servicing deficiencies related to the transferred servicing rights, both of which are capped and subject to time limitations. See Note 1 – Business and Summary of Significant Accounting Policies for a description of the Financial Freedom Transaction.

At September 30, 2018, certain assets and liabilities of the Financial Freedom business were still held by CIT Bank after the sale, and will continue to be held until the required investor consent is received to qualify for sale treatment, although the economic benefit and risk of the business has been transferred to the buyer. At September 30, 2018, assets of discontinued operations primarily included Home Equity Conversion Mortgage ("HECM") loans. Liabilities included reverse mortgage servicing liabilities, secured borrowings and contingent liabilities.

As a mortgage servicer of residential reverse mortgage loans prior to the sale of Financial Freedom, the Company was exposed to contingent liabilities for breaches of servicer obligations as set forth in industry regulations established by the Department of Housing and Urban Development (“HUD”) and the Federal Housing Administration (“FHA”) and in servicing agreements with the applicable counterparties, such as third party investors. Under these agreements, the servicer may be liable for failure to perform its servicing obligations, which could include fees imposed for failure to comply with foreclosure timeframe requirements established by servicing guides and agreements to which CIT was a party as the servicer of the loans. The Company had established reserves for contingent servicing-related liabilities for CIT’s servicer obligation that shall remain in discontinued operations until the contingency is resolved. Separately, the Company had recognized an indemnification receivable from the FDIC of $29 million as of December 31, 2017 for covered servicing-related obligations related to reverse mortgage loans pursuant to the loss share agreement between CIT Bank and the FDIC related to the acquisition by OneWest Bank from the FDIC of certain assets of IndyMac Federal Bank FSB (“IndyMac”) (the “IndyMac Transaction”). During 2018, the indemnification receivable was reduced to zero as the contingent obligation for FDIC covered loans was no longer deemed probable pursuant to ASC 450 and related ASC 805. See the Company's Report on Form 10-K for the year ended December 31, 2017, Note 5 - Indemnification Assets, for further information.

Condensed Balance Sheet — Financial Freedom (dollars in millions)

	September 30, 2018	December 31, 2017
Cash and interest bearing deposits, restricted	$ -	$ 7.7
Net loans[1]	212.1	272.8
Other assets	4.1	36.6
Assets of discontinued operation	$ 216.2	$ 317.1
Secured borrowings[1]	$ 213.2	$ 268.2
Other liabilities[2]	94.0	232.3
Liabilities of discontinued operation	$ 307.2	$ 500.5

(1) Net loans primarily include $198.7 million and $267.2 million of securitized balances at September 30, 2018 and December 31, 2017, respectively. Secured borrowings primarily relate to those receivables.

(2) Other liabilities primarily include contingent liabilities and reverse mortgage servicing liabilities.

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

Condensed Statement of Income — Financial Freedom (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income[1]	$1.7	$2.5	$5.8	$8.0
Interest expense[1]	1.7	2.3	5.8	7.2
Other income (loss)[2]	2.8	5.7	13.8	(29.8)
Operating expenses (benefits)[3]	2.4	13.1	29.4	(23.8)
Income (loss) from discontinued operation before benefit for income taxes	0.4	(7.2)	(15.6)	(5.2)
Benefit for income taxes[4]	—	(2.8)	(4.2)	(2.0)
Loss on sale of discontinued operation, net of taxes	—	—	(16.3)	—
Income (loss) from discontinued operation, net of taxes	$0.4	$(4.4)	$(27.7)	$(3.2)

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

(2) For the nine months ended September 30, 2017, other income included an impairment charge of approximately $50 million on the mortgage servicing liability.

(3) Operating expense is comprised of salaries and benefits, professional and legal services, and other expenses such as data processing, premises and equipment, and miscellaneous charges. For the nine months ended September 30, 2017, operating expenses included a net release of the curtailment reserve of $111 million, partially offset by an increase of $40 million in other servicing-related reserves.

(4) For the quarters ended September 30, 2018 and 2017, the Company's tax rate for discontinued operation was insignificant due to the limited activity post-sale and 39%, respectively. For the nine months ended September 30, 2018 and 2017, the Company's tax rate for discontinued operation was 27% and 38%, respectively.

Condensed Statement of Cash Flows — Financial Freedom (dollars in millions)

	Nine Months Ended September 30,	
	2018	2017
Net cash flows provided by (used in) operation	$15.2	$(26.5)
Net cash flows provided by investing activities	9.1	84.9

Combined Results for Discontinued Operations

The following tables reflect the combined results of the discontinued operations. Details of the balances are discussed in prior tables.

Condensed Combined Balance Sheet (dollars in millions)

	September 30, 2018	December 31, 2017
Total cash and deposits	$ —	$ 7.7
Net Loans	322.7	438.6
Operating lease equipment, net	—	18.4
Other assets	5.0	36.6
Assets of discontinued operations	$ 327.7	$ 501.3
Secured borrowings	$ 213.2	$ 268.2
Other liabilities	95.4	241.1
Liabilities of discontinued operations	$ 308.6	$ 509.3

Condensed Combined Statement of Income (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income	$3.6	$5.5	$11.9	$34.8
Interest expense	2.4	3.5	8.4	105.7
Rental income on operating leases	—	2.0	0.5	310.7
Other income (losses)	4.5	5.7	14.7	(16.4)
Maintenance and other operating lease expenses	—	—	—	4.2
Operating expenses	2.9	14.1	30.7	15.8
Loss on debt extinguishment	—	—	—	39.0
Income (loss) from discontinued operations before benefit (provision) for income taxes	2.8	(4.4)	(12.0)	164.4
(Benefit) provision for income taxes	0.7	(2.5)	(3.2)	69.0
(Loss) gain on sale of discontinued operations, net of taxes	—	(1.3)	(16.3)	118.6
Income (loss) from discontinued operations, net of taxes	$2.1	$(3.2)	$(25.1)	$214.0

Condensed Combined Statement of Cash Flows (dollars in millions)

	Nine Months Ended September 30,	
	2018	2017
Net cash flows provided by operations	$11.0	$6.2
Net cash flows provided by investing activities	84.8	10,332.6

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

NOTE 3 — LOANS

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

Loans by Product (dollars in millions)

	September 30, 2018	December 31, 2017
Commercial loans	$22,082.7	$20,892.1
Direct financing leases and leveraged leases	2,496.8	2,685.8
Total commercial	24,579.5	23,577.9
Consumer loans	5,916.3	5,536.0
Total loans	30,495.8	29,113.9
Loans held for sale[(1)]	204.1	1,095.7
Loans and held for sale loans[(1)]	$30,699.9	$30,209.6

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

As part of the Financial Freedom Transaction, on May 31, 2018, CIT sold its reverse mortgage portfolio comprised of loans and related OREO assets of $884 million and recognized a net pre-tax gain on the sale of $27 million in other non-interest income. The loans were included in loans held for sale in the above table at December 31, 2017. See Note 1 – Business and Summary of Significant Accounting Policies for a description of the Financial Freedom Transaction.

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

Loans (dollars in millions)

	September 30, 2018			December 31, 2017		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Commercial Banking	$22,518.2	$1,577.5	$24,095.7	$21,368.7	$1,790.6	$23,159.3
Consumer Banking[(1)]	6,400.1	—	6,400.1	5,954.6	—	5,954.6
Total	$28,918.3	$1,577.5	$30,495.8	$27,323.3	$1,790.6	$29,113.9

[(1)]

The Consumer Banking segment includes certain commercial loans, primarily consisting of a portfolio of Small Business Administration ("SBA") loans. These loans are excluded from the Consumer loan balances and included in the Commercial loan balances in the tables throughout this note.

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

Components of Net Investment in Loans (dollars in millions)

	September 30, 2018	December 31, 2017
Unearned income	$(749.3)	$(727.8)
Unamortized premiums	18.3	3.7
Accretable yield on PCI loans	(944.9)	(1,063.7)
Net unamortized deferred costs[1]	79.8	68.7

[1] Balance relates to the Commercial Banking segment.

Certain of the following tables present credit-related information at the “class” level. A class is generally a disaggregation of a portfolio segment. In determining the classes, CIT considered the loan characteristics and methods it applies in monitoring and assessing credit risk and performance.

