CIT GROUP INC
Form 10-K
March 10, 2011

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

FORM 10-K

lXl	Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 *For the fiscal year ended December 31, 2010*	or l l	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 No.)
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 including area code:
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	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 lXl No l l

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 l l No lXl

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 lXl No l l

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

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, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (check one) Large accelerated filer |X| Accelerated filer | | Non-accelerated filer | | Smaller reporting company | |

At February 28, 2011, there were 200,475,531 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 |X|

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 ($33.86 per share, 200,071,812 shares of common stock outstanding), which occurred on June 30, 2010, was $6,774,431,554. 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 |X| No | |

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement relating to the 2010 Annual Meeting of Stockholders are incorporated by reference into Part III hereof to the extent described herein.

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PART ONE

Item 1. Business Overview

BUSINESS DESCRIPTION

Founded in 1908, CIT Group Inc., a Delaware Corporation, is a bank holding company that, together with its owned subsidiaries (collectively we, CIT or the Company), provides primarily commercial financing and leasing products and other services to small and middle market businesses across a wide variety of industries. CIT became a bank holding company (BHC) in December 2008, and is regulated by the Board of Governors of the Federal Reserve System (FRS) and the Federal Reserve bank of New York (FRBNY) under the U.S. Bank Holding Company Act of 1956 (BHC Act). CIT operates principally in North America, with locations in Europe, Latin America and Asia.

Our businesses focus mainly on commercial clients with a particular emphasis on small business and middle-market companies. We provide financing and leasing products to our clients and customers in over 30 industries, including transportation, particularly aerospace and rail, manufacturing and retail, and in over 20 countries. We funded $4.5 billion of new business volume during 2010 and have $36.9 billion of loans and leases at December 31, 2010.

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

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

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

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

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

Our primary bank subsidiary is CIT Bank, a state chartered bank located in Salt Lake City, Utah. CIT Bank is subject to regulation and examination by the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions (UDFI). Non-bank subsidiaries, both in the U.S. and abroad, currently own the majority of the Company s assets.

BUSINESS SEGMENTS

CIT meets customer financing needs through five business segments.

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

CORPORATE FINANCE

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

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

Middle Market Lending

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

- Commercial & Industrial industries include wholesale trade (both durable and non-durable goods), business services, miscellaneous retail, chemicals and allied products, food and kindred products and numerous other industries. Transactions to customers in these industries are primarily structured as first lien senior secured loans, based on specific advance rate formulas tied to a borrower s accounts receivable, inventory and to a lesser extent fixed assets, and senior loan structures, based on the companies operating cash flow and risk profile.
- Communications, Media, & Entertainment industries include broadcast, cable, entertainment, gaming, sports franchise, telephony, wireless and tower and other related industries. Transactions are structured as first lien senior secured or asset-based loans and are based on the risk profile of the borrowers. Debt products for acquisitions and growth capital, as well as advisory services, are provided to our clients.
- Healthcare industries include skilled nursing facilities, home, health and hospice companies, acute care hospitals, dialysis companies and outpatient services among others. Transactions are structured as first lien senior secured asset-based loans, senior loan structures and real estate-based financings based on the borrower s operating cash flow and risk profile.

- Energy industries include conventional and renewable power generation, coal mining, oil and gas production and financing is provided to other related energy service providers and manufacturers. Transactions are primarily structured as first lien senior secured asset-based loans and senior cash flow loans.

Small Business Lending (SBL)

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

TRANSPORTATION FINANCE

Transportation Finance is a leading provider of aircraft and railcar leasing and financing solutions to operators and suppliers in the global aviation and North American rail car industries. The segment operates through two business units, CIT Aerospace (Aerospace) and CIT Rail (Rail). Within Aerospace, the business provides commercial aircraft lease financing through our Commercial Airlines unit, private aircraft lending through our Business Aircraft unit, and corporate finance solutions such as cash flow and asset-backed loans through our Transportation Lending unit. We have achieved a leadership position in the aviation and rail markets by leveraging our core strengths in technical asset management, customer relationship management skills, credit analysis, deep industry expertise and information sharing and cross-selling in the business units.

This segment has seasoned management teams servicing the aerospace and rail industries, and in the case of aerospace, has built a global presence with operations in the US, Canada, Europe and Asia. We have extensive experience in managing equipment over its full life cycle, including purchasing new equipment, estimating residual values and remarketing by re-leasing or selling equipment.

