

CIT GROUP INC
Form 10-K
February 21, 2019
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018
Commission file number:001-31369

CIT GROUP INC.

(Exact name of registrant as specified in its charter)

65-1051192

Delaware

(State or other jurisdiction of incorporation or organization)

11 West 42nd Street, New York, New York

(Address of Registrant's principal executive offices)

(212) 461-5200

Registrant's telephone number including area code:

(IRS
Employer
Identification
No.)

10036

(Zip Code)

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

Title of each class

Common Stock, par value \$0.01 per share

Name of
each
exchange
on which

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registered

New York
Stock
Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

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

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

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

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

Exchange Act.

At February 15, 2019, there were 100,808,992 shares of CIT's common stock, par value \$0.01 per share, outstanding.

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

Yes No

The aggregate market value of voting common stock held by non-affiliates of the registrant, based on the New York Stock Exchange Composite Transaction closing price of Common Stock (\$50.41 per share, 115,662,583 shares of common stock outstanding), which occurred on June 29, 2018, was \$5,830,550,809. For purposes of this computation, all officers and directors of the registrant are deemed to be affiliates. Such determination shall not be deemed an admission that such officers and directors are, in fact, affiliates of the registrant.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to the 2019 Annual Meeting of Stockholders are incorporated by reference into Part III hereof to the extent described herein.

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PART ONE

Item 1: Business Overview

BUSINESS DESCRIPTION

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") with \$44.4 billion of earning assets at December 31, 2018. CIT was formed in 1908 and provides financing, leasing and advisory services principally to middle-market companies and small businesses in a wide variety of industries, primarily in North America. CIT also provides banking and related services to commercial and individual customers through our banking subsidiary, CIT Bank, N.A. ("CIT Bank"), which includes over 60 branches located in Southern California and its online bank, cit.com/cit-bank/.

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

BUSINESS SEGMENTS

As of December 31, 2018, CIT manages its business and reports its financial results in three operating segments: Commercial Banking, Consumer Banking, and Non-Strategic Portfolios, and a non-operating segment, Corporate and Other:

SEGMENT

SEGMENT NAME	DIVISIONS	MARKETS AND SERVICES
Commercial Banking	• Commercial Finance	• Commercial Finance, Real Estate Finance, and Business Capital provide lending, leasing and other financial and advisory services, primarily to small and middle-market companies across select industries.
	• Rail	• Business Capital also provides factoring, receivables management products and supply chain financing.
	• Real Estate Finance	• Rail provides equipment leasing and secured financing to railroads and shippers.
	• Business Capital	
Consumer Banking	• Other Consumer Banking	• Other Consumer Banking includes a full suite of deposit products, single family residential ("SFR") loans, and Small Business Administration ("SBA") loans.
	• Legacy Consumer Mortgages ("LCM")	• LCM consists of acquired SFR loans in run-off, certain of which are covered by loss sharing agreements with the Federal Deposit Insurance Corporation ("FDIC").
Non-Strategic Portfolios		• NSP includes businesses and portfolios that we no longer consider strategic. The remaining loans at December 31, 2018 were in China and reported in assets

("NSP")
Corporate and
Other

held for sale.

- Certain items are not allocated to operating segments and are included in Corporate and Other. Some of the more significant and recurring items include interest income on investment securities, a portion of interest expense primarily related to funding costs, mark-to-market adjustments on non-qualifying derivatives and bank owned life insurance ("BOLI"), restructuring charges, as well as certain unallocated costs and intangible assets amortization expenses and loss on debt extinguishments.

We set underwriting standards for each business and employ portfolio risk management models to achieve desired portfolio demographics. Our collection and servicing operations are organized by business and geography in order to provide efficient client interfaces and uniform customer experiences.

Information about our segments is also included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data (Note 24 — Business Segment Information).

COMMERCIAL BANKING

Commercial Banking is comprised of four divisions, Commercial Finance, Rail, Real Estate Finance, and Business Capital.