Credit Quality Information

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

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

Commercial Loans Including Held for Sale Loans — Risk Rating by Class / Segment (dollars in millions)

Grade:	Pass	Special Mention	Classified- accruing	Classified- non-accrual	PCI Loans	Total
September 30, 2018						
Commercial Banking						
Commercial Finance	$8,299.0	$653.5	$ 1,054.4	$ 229.3	$ 5.9	$10,242.1
Real Estate Finance	4,994.4	247.5	267.2	2.3	36.2	5,547.6
Business Capital	7,529.1	456.1	310.3	43.1	—	8,338.6
Rail	125.5	0.8	1.2	—	—	127.5
Total Commercial Banking	20,948.0	1,357.9	1,633.1	274.7	42.1	24,255.8
Consumer Banking						
Other Consumer Banking(1)	419.8	15.7	45.2	1.0	2.1	483.8
Total Consumer Banking	419.8	15.7	45.2	1.0	2.1	483.8
Non- Strategic Portfolios	17.5	3.1	3.2	8.3	—	32.1
Total	$21,385.3	$1,376.7	$ 1,681.5	$ 284.0	$ 44.2	$24,771.7
December 31, 2017						
Commercial Banking						
Commercial Finance	$8,284.1	$640.9	$ 981.9	$ 134.8	$ 10.6	$10,052.3
Real Estate Finance	5,228.1	139.9	174.3	2.8	45.1	5,590.2
Business Capital	7,028.6	269.2	228.8	53.2	—	7,579.8
Rail	100.6	2.0	1.2	—	—	103.8
Total Commercial Banking	20,641.4	1,052.0	1,386.2	190.8	55.7	23,326.1
Consumer Banking						
Other Consumer Banking(1)	378.5	5.9	31.9	—	2.2	418.5
Total Consumer Banking	378.5	5.9	31.9	—	2.2	418.5
Non- Strategic Portfolios	35.7	7.6	10.2	9.8	—	63.3
Total	$21,055.6	$1,065.5	$ 1,428.3	$ 200.6	$ 57.9	$23,807.9

(1) Other Consumer Banking loans primarily consisted of SBA loans.

The following table provides a summary of the consumer portfolio credit quality. The amounts represent the carrying value, which differ from unpaid principal balances, and include the premiums or discounts and the accretable yield and non-accretable difference for PCI loans recorded in purchase accounting. Included in the consumer single-family residential ("SFR") loans are "covered loans" for which the Company can be reimbursed for a substantial portion of future losses under the terms of the loss sharing agreement with the FDIC related to IndyMac, which expires in March 2019. Covered loans are limited to the Legacy Consumer Mortgage ("LCM") division. Due to continued improvement of the covered loan performance, significantly shorter remaining life of the indemnification asset in comparison to the weighted average life of the related covered loans, and significant decline in loss share claims filed with the FDIC in the last six months, CIT performed a collectability assessment of the probable losses to be reimbursed by the FDIC for the remaining indemnification period. Separate from the higher negative yield to amortize the reductions in expected indemnification asset cash flows due to an increase in expected cash flows on the covered loans from improved credit performance, CIT recorded an impairment of $21.2 million, in other non-interest income, to reduce the carrying value of the indemnification asset (included in other assets) to $27.2 million in the quarter ended September 30, 2018, for the amounts deemed uncollectable within the remaining indemnification period based on CIT's loan level review of the covered loans. Indemnification assets are discussed further in our 2017 Form 10-K, Note 5 — Indemnification Assets.

Included in the consumer loan balances as of September 30, 2018 and December 31, 2017, were loans with terms that permitted negative amortization with an unpaid principal balance of $413 million and $484 million, respectively.

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

The table below summarizes the consumer loan LTV distribution and the covered loan held for investment balances as of September 30, 2018 and December 31, 2017 for SFR mortgage loans.

Consumer Loan LTV Distribution (dollars in millions)

	Single Family Residential				Total
	Covered Loans		Non-covered Loans		Consumer
LTV Range	Non-PCI	PCI	Non-PCI	PCI	Loans
September 30, 2018					
Greater than 125%	$1.4	$113.8	$4.9	$-	$120.1
101% – 125%	4.8	194.8	4.7	—	204.3
80% – 100%	33.9	470.0	181.9	—	685.8
Less than 80%	1,128.1	936.1	2,841.3	—	4,905.5
Not Applicable[1]	—	—	0.6	—	0.6
Total	$1,168.2	$1,714.7	$3,033.4	$—	$5,916.3
December 31, 2017					
Greater than 125%	$2.7	$160.0	$7.7	$—	$170.4
101% – 125%	6.4	291.5	4.4	—	302.3
80% – 100%	77.4	566.2	137.3	—	780.9
Less than 80%	1,306.1	878.1	2,089.7	7.7	4,281.6
Not Applicable[1]	—	—	0.8	—	0.8
Total	$1,392.6	$1,895.8	$2,239.9	$7.7	$5,536.0

[1] Certain Consumer Loans do not have LTV's.

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

Past Due and Non-accrual Loans

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

Loans Including Held for Sale Loans - Delinquency Status (dollars in millions)

	Past Due 30–59 Days Past Due	60–89 Days Past Due	90 Days or Greater	Total Past Due	Current[(1)]	PCI Loans[(2)]	Total
September 30, 2018							
Commercial Banking							
Commercial Finance	$12.4	$8.5	$98.0	$118.9	$10,117.3	$5.9	$10,242.1
Real Estate Finance	30.1	—	7.9	38.0	5,473.4	36.2	5,547.6
Business Capital	105.0	25.1	15.7	145.8	8,192.8	—	8,338.6
Rail	2.4	1.0	0.3	3.7	123.8	—	127.5
Total Commercial Banking	149.9	34.6	121.9	306.4	23,907.3	42.1	24,255.8
Consumer Banking							
Legacy Consumer Mortgages	33.2	6.1	41.9	81.2	1,118.4	1,714.7	2,914.3
Other Consumer Banking	27.9	2.1	5.4	35.4	3,460.2	2.1	3,497.7
Total Consumer Banking	61.1	8.2	47.3	116.6	4,578.6	1,716.8	6,412.0
Non-Strategic Portfolios	1.4	—	7.0	8.4	23.7	—	32.1
Total	$212.4	$42.8	$176.2	$431.4	$28,509.6	$1,758.9	$30,699.9
December 31, 2017							
Commercial Banking							
Commercial Finance	$4.5	$—	$49.3	$53.8	$9,987.9	$10.6	$10,052.3
Real Estate Finance	8.7	—	4.1	12.8	5,532.3	45.1	5,590.2
Business Capital	172.2	33.4	19.1	224.7	7,355.1	—	7,579.8
Rail	3.9	1.4	0.8	6.1	97.7	—	103.8
Total Commercial Banking	189.3	34.8	73.3	297.4	22,973.0	55.7	23,326.1
Consumer Banking							
Legacy Consumer Mortgages	26.7	7.6	34.8	69.1	2,219.5	1,903.5	4,192.1
Other Consumer Banking	9.6	0.5	0.4	10.5	2,615.4	2.2	2,628.1
Total Consumer Banking	36.3	8.1	35.2	79.6	4,834.9	1,905.7	6,820.2
Non-Strategic Portfolios	1.8	7.7	9.4	18.9	44.4	—	63.3
Total	$227.4	$50.6	$117.9	$395.9	$27,852.3	$1,961.4	$30,209.6

(1) As of September 30, 2018, the reverse mortgage loans were sold. As of December 31, 2017, due to their nature, reverse mortgage loans are included in Current, as they do not have contractual payments due at a specified time. During the first quarter of 2018, an immaterial error was discovered and corrected relating to the December 31, 2017 Current balance for LCM, which was understated by $861 million, and the Current balance for Other Consumer Banking, which was overstated by $861 million. The current presentation reflects the revised Current balances at December 31, 2017.

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

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

Loans on Non-Accrual Status (dollars in millions)[1]

	September 30, 2018			December 31, 2017		
	Held for Investment	Held for Sale	Total	Held for Investment	Held for Sale	Total
Commercial Banking						
Commercial Finance	$222.6	$6.7	$229.3	$134.8	$—	$134.8
Real Estate Finance	2.3	—	2.3	2.8	—	2.8
Business Capital	43.1	—	43.1	53.2	—	53.2
Total Commercial Banking	268.0	6.7	274.7	190.8	—	190.8
Consumer Banking						
Legacy Consumer Mortgages	29.4	—	29.4	19.9	—	19.9
Other Consumer Banking	5.7	—	5.7	0.4	—	0.4
Total Consumer Banking	35.1	—	35.1	20.3	—	20.3
Non-Strategic Portfolios	—	8.3	8.3	—	9.8	9.8
Total	$303.1	$15.0	$318.1	$211.1	$9.8	$220.9
Repossessed assets and OREO			35.8			54.6
Total non-performing assets			$353.9			$275.5
Commercial loans past due 90 days or more accruing			$53.6			$11.7
Consumer loans past due 90 days or more accruing			17.8			20.2
Total Accruing loans past due 90 days or more			$71.4			$31.9

[1] Factored receivables within our Business Capital division do not accrue interest and therefore are not considered within non-accrual loan balances; however factored receivables are considered for credit provisioning purposes.