Aerospace

Commercial Air provides aircraft leasing and lending, asset management, aircraft valuation and advisory services. The unit s primary clients include major and regional airlines around the world. Offices are located in the U.S., Europe and Asia. As of December 31, 2010, our commercial aerospace financing and leasing portfolio consists of approximately 300 aircraft with a weighted average age of 5 years and placed with about 100 clients.

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

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

Rail

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

Our operating lease fleet consists of approximately 101,000 rail cars, including covered hopper cars used to ship grain and agricultural products, plastic pellets and cement, gondola cars for coal, steel coil and mill service, open hopper cars for coal and aggregates, center beam flat cars for lumber, boxcars for paper and auto parts, tank cars, and approximately 450 locomotives.

See Concentrations section of *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* and *Note 18 Commitments* of *Item 8. Financial Statements and Supplementary Data* for further discussion of our aerospace portfolio.

TRADE FINANCE

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

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

Trade Finance typically provides financing to its clients through the factoring of accounts receivable owed to its clients by their customers, typically retailers. The assignment of accounts receivable by a client to a factor is traditionally known as factoring and results in payment by the client of a factoring commission that is commensurate with the underlying degree of credit risk and recourse, and which is generally a percentage of the factored receivables or sales volume. Trade Finance may advance funds to its clients, typically in an amount up to 90% of eligible accounts receivable, charging interest on the advance (in addition to any factoring fees), and satisfying the advance by the collection of factored accounts receivable. Trade Finance often integrates its clients operating systems with its operating systems to facilitate the factoring relationship. Trade Finance also can arrange for letters of credit, collateralized by accounts receivable and other assets, to be opened for the benefit of its clients suppliers.

VENDOR FINANCE

Vendor Finance is a global leader in developing financing programs for manufacturers, distributors, product resellers and other intermediaries that enable their customers to acquire products now and finance payments over time. CIT maintains relationships with leading companies in the information technology, telecommunications and office equipment industries while providing equipment leasing and financing to small and middle market businesses across a wide variety of industries.

Our vendor relationships include traditional vendor finance programs, virtual joint ventures and referral agreements that have varying degrees of integration with vendor partners. We utilize virtual joint ventures , as a means to originate assets on our balance sheet and share with the vendor economic outcomes from the financing. A key part of these partnership programs is integrating with their go-to-market strategy and leveraging the vendor partners sales process, thereby maximizing efficiency and effectiveness.

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

Vendor Finance end-user customers are predominately small Fortune 1000 companies acquiring office, technology, telecommunications and other essential use equipment in more than 30 countries.

CONSUMER

Our Consumer segment predominately includes government-guaranteed student loans, currently in run-off. We ceased offering private student loans during 2007 and government-guaranteed student loans in 2008.

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

CORPORATE AND OTHER

Certain expenses are not allocated to operating segments and are included in Corporate and Other. For 2010, these consist primarily of: (1) some mark-to-market adjustments on non-qualifying derivatives; (2) restructuring charges for severance and facilities exit activities; and (3) certain tax provisions and benefits.

Prior to 2010, Corporate and Other also included: (1) certain funding and liquidity costs, as segment results reflect debt transfer pricing that matched assets (as of the origination date) with liabilities from an interest rate and maturity perspective; (2) a portion of credit loss provisioning in excess of amounts recorded in the segments, primarily reflecting our qualitative determination of estimation risk; (3) dividends that were paid on preferred securities (now cancelled), as segment risk adjusted returns were based on the allocation of common equity; and (4) reorganization adjustments largely related to debt relief in bankruptcy.

CIT BANK

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

RESTRUCTURING

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

The information contained in this annual report about CIT following our emergence from bankruptcy, including the financial statements and other information for the year ended December 31, 2010, which reflects the impact of fresh start accounting adjustments, is not necessarily comparable with information provided for prior periods. Further discussion of these events and resultant financial statement impacts are located in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* (Introduction) and *Item 8. Financial Statements and Supplementary Data* (*Notes 1 and 25*).

EMPLOYEES

CIT employed 3,778 people at December 31, 2010, of which 2,750 were employed in the U.S. and 1,028 outside the U.S.

COMPETITION

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

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

There has been substantial consolidation and convergence among companies in the financial services industry. This trend has accelerated since 2007 as the credit crisis and economic dislocation caused numerous mergers and asset acquisitions among industry participants. The trend toward consolidation and convergence significantly increased the geographic reach of some of our competitors and hastened the globalization of the financial services markets. To take advantage of some of our most significant international challenges and opportunities, we will have to compete successfully with financial institutions that are larger, have better access to low cost funding, and may have a stronger local presence and longer operating history outside the U.S.