Commercial Banking provides a range of lending, leasing and deposit products, as well as ancillary products and services, including factoring, cash management and advisory services, primarily to small and medium-sized companies, as well as to the rail industry. Revenue is generated from interest earned on loans, rents on equipment leased, fees and other revenue from lending and leasing activities, and banking services, along with capital markets transactions and commissions earned on factoring and related activities. We source our commercial lending business primarily through direct marketing to borrowers, lessees, manufacturers, vendors and distributors, and through referral sources and other intermediaries. Periodically we buy participations in syndications of loans and lines of credit and purchase loans on a whole-loan basis.

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Description of Divisions

Commercial Finance provides a range of commercial lending and deposit products, as well as ancillary services, including cash management and advisory services, primarily to small and middle market companies. Loans offered are primarily senior secured loans collateralized by accounts receivable, inventory, machinery and equipment, transportation equipment (shipping vessels and aircraft) and/or intangibles, and are often used for working capital, plant expansion, acquisitions or recapitalizations. These loans include revolving lines of credit and term loans and, depending on the nature and quality of the collateral, may be referred to as asset-based loans or cash flow loans. Loans are originated through relationships with private equity sponsors, or through direct relationships, led by originators with significant experience in their respective industries. We partner in joint ventures and provide asset management services for which we collect management fees. We provide financing, treasury management and capital markets products to customers in a wide range of industries, including aerospace & defense, aviation, communication, energy, entertainment, gaming, healthcare, industrials, maritime, restaurants, retail, services and technology.

Rail offers customized leasing and financing solutions and a highly efficient fleet of railcars and locomotives to railroads and shippers throughout North America. Railcar types include covered hopper cars used to ship grain and agricultural products, plastic pellets, sand, and cement; tank cars for energy products and chemicals; gondolas for coal, steel coil and mill service products; open hopper cars for coal and aggregates; boxcars for paper and auto parts, and centerbeams and flat cars for lumber. The rail portfolio is discussed further in the Concentrations section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Real Estate Finance provides senior secured commercial real estate loans to developers and other commercial real estate professionals. We focus on properties with a stable cash flow, provide financing to reposition existing properties, and originate construction loans to highly experienced and well capitalized developers. The division also includes a portfolio of acquired multi-family commercial mortgage loans that is being run off.

Business Capital provides leasing and equipment financing to small businesses and middle market companies in a wide range of industries on both an indirect and direct basis. In our indirect business, we assist manufacturers and distributors in growing sales, profitability and customer loyalty by providing customized, value-added finance solutions to their commercial clients. In our direct financing and leasing business, we provide financing solutions for our borrowers and lessees. Additionally, through our digital small business lending platform, we provide small business unsecured loans and equipment financing. Our lending platform allows small businesses to access commercial loans and leases, including both capital and operating leases, through a highly automated credit approval, documentation and funding process. In addition, we provide factoring, receivable management, and secured financing to businesses (our clients, who are generally manufacturers or importers of goods) that operate in several industries, including apparel, textile, furniture, home furnishings and consumer electronics. Factoring entails the assumption of credit risk with respect to trade accounts receivable arising from the sale of goods by our clients to their customers (generally retailers) that have been factored (i.e., sold or assigned to the factor).

Key Risks

Key risks faced by the divisions are credit, business and asset risk. Credit risks associated with secured financings relate to the ability of our borrower to repay our loan and the value of the collateral underlying the loan should our borrower default on its obligations. Business risks include the demand for services that is broadly affected by the overall level of economic growth and is more specifically affected by the overall level of economic activity in CIT's target industries. Changes in supply and demand of products and services affect the pricing CIT can earn in the market. New business volume in Commercial Banking is affected by CIT's ability to maintain and develop relationships with its equity sponsors, clients, vendor partners, distributors and resellers. Commercial Banking is also exposed to business risk related to its syndication activity, which could expose CIT to risk arising from the inability to

sell loans to other lenders, resulting in lower fee income and higher than expected credit exposure to certain borrowers.