Payments received on non-accrual loans are generally applied first against outstanding principal, though in certain instances where the remaining recorded investment is deemed fully collectible, interest income is recognized on a cash basis.

The table below summarizes the residential mortgage loans in the process of foreclosure and OREO:

Loans in Process of Foreclosure and OREO (dollars in millions)[1]

	September 30, 2018	December 31, 2017
PCI	$ 133.4	$ 133.7
Non-PCI	21.1	140.9
Loans in process of foreclosure	$ 154.5	$ 274.6
OREO	$ 32.3	$ 52.1

(1) As of September 30, 2018 the decrease in Non-PCI and OREO balances reflects the sale of the reverse mortgage portfolio in May 2018. As of December 31, 2017, the table included $122.5 million of reverse mortgage loans in the process of foreclosure and $21.0 million of reverse mortgage OREO.

Impaired Loans

The following table contains information about impaired loans and the related allowance for loan losses by class. Impaired loans exclude PCI loans. Loans that were identified as impaired at the date of the OneWest Transaction (the "Acquisition Date") for which the Company is applying the income recognition and disclosure guidance in ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality), are not included in the following table but are disclosed further below in Loans Acquired with Deteriorated Credit Quality.

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Impaired Loans (dollars in millions)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment[3] Quarter Ended September 30, 2018	Quarter Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
September 30, 2018							
With no related allowance recorded:							
Commercial Banking							
Commercial Finance	$ 127.0	$ 153.2	$ —	$ 93.2	$ 64.5	$ 82.3	$ 61.9
Business Capital	17.1	18.1	—	12.6	3.4	11.9	4.2
Real Estate Finance	2.3	2.4	—	2.4	0.3	1.2	0.5
With an allowance recorded:							
Commercial Banking							
Commercial Finance	95.9	103.9	40.0	120.2	154.8	102.8	146.8
Business Capital	7.7	7.7	3.3	9.1	13.1	9.2	15.1
Real Estate Finance	—	—	—	—	2.8	0.7	6.3
Consumer Banking							
Other Consumer Banking	0.5	0.5	0.4	0.3	—	0.1	—
Total Impaired Loans[1]	250.5	285.8	43.7	237.8	238.9	208.2	234.8
Total Loans Impaired at Acquisition Date[2]	1,758.9	2,583.4	17.4	1,796.2	2,125.5	1,863.2	2,220.7
Total	$ 2,009.4	$ 2,869.2	$ 61.1	$ 2,034.0	$ 2,364.4	$ 2,071.4	$ 2,455.5
December 31, 2017							
With no related allowance recorded:							
Commercial Banking							
Commercial Finance	$ 51.9	$ 72.7	$ —	$ 59.9			
Business Capital	11.7	13.4	—	5.7			
Real Estate Finance	—	—	—	0.4			
With an allowance recorded:							
Commercial Banking							
Commercial Finance	95.9	96.1	21.3	136.6			
Business Capital	10.5	10.5	4.3	14.2			
Real Estate Finance	2.7	2.8	0.4	5.6			
Total Impaired Loans[1]	172.7	195.5	26.0	222.4			
Total Loans Impaired at Acquisition Date[2]	1,961.4	2,870.2	19.1	2,168.8			
Total	$ 2,134.1	$ 3,065.7	$ 45.1	$ 2,391.2			

(1) Interest income recorded for the quarter and nine months ended September 30, 2018 while the loans were impaired was approximately $0.1 million and $0.7 million, respectively, of which none was recognized using the cash-basis method of accounting. Interest income recorded for the year ended December 31, 2017 while the loans were impaired was $2.4 million, of which none was recognized using the cash-basis method of accounting.
(2) Details of finance loans that were identified as impaired at the Acquisition Date are presented under Loans Acquired with Deteriorated Credit Quality.
(3) Average recorded investment for the quarters and nine months ended September 30, 2018, and September 30, 2017 and year ended December 31, 2017.

Loans Acquired with Deteriorated Credit Quality

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

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

Purchased Credit Impaired Loans (dollars in millions)

September 30, 2018	Unpaid Principal Balance	Carrying Value	Allowance for Loan Losses
Commercial Banking			
Commercial Finance	$10.2	$5.9	$ 0.5
Real Estate Finance	43.2	36.2	9.1
Consumer Banking			
Other Consumer Banking	2.6	2.1	—
Legacy Consumer Mortgages	2,527.4	1,714.7	7.8
	$2,583.4	$1,758.9	$ 17.4
December 31, 2017			
Commercial Banking			
Commercial Finance	$16.4	$10.6	$ 0.7
Real Estate Finance	60.1	45.1	7.0
Consumer Banking			
Other Consumer Banking	3.0	2.2	—
Legacy Consumer Mortgages	2,790.7	1,903.5	11.4
	$2,870.2	$1,961.4	$ 19.1

The following table summarizes the carrying value of commercial PCI loans, which are monitored for credit quality based on internal risk classifications. See previous table Consumer Loan LTV Distribution for credit quality metrics on consumer PCI loans.

	September 30, 2018			December 31, 2017		
(dollars in millions)	Non-criticized	Criticized	Total	Non-criticized	Criticized	Total
Commercial Finance	$—	$ 5.9	$5.9	$—	$ 10.6	$10.6
Real Estate Finance	14.4	21.8	36.2	21.8	23.3	45.1
Total	$14.4	$ 27.7	$42.1	$21.8	$ 33.9	$55.7

Non-criticized loans generally include loans that are expected to be repaid in accordance with contractual loan terms. Criticized loans are risk rated as special mention or classified.

Accretable Yield

See the Company's 2017 Form 10-K, Note 1 — Business and Summary of Significant Accounting Policies for further details.

Changes in the accretable yield for PCI loans are summarized below.

Change in Accretable Yield (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance, beginning of period	$972.8	$1,176.0	$1,063.7	$1,261.4
Accretion into interest income	(40.4)	(50.5)	(126.0)	(156.8)
Reclassification from non-accretable difference	13.9	3.6	14.7	37.3
Disposals and Other	(1.4)	(12.2)	(7.5)	(25.0)
Balance, end of period	$944.9	$1,116.9	$944.9	$1,116.9

Troubled Debt Restructuring

The Company periodically modifies the terms of loans in response to borrowers' difficulties. Modifications that include a financial concession to the borrower are accounted for as TDRs. See the Company's 2017 Form 10-K for discussion of policies on TDRs.

At September 30, 2018, the loans in trial modification period were insignificant under proprietary programs. At December 31, 2017, the loans in trial modification period were $0.3 million under HAMP and $12.2 million under proprietary programs. Trial modifications with a recorded investment of $12.3 million at December 31, 2017, were accruing loans and $0.2 million were non-accruing loans. Our experience is that substantially all of the mortgages that enter a trial payment period program are successful in completing the program requirements and are then permanently modified at the end of the trial period. Our allowance process considers the impact of those modifications that are probable to occur.

The recorded investment of TDRs, excluding those classified as PCI and those within a trial modification period discussed in the preceding paragraph, at September 30, 2018 and December 31, 2017 was $84.6 million and $103.5 million, of which 62% and 63%, respectively, were on non-accrual. Commercial Banking and Consumer Banking receivables accounted for 80% and 20% of the total TDRs, respectively, at September 30, 2018. Commercial Banking and Consumer Banking receivables accounted for 83% and 17% of the total TDRs, respectively at December 31, 2017. There were $14.8 million and $13.4 million as of September 30, 2018 and December 31, 2017, respectively, of commitments to lend additional funds to borrowers whose loan terms have been modified in TDRs.

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The recorded investment related to modifications qualifying as TDRs that occurred during the quarters ended September 30, 2018 and 2017 were $13.1 million and $39.0 million and $60.9 million and $129.7 million for the nine months ended September 30, 2018 and 2017, respectively. The recorded investment as of September 30, 2018 and 2017 of TDRs that experienced a payment default (payment default is one missed payment), during the quarters ended September 30, 2018 and 2017, and for which the payment default occurred within one year of the modification totaled $0.4 million and $7.5 million, respectively, and $2.4 million and $72.0 million for the nine months ended September 30, 2018 and 2017, respectively.

The financial impact of the various modification strategies that the Company employs in response to borrower difficulties is described below. While the discussion focuses on the September 30, 2018 amounts, the overall nature and impact of modification programs were comparable in the prior year.