Other competitive factors include industry experience, asset and equipment knowledge, and strong relationships. The regulatory environment in which we and/or our customers operate also affects our competitive position.

REGULATION

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

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

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

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

Cease and Desist Orders and Written Agreement

On July 16, 2009, the FDIC and UDFI each issued a Cease and Desist Order to CIT Bank (together, the Orders) in connection with the diminished liquidity of Predecessor CIT. CIT Bank, without admitting or denying any allegations made by the FDIC and UDFI, consented and agreed to the issuance of the Orders.

Each of the Orders directs CIT Bank to take certain affirmative actions, including among other things ensuring that it does not allow any extension of credit to CIT or any other affiliate of CIT Bank or engage in any covered transaction, declare or pay any dividends or other payments representing reductions in capital, or increase the amount of Brokered Deposits above the $5.527 billion outstanding at July 16, 2009, without the prior written consent of the FDIC and the UDFI. After the Orders were issued, CIT Bank limited its new corporate loan originations pending completion of the Company s reorganization. On August 14, 2009, CIT Bank provided to the FDIC and the UDFI a contingency plan that ensures the continuous and satisfactory servicing of Bank loans if CIT is unable to perform such servicing. During the first quarter of 2010, CIT Bank restarted its originations of new corporate loans.

On August 12, 2009, CIT entered into a Written Agreement with the Federal Reserve Bank of New York (the FRBNY). The Written Agreement requires regular reporting to the FRBNY, the submission of plans related to corporate governance, credit risk management, capital, liquidity and funds management, the Company s business and the review and revision, as appropriate, of the Company s consolidated allowances for loan and lease losses methodology. CIT must obtain prior written approval by the FRBNY for payment of dividends and distributions, incurrence of debt, other than in the ordinary course of business, and the purchase or redemption of stock. The Written Agreement also requires notifying the FRBNY prior to the appointment of new directors or senior executive officers, and places restrictions on indemnification and severance payments. The FRBNY reviewed the appointment of each of the directors that joined our Board of Directors following our emergence from bankruptcy, as well as the appointment of John A. Thain, our Chairman and CEO, and other key members of our executive management team.

Pursuant to the Written Agreement, the Board of Directors appointed a Special Compliance Committee of the Board to monitor and coordinate compliance with the Written Agreement. During August, September, and October 2009, we prepared and delivered each of the plans required by the Written Agreement, and we updated each plan periodically during 2010. The Company is continuing to provide reports to the FRBNY as required by the Written Agreement.

Banking Supervision and Regulation

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

Bank Holding Company Activities

As a BHC, the BHC Act restricts our activities to banking and activities closely related to banking. The BHC Act grants a new BHC, like CIT, two years to comply with activity restrictions. Under the Gramm-Leach-Bliley Act of 1999 (GLB), the activities of a BHC are restricted to those activities that were deemed permissible by the Federal Reserve at the time the GLB Act was passed. The vast majority of our activities are permissible. However, a limited number of our existing activities and assets, comprised primarily of a limited number of equity investments and certain real estate investment activities, for which new investments were discontinued, were required to be divested or terminated by December 22, 2010, (unless the FRB extends the two-year period for compliance). We disposed of, or conformed to BHC Act requirements, a majority of our non-conforming equity investments and real estate investments prior to December 22, 2010, and the FRB granted us a one-year extension of the period to conform or dispose of the remaining assets and activities.

Capital Requirements

The FRB and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to U.S. banking organizations. These regulatory agencies may from time to time require that a banking organization maintain capital above the stated minimum levels, whether because of financial condition, the nature of assets, or actual or anticipated growth. The Federal Reserve leverage and risk-based capital guidelines divide a bank holding company s capital framework into tiers. The regulatory capital guidelines currently applicable to bank holding companies are based on the Capital Accord of the Basel Committee on Banking Supervision (Basel I). Bank regulators are phasing in revised regulatory capital guidelines based on capital standards issued by the Basel Committee on Banking Supervision (Basel II and Basel III).