The products and services provided by Commercial Services (a unit of Business Capital that provides commercial factoring services) involve two types of credit risk: customer and client. A customer is the account debtor and obligor on trade accounts receivable that have been factored with and assigned to the factor. The most prevalent risk in factoring transactions for Commercial Services is customer credit risk, which relates to the financial inability of a customer to pay undisputed factored trade accounts receivable. A client is the counterparty to Commercial Services on any factoring, financing, or receivables purchasing agreement to sell trade receivables to Commercial Services, and generally are manufacturers or importers of goods. While less significant than customer credit exposure, client credit risk relates to a decline in the creditworthiness of a borrowing client, their consequent inability to repay their loan, and the possible insufficiency of the underlying collateral (including the aforementioned customer accounts receivable) to cover any loan repayment shortfall.

Commercial Services is also subject to a variety of business risks, including operational risk, due to the high volume of transactions, as well as business risks related to competitive pressures from other banks, boutique factors, and credit insurers, and seasonal risks due to retail trends. These pressures create risk of reduced pricing and factoring volume for CIT. In addition, client de-factoring can occur if retail credit conditions are benign for a long period and clients no longer demand factoring services for credit protection.

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The primary risks for Rail are asset risk (resulting from ownership of the railcars and related equipment on operating lease) and credit risk. Asset risk arises from fluctuations in supply and demand for the underlying rail equipment that is leased. Rail invests in long-lived equipment, railcars/locomotives, which have economic useful lives of approximately 40-50 years. This equipment is then leased to commercial end-users with lease terms of typically three to five years. CIT is exposed to the risk that, at the end of the lease term, the value of the asset will be lower than expected, resulting in reduced future lease income over the remaining life of the asset or a lower sale value.

Asset risk is generally recognized through changes to lease income streams from fluctuations in lease rates and/or utilization. Changes to lease income occur when the existing lease contract expires, the asset comes off lease, and the business seeks to enter a new lease agreement. Asset risk may also change depreciation, resulting from changes in the residual value of the operating lease asset or through impairment of the asset carrying value, which can occur at any time during the life of the asset. Asset risk is primarily related to the Rail division, and to a lesser extent, Business Capital.

Credit risk in the leased equipment portfolio results from the potential default of lessees, possibly driven by obligor specific or industry-wide conditions, and is economically less significant than asset risk for Rail, because in the operating lease business there is no extension of credit to the obligor. Instead, the lessor deploys a portion of the useful life of the asset. Credit losses manifest through multiple parts of the income statement including loss of lease/rental income due to missed payments, time off lease, or lower rental payments than the existing contract due to either a restructuring with the existing obligor or re-leasing of the asset to another obligor, as well as higher expenses due to, for example, repossession costs to recover, refurbish, and re-lease assets.

CONSUMER BANKING

Consumer Banking includes Retail Banking, Consumer Lending, and SBA Lending, which are grouped together for purposes of discussion as Other Consumer Banking, and LCM. We source our Consumer Lending business primarily through our branch network and industry referrals, as well as direct digital marketing efforts. Periodically we purchase loans on a whole-loan basis. We source our SBA loans through a network of SBA originators.

Other Consumer Banking offers consumer mortgage lending and deposit products to its consumer customers. The division offers conforming and jumbo residential mortgage loans, primarily in Southern California. Mortgage loans are primarily originated through CIT Bank branches and retail referrals, employee referrals, internet leads and direct marketing. Additionally, loans are purchased through whole loan and portfolio acquisitions. Consumer Lending includes product specialists, internal sales support and origination processing, structuring and closing. Retail Banking is the primary deposit gathering business of CIT Bank and operates through a network of retail branches in Southern California and an online direct channel. We offer a broad range of deposit and lending products along with payment solutions to meet the needs of our clients (both individuals and small businesses), including checking, savings, money market, individual retirement accounts, and time deposits.

The Other Consumer Banking division also originates qualified SBA 504 loans and 7(a) loans. SBA 504 loans generally provide growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. SBA 7(a) loans provide working capital, acquisition of inventory, machinery, equipment, furniture, and fixtures, the refinancing of outstanding debt subject to any program guidelines, and acquisition of businesses, including partnership buyouts.