The nature of modifications qualifying as TDRs based upon recorded investment at September 30, 2018 was comprised of payment deferrals for 32% and covenant relief and/or other for 68%. At December 31, 2017 TDR recorded investment was comprised of payment deferrals for 31% and covenant relief and/or other for 69%.
Payment deferrals result in lower net present value of cash flows, if not accompanied by additional interest or fees, and increased provision for credit losses to the extent applicable. The financial impact of these modifications is not significant given the moderate length of deferral periods.
Interest rate reductions result in lower amounts of interest being charged to the customer, but are a relatively small part of the Company's restructuring programs. The weighted average change in interest rates for all TDRs occurring during the quarters ended September 30, 2018 and 2017 was not significant.
Debt forgiveness, or the reduction in amount owed by borrower, results in incremental provision for credit losses, in the form of higher charge-offs. While these types of modifications have the greatest individual impact on the allowance, the amounts of principal forgiveness for TDRs occurring during quarters ended September 30, 2018 and 2017 was not significant, as debt forgiveness is a relatively small component of the Company's modification programs.
The other elements of the Company's modification programs that are not TDRs, do not have a significant impact on financial results given their relative size, or do not have a direct financial impact, as in the case of covenant changes.

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NOTE 4 — ALLOWANCE FOR LOAN LOSSES

The Company maintains an allowance for loan losses for estimated credit losses in its HFI loan portfolio.

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

	Commercial Banking	Consumer Banking	Total	Commercial Banking	Consumer Banking	Total
	Quarter Ended September 30, 2018			Quarter Ended September 30, 2017		
Balance - beginning of period	$437.8	$29.5	$467.3	$397.7	$28.3	$426.0
Provision for credit losses	39.0	(0.9)	38.1	11.1	19.0	30.1
Other[(1)]	(1.9)	(0.1)	(2.0)	4.8	0.3	5.1
Gross charge-offs[(2)]	(29.4)	(1.4)	(30.8)	(27.7)	(20.5)	(48.2)
Recoveries	4.7	0.1	4.8	6.0	0.5	6.5
Balance - end of period	$450.2	$27.2	$477.4	$391.9	$27.6	$419.5
	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
Balance - beginning of period	$402.2	$28.9	$431.1	$408.4	$24.2	$432.6
Provision for credit losses	139.4	0.4	139.8	60.1	24.1	84.2
Other[(1)]	(2.2)	(0.1)	(2.3)	(0.5)	0.1	(0.4)
Gross charge-offs[(2)]	(108.6)	(2.7)	(111.3)	(92.4)	(22.0)	(114.4)
Recoveries	19.4	0.7	20.1	16.3	1.2	17.5
Balance - end of period	$450.2	$27.2	$477.4	$391.9	$27.6	$419.5
	Allowance balance at September 30, 2018			Allowance balance at September 30, 2017		
Loans individually evaluated for impairment	$43.3	$0.4	$43.7	$35.6	$-	$35.6
Loans collectively evaluated for impairment	397.3	19.0	416.3	347.0	16.1	363.1
Loans acquired with deteriorated credit quality[(3)]	9.6	7.8	17.4	9.3	11.5	20.8
Allowance for loan losses	$450.2	$27.2	$477.4	$391.9	$27.6	$419.5
Other reserves[(1)]	$46.8	$-	$46.8	$44.2	$-	$44.2
	Loans at September 30, 2018			Loans at September 30, 2017		
Loans individually evaluated for impairment	$250.0	$0.5	$250.5	$246.2	$-	$246.2
Loans collectively evaluated for impairment	23,803.6	4,682.8	28,486.4	22,380.6	3,832.1	26,212.7
Loans acquired with deteriorated credit quality[(3)]	42.1	1,716.8	1,758.9	65.8	1,980.6	2,046.4
Ending balance	$24,095.7	$6,400.1	$30,495.8	$22,692.6	$5,812.7	$28,505.3

Percent of loans to total loans	79.0	%	21.0	%	100.0	%	79.6	%	20.4	%	100.0	%

(1) "Other" also includes allowance for loan losses associated with loan sales and foreign currency translations. "Other reserves" represents credit loss reserves for unfunded lending commitments, letters of credit and deferred purchase agreements, all of which is recorded in Other liabilities.
(2) Gross charge-offs of amounts specifically reserved in prior periods that were charged directly to the Allowance for loan losses included $4.0 million and $12.0 million for the quarter and nine months ended September 30, 2018, respectively, and $7.7 million and $39.3 million for the quarter and nine months ended September 30, 2017, respectively. The charge-offs related to Commercial Banking for all periods.
(3) Represents loans considered impaired as part of the OneWest transaction and are accounted for under the guidance in ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality).

NOTE 5 — INVESTMENT SECURITIES

Investments include debt and equity securities.

Investment Securities (dollars in millions)

	September 30, 2018	December 31, 2017
Available for sale securities		
Debt securities	$ 6,053.5	$ 6,123.6
Securities carried at fair value with changes recorded in net income		
Debt securities	—	0.4
Equity securities[1]	44.0	44.7
Non-marketable investments[2]	242.0	301.2
Total investment securities	$ 6,339.5	$ 6,469.9

(1) Upon the adoption of ASU 2016-01 - Financial Instruments as of January 1, 2018, these investments were reclassified from available for sale securities category and the presentation of equity securities as of December 31, 2017 is conformed accordingly. For details refer to Note 1 — Business and Summary of Significant Accounting Policies.
(2) Non-marketable investments include restricted stock of the FRB and Federal Home Loan Bank ("FHLB") carried at cost of $228.4 million at September 30, 2018, and $258.9 million at December 31, 2017. The remaining non-marketable investments without readily determinable fair values measured under the measurement exception totaled $13.6 million as of September 30, 2018. As of December 31, 2017, the remaining non-marketable investments of $42.3 million included $31.6 million of ownership interests greater than 3% in limited partnership investments including qualified Community Reinvestment Act ("CRA") investments, equity fund holdings and shares issued by customers during loan work out situations or as part of original loan investments and other equity investments without readily determinable fair values measured under the measurement exception of $10.7 million.

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Realized investment gains totaled $4.0 million and $4.1 million for the quarters ended September 30, 2018 and 2017, respectively, and $12.3 million and $4.6 million for the nine months ended September 30, 2018 and 2017, respectively, and exclude losses from other than temporary impairment ("OTTI").

In addition, the Company had $1.2 billion and $1.4 billion of interest bearing deposits at banks at September 30, 2018 and
December 31, 2017, respectively, which are cash and cash equivalents and are classified separately on the balance sheet.

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

Interest and Dividend Income (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income — debt securities[1]	$41.6	$35.5	$120.9	$93.8
Interest income — interest bearing deposits	11.7	12.5	34.7	48.9
Dividends — equity securities	2.9	2.5	9.0	8.3
Total interest and dividends	$56.2	$50.5	$164.6	$151.0

[1] Includes interest income on securities purchased under agreement to resell

The following table presents amortized cost and fair value of securities available for sale ("AFS").

Amortized Cost and Fair Value (dollars in millions)

September 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities AFS				
Mortgage-backed securities				
U.S. government agency securities	$ 5,300.3	$ 0.3	$ (191.2)	$5,109.4
Non-agency securities	36.6	3.4	—	40.0
Commercial agency	158.0	0.1	(0.6)	157.5
U.S. government agency obligations	25.0	—	(0.7)	24.3
U.S. Treasury securities	603.4	—	(8.6)	594.8
Supranational securities	50.0	—	(0.9)	49.1

State & municipal bonds	11.9	—	(0.6)	11.3
Corporate bonds - foreign	65.8	1.3	—	67.1
Total debt securities AFS	$ 6,251.0	$ 5.1	$ (202.6)	$6,053.5
December 31, 2017				
Debt securities AFS				
Mortgage-backed securities				
U.S. government agency securities	$ 5,010.2	$ 2.1	$ (62.1)	$4,950.2
Non-agency securities	297.3	21.7	(0.5)	318.5
U.S. government agency obligations	25.0	—	(0.2)	24.8
U.S. Treasury securities	297.7	0.2	(0.2)	297.7
Supranational securities	449.8	—	(0.3)	449.5
State & municipal bonds	16.2	—	(0.4)	15.8
Corporate bonds - foreign	65.7	1.4	—	67.1
Total debt securities AFS	$ 6,161.9	$ 25.4	$ (63.7)	$6,123.6

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

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

Maturities - Debt Securities AFS (dollars in millions)