LCM includes portfolios of SFR mortgages, certain of which are covered by loss sharing agreements with the FDIC that expire between March 2019 and February 2020. Covered Loans in this segment were previously acquired by OneWest Bank, N.A. in connection with the FDIC-assisted IndyMac Federal Bank, FSB (“IndyMac”), First Federal Bank of California, FSB (“First Federal”) and La Jolla Bank, FSB (“La Jolla”) transactions. The FDIC indemnified

OneWest Bank, N.A. against certain future losses sustained on these loans. The Company sold its reverse mortgage portfolio in May 2018 in connection with the sale of its discontinued operation, the Financial Freedom servicing business.

Key Risks

Key risks faced are credit, collateral and geographic concentration risk. Similar to our commercial business, credit risks associated with secured consumer financings relate to the ability of the borrower to repay its loan and the value of the collateral underlying the loan should the borrower default on its obligations. Our consumer mortgage loans are typically collateralized by the underlying property, primarily single family homes. Therefore, collateral risk relates to the potential decline in value of the property securing the loan. A majority of the loans are concentrated in Southern California, resulting in geographic concentration risk related to a potential downturn in the economic conditions or a potential natural disaster, such as earthquake or wildfire, in that region. As discussed in Note 3 — Loans of Item 8. Financial Statements and Supplementary Data, the Company's indemnification asset is limited to the loss sharing agreement of IndyMac, with an indemnification period ending March 31, 2019.

Key risks for both Commercial Banking and Consumer Banking include funding and liquidity risks. These are managed centrally and are discussed in the Funding and Liquidity section Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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CIT BANK, N.A.

CIT Bank is regulated by the OCC.

CIT Bank raises deposits through its branch network at over 60 locations in Southern California, its online bank (www.cit.com/cit-bank/), from retail and institutional customers through commercial channels, and, to a lesser extent, broker channels. CIT Bank's existing suite of deposit products includes checking, savings, money market, individual retirement accounts and time deposits.

CIT Bank provides lending, leasing and other financial and advisory services, primarily to small and middle-market companies across select industries through its Commercial Finance, Rail, Real Estate Finance, and Business Capital divisions. The Bank also offers residential mortgage lending and deposits to its customers through its Other Consumer Banking division. To help fulfill its community reinvestment act ("CRA") obligations, CIT Bank provides equity investments, loans to support affordable housing and other community development activities, as well as grants and service-related activities, throughout its assessment area in Southern California.

CIT Bank's loans and leases are primarily commercial loans, consumer loans and operating lease equipment. CIT Bank's operating lease portfolio consists primarily of leased railcars and related equipment.

At year-end, CIT Bank remained well capitalized, maintaining capital ratios above required levels.

INFORMATION SECURITY

Information security, including cybersecurity, is a high priority for CIT. Recent, highly publicized events have highlighted the importance of cybersecurity, including cyberattacks against financial institutions, governmental agencies and other organizations that resulted in the compromise of personal and/or confidential information, the theft or destruction of corporate information, and demands for ransom payments to release corporate information encrypted by so-called "ransomware." A successful cyberattack could harm CIT's reputation and/or impair its ability to provide services to its customers.

CIT has developed policies and technology designed to (i) protect both our own and our clients' information from cyberattacks or other corruption or loss, (ii) reasonably assure the continuity of CIT's business in the event of disruptions of CIT's or its vendors' critical systems, and (iii) comply with regulatory requirements relating to the protection of customer information (see Regulation – Privacy Provisions and Customer and Client Information below). For additional information on CIT's cybersecurity and business continuity programs, see the Risk Management section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk (the "MD&A") below.

DISCONTINUED OPERATIONS

Discontinued operations were comprised of Business Air and residual activity from the Financial Freedom servicing business that we sold on May 31, 2018. Discontinued operations are discussed, along with balance sheet and income statement items, in Note 2 — Discontinued Operations in Item 8. Financial Statements and Supplementary Data.

EMPLOYEES

CIT employed 3,678 people at December 31, 2018. Based upon the location of the Company's legal entities, as of December 31, 2018, 3,636 were employed in U.S. entities and 42 in non-U.S. entities.

COMPETITION

We operate in competitive markets. Our competitors include global and regional commercial banks and community banks, as well as captive finance companies, leasing companies, business development companies, and other non-bank lenders. In most of our business lines, we have a few large competitors that have significant market share and many smaller niche competitors. Many of our competitors have substantial financial, technological, and marketing resources.

Our customer value proposition is primarily based on financing terms, industry expertise, transaction structuring, technology driven solutions, and client service. From time to time, due to highly competitive markets, we may (i) lose market share if we are unwilling to match product structure, pricing, or terms of our competitors that do not meet our credit standards or return requirements or (ii) receive lower returns or incur higher credit losses if we match our competitors' product structure, pricing, or terms. We tend not to compete on price, but rather on industry experience, asset and equipment knowledge, and customer service.

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REGULATION

We are regulated by U.S. federal banking laws, regulations and policies. Such laws and regulations are intended primarily for the protection of depositors, customers and the federal Deposit Insurance Fund (“DIF”), as well as to minimize risk to the banking system as a whole, and not for the protection of our shareholders or non-depository creditors. Bank regulatory agencies have broad examination and enforcement power over BHCs and their bank and non-bank subsidiaries, including the power to impose substantial fines, limit dividends and other capital distributions, restrict operations and acquisitions, and require divestitures. BHCs and banks, as well as subsidiaries of both, are prohibited by law from engaging in practices that the relevant regulatory authority deems unsafe or unsound. CIT is a BHC, and elected to become a FHC. CIT Bank is chartered as a national bank by the OCC and is a member bank of the Federal Reserve System. CIT and CIT Bank are subject to certain limitations on our activities, transactions with affiliates, and payment of dividends, and certain standards for capital and liquidity, safety and soundness, and incentive compensation, among other matters. The principal regulator of CIT and its non-bank subsidiaries is the FRB and the principal regulator of CIT Bank and its subsidiaries is the OCC. Both CIT and CIT Bank are subject to the jurisdiction of the Consumer Financial Protection Bureau (“CFPB”).

Certain of our subsidiaries are subject to the jurisdiction of other governmental agencies. CIT Capital Securities LLC is a broker-dealer licensed by the Financial Industry Regulatory Authority (“FINRA”), and is subject to the jurisdiction of FINRA and the Securities and Exchange Commission (“SEC”). Our insurance operations are primarily conducted through The Equipment Insurance Company and CIT Insurance Agency, Inc. Each company is licensed to enter into insurance contracts and is subject to regulation and examination by state insurance regulators. In connection with the disposition of our international platforms, we have surrendered all of our banking licenses outside of the United States.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (“EGRRCPA”) was signed into law. Among other regulatory changes, the EGRRCPA amended provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) to increase the threshold for applicability of the enhanced prudential supervision requirements under Sections 165 and 166 from \$50 billion to \$250 billion. The EGRRCPA’s increased threshold took effect immediately for BHCs with total consolidated assets of less than \$100 billion, including CIT. As a result, certain of the enhanced prudential standards required under Sections 165 and 166 of the Dodd-Frank Act no longer apply to CIT or will be adjusted to reflect that banking entities with less than \$100 billion in assets are no longer deemed to be systemically important financial institutions. See “Regulatory Expectations for Capital Planning” below.

In connection with the OneWest Transaction, CIT Bank submits to the OCC annually a comprehensive 3-year business plan, including a financial forecast, a capital plan that provides for maintenance of CIT Bank’s capital, a funding plan and a contingency funding plan, the intended types and volumes of lending activities, and an action plan to accomplish identified strategic goals and objectives. The Bank reports quarterly to the OCC on any material variances. The Board of Directors must review the performance of CIT Bank under the business plan at least annually.

CIT Bank also submitted to the OCC a CRA Plan after the merger, describing the actions it intended to take to help meet the credit needs of low and moderate income (“LMI”) communities within its assessment areas, the management structure responsible for implementing the CRA Plan, and the Board committee responsible for overseeing the Bank’s performance under the CRA Plan. CIT Bank published on its public website (i) a copy of its CRA Plan and (ii) a CRA Plan summary report that demonstrates the measurable results of the CRA Plan.

CIT also committed to the FRB to meet certain levels of CRA-reportable lending and CRA Qualified Investments in its assessment areas over 4 years, make annual donations to qualified non-profit organizations that provide services in its assessment areas, locate a minimum of 15% of its branches and ATMs in LMI census tracts, and provide at least 2,100 hours of CRA qualified volunteer service.