	September 30, 2018			
	Amortized Cost	Fair Value	Weighted Average Yield	
Mortgage-backed securities — U.S. government agency securities				
After 5 but within 10 years	$222.0	$215.2	2.23	%
Due after 10 years	5,078.3	4,894.2	2.68	%
Total	5,300.3	5,109.4	2.66	%
Mortgage-backed securities — Non-agency securities				
Due after 10 years	36.6	40.0	6.99	%
Total	36.6	40.0	6.99	%
Mortgage-backed securities — Commercial agency				
After 5 but within 10 years	138.1	137.5	3.24	%
Due after 10 years	19.9	20.0	2.42	%
Total	158.0	157.5	3.14	%
U.S. government agency obligations				
After 1 but within 5 years	25.0	24.3	2.26	%
Total	25.0	24.3	2.26	%
U.S. Treasury securities				
Due within 1 year	403.5	403.4	1.91	%
After 1 but within 5 years	4.0	4.0	2.53	%
After 5 but within 10 years	195.9	187.4	2.51	%
Total	603.4	594.8	2.11	%
Supranational securities				
After 1 but within 5 years	50.0	49.1	2.02	%
Total	50.0	49.1	2.02	%
State & municipal bonds				
Due within 1 year	0.1	0.1	2.55	%
After 5 but within 10 years	0.2	0.2	2.70	%
Due after 10 years	11.6	11.0	2.40	%
Total	11.9	11.3	2.41	%
Corporate bonds - foreign				
After 1 but within 5 years	65.8	67.1	6.11	%
Total	65.8	67.1	6.11	%
Total debt securities AFS	$6,251.0	$6,053.5	2.68	%

At September 30, 2018 and December 31, 2017, certain securities AFS were in unrealized loss positions. The following table summarizes by investment category the gross unrealized losses, respective fair value and length of time that those securities have been in a continuous unrealized loss position.

Gross Unrealized Loss (dollars in millions)

	September 30, 2018			
	Less than 12 months		12 months or greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Debt securities AFS				
Mortgage-backed securities				
U.S. government agency securities	$3,118.8	$ (88.0)	$1,907.7	$ (103.2)
Commercial agency	114.8	(0.6)	—	—
U.S. government agency obligations	—	—	24.3	(0.7)
U.S. Treasury securities	594.8	(8.6)	—	—
State & municipal bonds	2.1	—	9.2	(0.6)
Supranational securities	49.0	(0.9)	—	—
Total debt securities AFS	$3,879.5	$ (98.1)	$1,941.2	$ (104.5)

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

Gross Unrealized Loss continued (dollars in millions)

	December 31, 2017			
	Less than 12 months		12 months or greater	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Debt securities AFS				
Mortgage-backed securities				
U.S. government agency securities	$3,492.2	$ (30.9)	$1,151.4	$ (31.2)
Non-agency securities	2.1	—	0.4	(0.5)
U.S. government agency obligations	24.8	(0.2)	—	—
U.S. Treasury securities	199.1	(0.2)	—	—
State & municipal bonds	—	—	13.6	(0.4)
Supranational securities	349.5	(0.3)	—	—
Total debt securities AFS	$4,067.7	$ (31.6)	$1,165.4	$ (32.1)

Purchased Credit-Impaired AFS Securities

Changes in the accretable yield for PCI securities are summarized below for the quarter and nine months ended September 30, 2018 and 2017, respectively:

Changes in Accretable Yield (dollars in millions)

	September 30, 2018		September 30, 2017	
	Quarter Ended	Nine Months Ended	Quarter Ended	Nine Months Ended
Balance, beginning of period	$30.0	$ 101.7	$152.0	$ 165.0
Accretion into interest income	(1.1)	(7.7)	(6.2)	(19.1)
Reclassifications from non-accretable difference due to improving cash flows	-	0.1	-	0.5
Reclassifications to non-accretable difference due to decreasing cash flows	-	(1.0)	(0.2)	(0.9)
Disposals	(15.4)	(79.6)	(9.8)	(9.7)
Balance, end of period	$13.5	$ 13.5	$135.8	$ 135.8

The estimated fair value of PCI securities was $40.0 million and $312.5 million with a par value of $49.3 million and $387.6 million as of September 30, 2018 and December 31, 2017, respectively.

Securities Carried at Fair Value with Changes Recorded in Net Income

Upon the adoption of ASU 2016-01- Financial Instruments on January 1, 2018, CIT reclassified eligible equity securities AFS to Securities Carried at Fair Value with Changes Recorded in Net Income. As of September 30, 2018, these equity securities were carried at a fair value of $44.0 million with an amortized cost of $46.7 million. The unrealized losses were $2.7 million as of September 30, 2018.

As of December 31, 2017, the amortized cost and fair value of equity securities AFS was $45.8 million and $44.7 million respectively. The unrealized loss of $1.1 million as of December 31, 2017 was reclassified as a cumulative-effect adjustment to the balance sheet as of the date of adoption. There were no equity Securities Carried at Fair Value with Changes Recorded in Net Income as of December 31, 2017.

Other Than Temporary Impairment

The Company conducted and documented its periodic review of all securities with unrealized losses, which it performs to evaluate whether the impairment is other than temporary.

The Company reviewed AFS securities with unrealized losses and determined the unrealized losses were credit-related and recognized OTTI losses. There were no OTTI losses recognized for the quarter and insignificant losses for the nine months ended September 30, 2018 respectively and $0.2 million and $0.4 million of OTTI losses were recognized for the quarter and nine months ended September 30, 2017 respectively.

The Company reviewed debt securities classified as AFS with unrealized losses and determined that the unrealized losses were neither OTTI nor credit-related, and believes it is not more-likely-than-not that the Company will have to sell the debt securities classified as AFS with unrealized losses prior to the recovery of the amortized cost basis.

There were no adjustments related to impairment for securities without readily determinable fair values measured under the measurement exception.

There were immaterial unrealized losses on non-marketable investments.

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

NOTE 6 — BORROWINGS

The following table presents the carrying value of outstanding borrowings.

Borrowings (dollars in millions)

	September 30, 2018			December 31, 2017
	CIT Group Inc.	Subsidiaries	Total	Total
Senior unsecured	$3,842.3	$ —	$3,842.3	$ 3,737.5
Subordinated unsecured debt	395.3	—	395.3	—
Secured borrowings:				
Other secured and structured financings	—	1,286.6	1,286.6	1,541.4
FHLB advances	—	3,150.0	3,150.0	3,695.5
Total Borrowings	$4,237.6	$ 4,436.6	$8,674.2	$ 8,974.4

Unsecured Borrowings

Revolving Credit Facility

The Revolving Credit Facility has a total commitment amount of $500 million, with $41.7 million maturing on January 25, 2019 and the balance maturing on February 29, 2020. The applicable margin charged under the facility is 2.00% for LIBOR Rate loans and 1.00% for Base Rate loans.

The Revolving Credit Facility was amended in February 2018 to lower the total commitments from $750 million to $500 million and to extend the final maturity date of the lenders' commitments from January 25, 2019 to February 29, 2020, for all but one lender that did not extend. The Revolving Credit Facility includes a covenant that requires that the Company maintain a minimum Tier 1 capital ratio of 9.0%. As of September 30, 2018, the Revolving Credit Facility was unsecured and was guaranteed by four of the Company's domestic operating subsidiaries. In addition, the applicable required minimum guarantor asset coverage ratio ranged from 1.0:1.0 to 1.5:1.0, and was 1.25:1.00 at September 30, 2018.

There were no outstanding borrowings at September 30, 2018 and December 31, 2017. The amount available to draw upon at September 30, 2018 was approximately $458 million, with the remaining amount of approximately $42 million being utilized for issuance of letters of credit to customers.

Senior Unsecured Notes

The following table presents the principal amounts by maturity date.

Senior Unsecured Notes (dollars in millions)

Maturity Date	Rate (%)	Date of Issuance	Par Value
May 2020	5.375%	May 2012	$ 430.6
March 2021	4.125%	March 2018	500.0
August 2022	5.000%	August 2012	1,150.0
August 2023	5.000%	August 2013	750.0
February 2024	4.750%	August 2018	500.0
March 2025	5.250%	March 2018	500.0
Weighted average rate and total	4.928%		$ 3,830.6

On April 9, 2018, CIT redeemed $383 million aggregate principal amount of 5.500% senior unsecured notes due February 2019 and $500 million aggregate principal amount of 3.875% senior unsecured notes due February 2019, at an aggregate premium of $15.7 million. In addition to the premium payments, the loss on debt extinguishments of $19.3 million for the quarter ended June 30, 2018 included transaction costs and acceleration of deferred costs. On September 20, 2018, CIT redeemed the remaining aggregate principal amount of approximately $500 million of 3.875% senior unsecured notes due February 2019, at an aggregate premium of $2.6 million. In addition to the premium payments, the loss on the debt extinguishment of $3.5 million for the quarter ended September 30, 2018 included transaction costs and acceleration of deferred costs.