Banking Supervision and Regulation

Permissible Activities

The BHC Act limits the business of BHCs that are not FHCs to banking, managing or controlling banks, performing servicing activities for subsidiaries, and engaging in activities that the FRB has determined, by order or regulation, are so closely related to banking as to be a proper incident thereto. An FHC also may engage in or acquire and retain the shares of a company engaged in activities that are financial in nature or incidental or complementary to activities that are financial in nature as long as the FHC continues to meet the eligibility requirements for FHCs, including that the FHC and each of its U.S. depository institution subsidiaries remain “well-capitalized” and “well-managed.”

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A depository institution subsidiary is considered “well-capitalized” if it satisfies the requirements discussed below under “Prompt Corrective Action.” A depository institution subsidiary is considered “well-managed” if it received a composite rating and management rating of at least “satisfactory” in its most recent examination. If an FHC ceases to be well-capitalized and well-managed, the FHC must enter into a non-public confidential agreement with the FRB to comply with all applicable capital and management requirements. Until the FHC returns to compliance, the FRB may impose limitations or conditions on the conduct of its activities, and the company may not commence any new non-banking financial activities permissible for FHCs or acquire a company engaged in such financial activities without prior approval of the FRB. If the company does not timely return to compliance, the FRB may require divestiture of the FHCs depository institutions. BHCs and banks must also be well-capitalized and well-managed in order to acquire banks located outside their home state. An FHC will also be limited in its ability to commence non-banking financial activities or acquire a company engaged in such financial activities if any of its insured depository institution subsidiaries fails to maintain a “satisfactory” rating under the CRA, as described below under “Community Reinvestment Act.”

Activities that are “financial in nature” include securities underwriting, dealing and market making, advising mutual funds and investment companies, insurance underwriting and agency, merchant banking, and activities that the FRB, in consultation with the Secretary of the Treasury, determines to be financial in nature or incidental to such financial activity. “Complementary activities” are activities that the FRB determines upon application to be complementary to a financial activity and that do not pose a safety and soundness issue. CIT is primarily engaged in activities that are permissible for a BHC, and conducts only limited business involving the expanded activities available to an FHC.

Capital Requirements

The Company and the Bank are subject to risk-based requirements and rules issued by the FRB, OCC, and FDIC (the “Basel III Rule”) that are based upon the final framework for strengthening capital and liquidity regulation of the Basel Committee on Banking Supervision (the “Basel Committee”). Under the Basel III Rule, the Company and the Bank apply the Standardized Approach in measuring their risk-weighted assets (“RWA”) and regulatory capital. The Basel III Rule divides a banking entity’s capital into three capital components: Common Equity Tier 1 (“CET1”) capital, additional Tier 1 capital, and Tier 2 capital, and assigns related regulatory capital ratios. Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain requirements. Total Capital is the sum of Tier 1 and Tier 2 Capital. The most common form of Additional Tier 1 capital instruments is non-cumulative perpetual preferred stock and the most common form of Tier 2 capital instruments is subordinated notes, in each case subject to specific requirements under the Basel III Rule. The Company has both non-cumulative perpetual preferred stock and subordinated notes outstanding.

The Basel III Rule provides for a number of deductions from and adjustments to CET1. These include, for example, goodwill, other intangible assets, and deferred tax assets (“DTAs”) that arise from net operating loss and tax credit carryforwards net of any related valuation allowance. Mortgage servicing rights, DTAs arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial institutions must also be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. The non-DTA related deductions (goodwill, intangibles, etc.) may be reduced by netting with any associated deferred tax liabilities (“DTLs”). As for the DTA deductions, the netting of any remaining DTL must be allocated in proportion to the DTAs arising from net operating losses and tax credit carryforwards and those arising from temporary differences. In September 2017, the federal bank regulators proposed to revise and simplify the capital treatment for certain DTAs, mortgage servicing rights, investments in non-consolidated financial institutions and minority interests for non-advanced approaches banking organizations, such as CIT and the Bank. In November 2017, the federal bank regulators revised the Basel III

Rule to extend the current transitional treatment of these items for non-advanced approaches banking organizations until the September 2017 proposal is finalized.