In addition to the notes shown in the above table, there is an unsecured note outstanding with a 6.0% coupon and a carrying value of $39.6 million (par value of $51 million) that matures in 2036.

Subordinated Unsecured Notes

In March 2018, CIT issued $400 million aggregate principal amount of 6.125% subordinated notes with a maturity date of March 9, 2028. The notes are subordinated in right of payment to the payment of CIT’s senior indebtedness and secured indebtedness, to the extent of the value of the collateral.

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

Secured Borrowings

At September 30, 2018, the Company had pledged $29.6 billion of assets (including collateral for the FRB discount window that is currently not drawn). The collateral specifically identified and used to calculate available borrowings was $13.6 billion, which included $12.3 billion of loans, $1.0 billion of operating lease assets, $0.2 billion of cash and cash equivalents and $0.1 billion of investment securities. Under the FHLB Facility, CIT Bank, N.A. may at any time grant a security interest in, sell, convey or otherwise dispose of any of the assets used for collateral, provided that CIT Bank, N.A. is in compliance with the collateral maintenance requirement immediately following such disposition and all other requirements of the facility at the time of such disposition.

FHLB Advances

As of September 30, 2018, the Company had $5.5 billion of financing availability with the FHLB, of which $2.3 billion was unused and available, and $2.3 million was being utilized for issuance of letters of credit related to lease agreements. FHLB Advances as of September 30, 2018 have a weighted average rate of 2.37%. The following table includes the total outstanding FHLB Advances, and respective pledged assets[1].

FHLB Advances with Pledged Assets[1] Summary (dollars in millions)

	September 30, 2018		December 31, 2017	
	FHLB Advances	Pledged Assets	FHLB Advances	Pledged Assets
Total	$3,150.0	$6,602.5	$3,695.5	$6,154.1

[1] For purposes of this table the term "Pledged Assets" means the assets required under the collateral maintenance requirement in connection with FHLB advances at each of the dates.

Other Secured and Structured Financings

Set forth in the following table are borrowings and pledged assets related to secured (other than FHLB) and structured financings of CIT-owned subsidiaries and consolidated VIEs. Creditors of these VIEs received ownership and/or security interests in the assets. These entities are intended to be bankruptcy remote so that such assets are not available to creditors of CIT or any affiliates of CIT until and unless the related secured borrowings have been fully discharged. These transactions do not meet accounting requirements for sales treatment and are recorded as secured borrowings. The secured and structured financings as of September 30, 2018 had a weighted average rate of 4.31%, with rates ranging from 0.65% to 5.50%.

Other Secured and Structured Financings and Pledged Assets Summary (dollars in millions)

	September 30, 2018		December 31, 2017	
	Secured Borrowing	Pledged Assets	Secured Borrowing	Pledged Assets
Business Capital	$697.0	$3,070.0	$768.8	$2,838.6
Rail[(1) (2)]	589.6	1,059.5	772.6	1,272.0
Total	$1,286.6	$4,129.5	$1,541.4	$4,110.6

(1) At September 30, 2018, the Dutch TRS Facility related borrowings and pledged assets of $462.7 million and $854.7 million, respectively, were included in Rail. The Dutch TRS Facility is defined in Note 7 — Derivative Financial Instruments. See Note 14 – Subsequent Events relating to CIT's termination of the Dutch TRS Facility on November 2, 2018 and repayment of related debt in October 2018.

(2) At September 30, 2018, secured borrowings and pledged assets of $103.5 million and $179.5 million, respectively, were related to the sale of NACCO, and were transferred to the buyer upon sale of that business. See Note 14 – Subsequent Events relating to CIT's sale of NACCO in October 2018.

Not included in the above table are secured borrowings of discontinued operations of $213.2 million and $268.2 million at September 30, 2018 and December 31, 2017, respectively. See Note 2 — Discontinued Operations.

FRB

There were no outstanding borrowings with the FRB Discount Window as of September 30, 2018 and December 31, 2017.

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Variable Interest Entities

Described below are the results of the Company's assessment of its variable interests in order to determine its current status with regards to being the VIE primary beneficiary.

Consolidated VIEs

The Company utilizes VIEs in the ordinary course of business to support its own and its customers' financing needs. Each VIE is a separate legal entity and maintains its own books and records. The most significant types of VIEs that CIT utilizes are "on balance sheet" secured financings of pools of leases and loans originated by the Company where the Company is the primary beneficiary. Refer to the Company's 2017 Form 10-K for further discussion.

Unconsolidated VIEs

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

Although the economic benefit and risk has been transferred to the buyer in connection with the Financial Freedom business sale in the second quarter of 2018, until the required investor consent is obtained from the Government National Mortgage Association ("GNMA"), CIT remains the master servicer for the HECM loans and the GNMA HMBS securitizations. These are VIEs for which CIT is not the primary beneficiary, and which are reported in discontinued operations. The Company, as servicer of these HECM loans, is obligated to fund future borrower advances, which include fees paid to taxing authorities for borrowers' unpaid taxes and insurance, mortgage insurance premiums and payments made to borrowers for line of credit draws on HECM loans. In addition, the Company is required to repurchase the HECM loans once the outstanding principal balance is equal to or greater than 98% of the maximum claim amount or when the property forecloses to OREO, which reduces the secured borrowing balance. Additionally, the Company services $127.2 million and $140.3 million of HMBS outstanding principal balance at September 30, 2018 and December 31, 2017, respectively, for transferred loans securitized by IndyMac for which OneWest Bank prior to the acquisition had purchased the mortgage servicing rights ("MSRs") in connection with the IndyMac Transaction. The carrying value of the MSRs was not significant at September 30, 2018 and December 31, 2017. As the HECM loans are federally insured by the FHA and the secured borrowings guaranteed to the investors by GNMA, the Company does not believe maximum loss exposure as a result of its involvement is material. Upon receiving GNMA consent, CIT shall no longer have this servicer obligation and the Company will qualify for sales treatment. See Note 2 — Discontinued Operations.

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

Unconsolidated VIEs Carrying Value (dollars in millions)

	September 30, 2018		December 31, 2017	
	Securities	Partnership Investment	Securities	Partnership Investment
Agency securities	$5,267.0	$ —	$4,950.2	$ —
Non agency securities — Other servicer	40.0	—	318.8	—
Tax credit equity investments	—	240.9	—	198.8
Equity investments	—	59.8	—	38.6
Total Assets	$5,307.0	$ 300.7	$5,269.0	$ 237.4
Commitments to tax credit investments	$—	$ 116.5	$—	$ 66.6
Total Liabilities	$—	$ 116.5	$—	$ 66.6
Maximum loss exposure(1)	$5,307.0	$ 300.7	$5,269.0	$ 237.4

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

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

NOTE 7 — DERIVATIVE FINANCIAL INSTRUMENTS

See Note 1 — Business and Summary of Significant Accounting Policies in the Company's 2017 Form 10-K, for the description of its derivative products and transaction policies.

The following table presents fair values and notional values of derivative financial instruments, which includes the gross amounts of recognized financial assets and liabilities; the amounts offset in the consolidated balance sheet; the net amounts presented in the consolidated balance sheet; the amounts subject to an enforceable master netting arrangement or similar agreement that were not included in the offset amount above, and the amount of cash collateral received or pledged:

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

	September 30, 2018			December 31, 2017		
	Notional Amount	Asset Fair Value	Liability Fair Value	Notional Amount	Asset Fair Value	Liability Fair Value
Derivatives designated as hedging instruments						
Foreign exchange contracts	$967.7	$0.8	$(11.9)	$977.3	$0.2	$(18.7)
Interest rate swap - fair value hedge [2]	250.0	—	(1.7)	—	—	—
Total derivatives designated as hedging instruments	1,217.7	0.8	(13.6)	977.3	0.2	(18.7)
Derivatives not designated as hedging instruments						
Interest rate contracts (2)	15,277.9	107.7	(91.1)	12,443.5	61.5	(39.3)
Foreign exchange contracts	2,614.7	20.7	(11.1)	1,375.5	6.9	(14.9)
Other contracts[3]	607.5	0.1	(13.3)	468.3	0.1	(14.1)
Total derivatives not designated as hedging instruments	18,500.1	128.5	(115.5)	14,287.3	68.5	(68.3)
Gross derivative fair values presented in the Consolidated Balance Sheets	$19,717.8	$129.3	$(129.1)	$15,264.6	$68.7	$(87.0)
Less: Gross amounts offset in the Consolidated Balance Sheets		—	—		—	—
Net Amount Presented in the Consolidated Balance Sheet		129.3	(129.1)		68.7	(87.0)
Derivative Financial Instruments[4]		(15.8)	15.8		(18.7)	18.7
Cash Collateral Pledged/(Received)[4][5][6]		(42.0)	11.0		(8.4)	23.0
Total Net Derivative Fair Value		$71.5	$(102.3)		$41.6	$(45.3)

[1] Presented on a gross basis.

[2] Fair value balances include accrued interest

(3) Other derivative contracts not designated as hedging instruments include a total return swap and risk participation agreements. See Note 14 – Subsequent Events relating to CIT's termination of the Dutch TRS Facility on November 2, 2018.

(4) The Company accounts for swap contracts cleared by the Chicago Mercantile Exchange as "settled-to-market" effective January 2017. As a result, variation margin payments are characterized as settlement of the derivative exposure and variation margin balances are netted against the corresponding derivative mark-to-market balances The Company's swap contracts cleared by LCH Clearnet continue to be accounted for as "collateralized-to-market" and variation margin balances are characterized as collateral against derivative exposures. At September 30, 2018, gross amounts of recognized assets and liabilities were lower by $12.3 million and $2.7 million, respectively.

(5) The Company's derivative transactions are governed by ISDA agreements that allow for net settlements of certain payments as well as offsetting of all contracts with a given counterparty in the event of bankruptcy or default of one of the two parties to the transaction. We believe our ISDA agreements meet the definition of a master netting arrangement or similar agreement for purposes of the above disclosure. In conjunction with the ISDA agreements, the Company has entered into collateral arrangements with its counterparties, which provide for the exchange of cash depending on change in the market valuation of the derivative contracts outstanding. Such collateral is available to be applied in settlement of the net balances upon an event of default of one of the counterparties.

(6) Collateral pledged or received is included in Other assets or Other liabilities, respectively.

Qualifying Hedges

CIT enters into interest rate swap agreements to manage interest rate exposure on its fixed-rate borrowings. The agreements that qualify for hedge accounting are designated as a fair value hedge. The following table represents the impact of fair value hedges on the condensed consolidated statements of income.

Qualifying Hedges (dollars in millions)		September 30, 2018		September 30, 2017	
		Quarter Ended	Nine Months Ended	Quarter Ended	Nine Months Ended
	Amounts Recognized				
Recognized on derivatives	Interest Expense	$(0.8)	$ (1.8)	$ —	$ —
Recognized on hedged item	Interest Expense	0.8	1.8	—	—
Net recognized on fair value hedges (No Ineffectiveness)		$—	$ —	$ —	$ —

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

Non Qualifying Hedges

The following table presents the impact of non-qualifying hedges on the condensed consolidated statements of income

Non Qualifying Hedges (dollars in millions)		September 30, 2018		September 30, 2017	
	Amounts Recognized	Quarter Ended	Nine Months Ended	Quarter Ended	Nine Months Ended
Interest rate contracts	Other non-interest income	$4.9	$ 14.4	$1.2	$ 3.9
Foreign currency forward contracts	Other non-interest income	22.2	25.1	5.8	(22.0)
Other Contracts	Other non-interest income	1.0	0.1	(1.4)	(2.6)
Total Non-qualifying Hedges -income statement impact		$28.1	$ 39.6	$5.6	$ (20.7)

The following table presents the changes in AOCI relating to derivatives:

Changes in AOCI Relating to Derivatives (dollars in millions)

Contract Type	Derivatives - effective portion reclassified from AOCI to income	Total income statement impact	Derivatives - effective portion recorded in OCI	Total change in OCI for period
Quarter Ended September 30, 2018				
Foreign currency forward contracts — net investment hedges	$ —	$ —	$ (5.6)	$ (5.6)
Total	$ —	$ —	$ (5.6)	$ (5.6)
Quarter Ended September 30, 2017				
Foreign currency forward contracts — net investment hedges	$ —	$ —	$ (33.0)	$ (33.0)
Total	$ —	$ —	$ (33.0)	$ (33.0)
Nine Months Ended September 30, 2018				
Foreign currency forward contracts — net investment hedges	$ —	$ —	$ 33.9	$ 33.9
Total	$ —	$ —	$ 33.9	$ 33.9
Nine Months Ended September 30, 2017				
Foreign currency forward contracts — net investment hedges	$ 13.4	$ 13.4	$ (74.7)	$ (88.1)
Total	$ 13.4	$ 13.4	$ (74.7)	$ (88.1)

Dutch TRS Facility

As of September 30, 2018, CIT's wholly-owned subsidiary, CIT TRS Funding B.V. ("BV") was party to a financing facility (the "Dutch TRS Facility") with Goldman Sachs International ("GSI"). The amount available for advances (otherwise known as the unused portion) was accounted for as a derivative ("TRS Derivative") and recorded at the estimated fair value. The total facility capacity available under the Dutch TRS Facility was $625 million at September 30, 2018, and December 31, 2017. The utilized portion reflects the borrowing.

The aggregate "notional amount" of the TRS Derivative was $209.7 million at September 30, 2018, and $182.4 million at December 31, 2017. The notional amount was calculated as the maximum facility commitment amount, or $625 million, under the Dutch TRS Facility, less the actual adjusted qualifying borrowing base outstanding of $415.3 million at September 30, 2018, and $442.6 million under the facility at December 31, 2017.

Based on the Company's valuation, a liability of $13.3 million and $14.1 million was recorded at September 30, 2018, and December 31, 2017, respectively. The decrease in liability of $1.4 million and $0.8 million were recognized in other non-interest income for the quarter and nine months ended September 30, 2018, respectively. An increase in liability of $1.1 million and $2.4 million was recognized as a reduction to other non-interest income for the quarter and nine months ended September 30, 2017, respectively.

See Note 14 – Subsequent Events relating to the Company's termination of the Dutch TRS Facility on November 2, 2018.

NOTE 8 — FAIR VALUE

Fair Value Hierarchy

The Company measures certain financial assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP also establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels. See Note 1 — Business and Summary of Significant Accounting Policies in the Company's 2017 Form 10-K for a description of its valuation process for assets and liabilities measured at fair value and fair value hierarchy.

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

Disclosures that follow in this note exclude assets and liabilities classified as discontinued operations.

The following table summarizes the Company's assets and liabilities measured at estimated fair value on a recurring basis.

Assets and Liabilities Measured at Fair Value on a Recurring Basis (dollars in millions)

	Total	Level 1	Level 2	Level 3
September 30, 2018				
Assets				
U.S. government agency securities	$5,109.4	$—	$5,109.4	$—
U.S. treasury securities	594.8	403.4	191.4	—
Other securities	349.3	—	242.2	107.1
Total debt securities AFS	6,053.5	403.4	5,543.0	107.1
Securities carried at fair value with changes recorded in net income[1]	44.0	0.2	43.8	—
Interest rate contracts	107.7	—	107.6	0.1
Other derivative — non-qualifying hedges	20.8	—	20.7	0.1
Total derivative assets at fair value — non-qualifying hedges[2]	128.5	—	128.3	0.2
Foreign currency forward contracts — net investment qualifying hedges	0.8	—	0.8	—
Total	$6,226.8	$403.6	$5,715.9	$107.3
Liabilities				
Interest rate contracts	$(91.1)	$—	$(91.1)	$—
Other derivative— non-qualifying hedges	(24.4)	—	(11.1)	(13.3)
Total derivative liabilities at fair value — non-qualifying hedges[2]	(115.5)	—	(102.2)	(13.3)
Interest rate contracts —fair value hedge	(1.7)	—	(1.7)	—
Foreign currency forward contracts — net investment qualifying hedges	(11.9)	—	(11.9)	—
Total derivative liabilities at fair value — qualifying hedges	(13.6)	—	(13.6)	—
FDIC True-up liability	(66.4)	—	—	(66.4)
Total	$(195.5)	$—	$(115.8)	$(79.7)
December 31, 2017				
Assets				
U.S. government agency securities	$4,950.2	$—	$4,950.0	$0.2
U.S. treasury securities	297.7	199.0	98.7	—
Other securities	875.7	—	490.1	385.6
Total debt securities AFS	6,123.6	199.0	5,538.8	385.8
Securities carried at fair value with changes recorded in net income[1]	0.4	—	—	0.4
Equity securities AFS	44.7	0.2	44.5	—
Interest rate contracts	61.5	—	61.4	0.1
Other derivative — non-qualifying hedges	7.0	—	7.0	—

Total derivative assets at fair value — non-qualifying hedges[2]	68.5	—	68.4	0.1
Foreign currency forward contracts — net qualifying investment qualifying hedges	0.2	—	0.2	—
Total	$6,237.4	$199.2	$5,651.9	$386.3
Liabilities				
Interest rate swaps	$(39.3)	$—	$(39.3)	$—
Other derivative— non-qualifying hedges	(29.0)	—	(14.9)	(14.1)
Total derivative liabilities at fair value — non-qualifying hedges[2]	(68.3)	—	(54.2)	(14.1)
Foreign currency forward contracts — net investment qualifying hedges	(18.7)	—	(18.7)	—
Consideration holdback liability	(46.0)	—	—	(46.0)
FDIC True-up liability	(65.1)	—	—	(65.1)
Total	$(198.1)	$—	$(72.9)	$(125.2)

(1) Upon the adoption of ASU 2016-01 - Financial Instruments as of January 1, 2018, equity securities AFS were reclassified to securities carried at fair value with changes recorded in net income. See Note 1 — Business and Summary of Significant Accounting Policies.