Under the Basel III Rule, certain off-balance sheet commitments and obligations are converted into RWA, that together with on-balance sheet assets, are the base against which regulatory capital is measured. The Basel III Rule defined the risk-weighting categories for BHCs and banks that follow the Standardized approach based on a risk-sensitive analysis, depending on the nature of the exposure. Risk weights range from 0% for U.S. government securities, to as high as 1,250% for such exposures as certain tranches of securitizations or unsettled security/commodity transactions.

Per the Basel III Rule, the minimum capital ratios for CET1, Tier 1 capital, and Total capital are 4.5%, 6.0% and 8.0%, respectively. The Basel III Rule includes a "capital conservation buffer" of 2.5%, composed entirely of CET1, on top of these minimum RWA ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to RWA above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall and the institution's "eligible retained income" (that is, four quarter trailing net income, net of distributions and tax effects not reflected in net income).

The Company and CIT Bank, as non-advanced approaches banking organizations, made a one-time, permanent election under the Basel III Rule to exclude the effects of certain components of accumulated other comprehensive income ("AOCI") included in shareholders' equity under U.S. GAAP (for example, mark-to-market of securities held in the available-for-sale ("AFS") portfolio) in determining regulatory capital ratios.

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As of January 1, 2019, CIT is required to maintain the following risk-based capital ratios:

	Minimum Capital Requirements — January 1, 2019		
	Tier 1	Total	
	CET		
	1	Capital	Capital
Stated minimum ratios	4.5%	6.0%	8.0%
Capital conservation buffer	2.5%	2.5%	2.5%
Effective minimum ratios	7.0%	8.5%	10.5%

The Company and CIT Bank are also required to maintain a minimum Tier 1 leverage ratio (Tier 1 capital to a quarterly average of non-risk weighted total assets) of 4%. As non-advanced approaches banking organizations, the Company and CIT Bank are not subject to the Basel III Rule's countercyclical buffer or the supplementary leverage ratio.

The Company and CIT Bank meet all capital requirements under the Basel III Rule, including the capital conservation buffer. The table in Part 2 Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Regulatory Capital section) presents CIT's and CIT Bank's capital ratios as of December 31, 2018, calculated under the Basel III Rule — Standardized Approach and the Transition Final Rule (effective January 1, 2018 to extend the regulatory capital treatment under 2017 transition provisions for certain items).

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as “Basel IV”). Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including by recalibrating risk weights and introducing new capital requirements for certain "unconditionally cancellable commitments," such as unused credit card and home equity lines of credit) and provides a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Company or CIT Bank. The impact of Basel IV on the Company and CIT Bank will depend on whether, and the manner in which, it is implemented by the federal bank regulators. In December 2018, the federal bank regulators issued a final rule that would provide an optional three-year phase-in period for the day-one regulatory capital effects of the adoption of ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” on January 1, 2020. See Note 1. Business and Summary of Significant Accounting Policies – Recent Accounting Pronouncements in Item 8. Financial Statements and Supplementary Data for additional information on this accounting pronouncement.

Regulatory Expectations for Capital Planning

Under Sections 165 and 166 of the Dodd-Frank Act, as amended by the EGRRCPA, the FRB has promulgated regulations and issued guidance imposing enhanced prudential supervision requirements on BHCs with total consolidated assets of \$100 billion or more. As a BHC with total consolidated assets of less than \$100 billion, CIT is no longer subject to these enhanced prudential standards. However, the FRB has indicated that the capital planning and risk management practices of financial institutions with assets of less than \$100 billion will continue to be reviewed through the regular supervisory process.

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Although CIT no longer participates in the FRB's CCAR process, CIT is still required to maintain a comprehensive and effective capital planning process in accordance with SR Letter 09-4, "Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies" ("SR 09-4"). Under SR 09-4, a BHC is expected to inform and consult with the FRB before (i) declaring and paying a dividend that could raise safety and soundness concerns, (ii) redeeming or repurchasing regulatory capital instruments when the BHC is experiencing financial weakness, or