(2) Derivative fair values include accrued interest.

See Fair Value of Financial Instruments later in this note for fair value measurements of Debt and Equity Securities Classified as AFS, Securities carried at fair value with changes recorded in net income and Derivative Assets and Liabilities.

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

Consideration Holdback Liability — In connection with the OneWest acquisition, the parties negotiated certain holdbacks related to select trailing risks, which totaled $116 million and reduced the cash consideration paid at closing. As of June 30, 2018, all holdback obligations were settled with the former OneWest shareholders. As of December 31, 2017, management's estimate of the probable amount of holdback to be paid was $46 million. Due to the significant unobservable inputs used, these measurements were classified as Level 3.

FDIC True-up Liability — The FDIC True-up liability was recorded at estimated fair value as of the Acquisition Date and is measured at fair value at each reporting date until the contingency is resolved. Due to the significant unobservable inputs used, these measurements were classified as Level 3.

The following tables summarize information about significant unobservable inputs related to the Company's categories of Level 3 financial assets and liabilities measured on a recurring basis as of September 30, 2018 and December 31, 2017.

Quantitative Information about Level 3 Fair Value Measurements — Recurring (dollars in millions)

Financial Instrument	Estimated Fair Value	Valuation Technique(s)	Significant Unobservable Inputs	Range of Inputs	Weighted Average
September 30, 2018					
Assets					
Securities — AFS	$ 107.1	Discounted cash flow	Discount Rate	3.2% - 6.2%	5.6%
			Prepayment Rate	4.7% - 10.7%	8.0%
			Default Rate	2.2% - 6.9%	4.7%
			Loss Severity	26.1% - 48.1%	33.0%
Derivative assets — non qualifying	0.2		Borrower Rate		4.4%

		Internal valuation model		3.8% - 5.0%	
Total Assets	$ 107.3				
Liabilities					
FDIC True-up liability	$ (66.4)	Discounted cash flow	Discount Rate	3.6%	3.6%
Derivative liabilities — non-qualifying	(13.3)	Market comparables			
Total Liabilities	$ (79.7)				
December 31, 2017					
Assets					
Securities — AFS	$ 385.8	Discounted cash flow	Discount Rate	0.0% – 37.1%	4.6%
			Prepayment Rate	2.1% – 22.3%	8.8%
			Default Rate	0.0% – 7.3%	3.7%
			Loss Severity	0.3% – 72.4%	35.3%
Securities carried at fair value with changes recorded in net income	0.4	Discounted cash flow	Discount Rate	31.1%	31.1%
			Prepayment Rate	10.9%	10.9%
			Default Rate	2.4%	2.4%
			Loss Severity	59.2%	59.2%
Derivative assets — non qualifying	0.1	Internal valuation model	Borrower Rate	3.0% - 4.4%	3.8%
Total Assets	$ 386.3				
Liabilities					
FDIC True-up liability	$ (65.1)	Discounted cash flow	Discount Rate	2.9%	2.9%
Consideration holdback liability	(46.0)	Discounted cash flow	Payment Probability	0% – 100%	48.0%
Derivative liabilities — non-qualifying	(14.1)	Market comparables			
Total Liabilities	$ (125.2)				

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The following table summarizes the changes in estimated fair value for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3):

Changes in Estimated Fair Value of Level 3 Financial Assets and Liabilities Measured on a Recurring Basis (dollars in millions)

	Securities-AFS	Securities Carried at Fair Value with Changes Recorded in Net Income	Derivative Liabilities-Non-Qualifying[1]	FDIC True-up Liability	Consideration Holdback Liability
December 31, 2017	$ 385.8	$ 0.4	$ (14.1)	$ (65.1)	$ (46.0)
Included in earnings	13.5	—	0.8	(1.3)	8.0
Included in comprehensive income	(18.0)	—	—	—	—
Sales, paydowns, and adjustments	(274.2)	(0.4)	—	—	38.0
Balance as of September 30, 2018	$ 107.1	$ —	$ (13.3)	$ (66.4)	$ —
December 31, 2016	$ 485.5	$ 283.5	$ (11.5)	$ (61.9)	$ (47.2)
Included in earnings	(1.4)	15.0	(2.3)	(2.7)	—
Included in comprehensive income	15.8	—	—	—	—
Impairment	(0.3)	—	—	—	—
Sales, paydowns, and adjustments	(88.6)	(50.8)	—	—	1.2
Balance as of September 30, 2017	$ 411.0	$ 247.7	$ (13.8)	$ (64.6)	$ (46.0)

[1] Valuation of the derivative related to the Dutch TRS Facility.

Assets Measured at Estimated Fair Value on a Non-recurring Basis

Certain assets or liabilities are required to be measured at estimated fair value on a non-recurring basis subsequent to initial recognition. Generally, these adjustments are the result of LOCOM or other impairment accounting. In determining the estimated fair values, the Company determined that substantially all the changes in estimated fair value were due to declines in market conditions versus instrument specific credit risk. This was determined by examining the changes in market factors relative to instrument specific factors.

The following table presents assets measured at estimated fair value on a non-recurring basis for which a non-recurring change in fair value has been recorded in the current year:

Carrying Value of Assets Measured at Fair Value on a Non-recurring Basis (dollars in millions)

		Fair Value Measurements at Reporting Date Using:			
	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
September 30, 2018					
Assets held for sale	$58.4	$—	$9.9	$48.5	$ 8.9
Other real estate owned	3.8	—	—	3.8	(1.0)
Impaired loans	87.4	—	—	87.4	(38.5)
Total	$149.6	$—	$9.9	$139.7	$ (30.6)
December 31, 2017					
Assets held for sale	$177.8	$—	$—	$177.8	$ (15.0)
Other real estate owned	18.8	—	—	18.8	(4.4)
Impaired loans	89.1	—	—	89.1	(21.9)
Total	$285.7	$—	$—	$285.7	$ (41.3)

Assets of continuing operations that are measured at fair value on a non-recurring basis are as follows:

Assets Held for Sale — See Fair Value of Financial Instruments later in this note for fair value measurements of AHFS. Carrying value of AHFS with impairment approximates fair value at September 30, 2018 and December 31, 2017.

Other Real Estate Owned — Estimated fair values of OREO are reviewed on a quarterly basis and any decline in value below cost is recorded as impairment. Estimated fair value approximates carrying value and is generally based on market data, if available or broker price opinions or independent appraisals, adjusted for costs to sell. The weighted average inputs used to estimate the cost to sell were 6.7% at September 30, 2018. Significant unobservable inputs resulted in the Level 3 classification of OREO.

Impaired Loans — See Fair Value of Financial Instruments later in this note for fair value measurements of impaired loans. As of the reporting date, the carrying value of impaired loans approximated fair value.

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Fair Values of Financial Instruments

The carrying values and estimated fair values of financial instruments presented below exclude leases and certain other assets and liabilities, which were not required for disclosure.

Financial Instruments (dollars in millions)

	Carrying Value	Estimated Fair Value			
		Level 1	Level 2	Level 3	Total
September 30, 2018					
Financial Assets					
Cash and interest bearing deposits	$1,367.5	$1,367.5	$—	$—	$1,367.5
Derivative assets at fair value — non-qualifying hedges	128.5	—	128.3	0.2	128.5
Derivative assets at fair value — qualifying hedges	0.8	—	0.8	—	0.8
Assets held for sale (excluding leases)	132.2	—	11.9	121.2	133.1
Loans (excluding leases)	27,999.0	—	858.7	27,260.9	28,119.6
Securities purchased under agreement to resell	200.0	—	200.0	—	200.0
Investment securities[1]	6,339.5	403.6	5,586.8	349.1	6,339.5
Indemnification assets[2]	27.2	—	—	20.0	20.0
Other assets subject to fair value disclosure and unsecured counterparty receivables[3]	538.6	—	—	538.6	538.6
Financial Liabilities					
Deposits[4]	(30,847.1)	—	—	(30,833.1	