Basel I Requirements. We compute and report our capital ratios in accordance with the Basel I requirements for the purpose of assessing our capital adequacy. Tier 1 capital generally includes common shareholders equity, trust preferred securities, non-controlling minority interests and qualifying preferred stock, less goodwill, one-half of the investment in unconsolidated subsidiaries and other adjustments. Tier 2 capital consists of, among other things, preferred stock not qualifying as Tier 1 capital, mandatory convertible debt securities, limited amounts of subordinated debt, other qualifying term debt, the allowance for credit losses up to 1.25 percent of risk-weighted assets, less one-half of the investment in unconsolidated subsidiaries and other adjustments. The sum of Tier 1 and Tier 2 capital represents our qualifying Total Regulatory Capital. Under the capital guidelines of the Federal Reserve, assets and certain commitments and off-balance sheet transactions, which are assigned asset equivalent weightings, are divided into risk categories, each of which is assigned a risk weighting ranging from 0% (U.S. Treasury Bonds) to 100%. Risk-based capital ratios are calculated by dividing Tier 1 and Total Capital by risk-weighted assets. The minimum Tier 1 capital ratio is 4% and the minimum Total Capital ratio is 8%. The Dodd-Frank Act requires the U.S. federal banking agencies to establish minimum leverage and risk-based capital requirements for banks, bank holding companies, and non-bank financial institutions subject to Federal Reserve supervision, which cannot be less than the existing capital standards applicable to banks under the existing prompt corrective action regulations discussed below (i.e. 3-4% Tier 1 Leverage ratio, 4% Tier 1 capital ratio, and 8% total capital ratio). In addition, for a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action, its Tier 1 and total capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively. In establishing the capital requirements, the regulators must take into account the systemic effects that may be created by the failure of an institution. In addition, trust preferred securities and certain hybrid instruments, which the Company does not have, will no longer qualify for treatment as Tier 1 capital for bank holding companies.

We committed to regulators to maintain a Total Capital ratio of 13% for the BHC. The Tier 1 and Total Capital ratios at December 31, 2010 were 19.1% and 19.9%, respectively. The calculation of regulatory capital ratios are subject to review and consultation with the Federal Reserve, which may result in refinements to estimated amounts. At December 31, 2010, our Tier 1 Capital was comprised solely of common shareholders equity.

BHCs and banks are also required to comply with minimum Tier 1 Leverage ratio requirements. The Tier 1 Leverage ratio is the ratio of a banking organization's Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). The requirements necessitate a minimum Tier 1 leverage ratio of 3.0% for BHCs and FDIC-supervised banks that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted measure for market risk. All other BHCs and FDIC-supervised banks are required to maintain a minimum Tier 1 Leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. In addition, for a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action, its Tier 1 Leverage ratio must be at least 5.0%.

CIT is not subject to a Federal Reserve directive to maintain a higher Tier 1 Leverage ratio. CIT s Tier 1 Leverage ratio at December 31, 2010 was 16.2%, exceeding requirements. In connection with the FDIC s approval in December 2008 of CIT Bank s conversion from a Utah industrial bank to a Utah state bank, CIT Bank committed to maintain a Tier 1 Leverage Ratio of at least 15% for at least three years after conversion. At December 31, 2010, CIT Bank s Tier 1 leverage ratio was 24.2%.

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

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

The Dodd-Frank Act requires the Federal Reserve Board, the OCC and the FDIC to adopt regulations imposing a continuing floor of the Basel I-based capital requirements in cases where the Basel II-based capital requirements and any changes in capital regulations resulting from Basel III (see below) otherwise would permit lower requirements. In December 2010, the Federal Reserve Board, the OCC and the FDIC issued a joint notice of proposed rulemaking that would implement this requirement.

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

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

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

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

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

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

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

The Basel III final framework provides for a number of new deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

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

The U.S. banking agencies have indicated informally that they expect to propose regulations implementing Basel III in mid-2011, with final adoption of implementing regulations in mid-2012. Notwithstanding its release of the Basel III framework as a final framework, the Basel Committee is considering further amendments to Basel III, including the imposition of additional capital surcharges on globally systemically important financial institutions. In addition to Basel III, Dodd-Frank requires or permits the Federal banking agencies to adopt regulations affecting banking institutions capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. Accordingly, the regulations ultimately applicable to CIT and CIT Bank may be substantially different from the Basel III final framework as published in December 2010.

Liquidity Requirements

Historically, regulation and monitoring of bank and BHC liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and BHCs to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the liquidity coverage ratio (LCR), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other, referred to as the net stable funding ratio (NSFR), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incent banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. The LCR would be implemented subject to an observation period beginning in 2011, but would not be introduced as a requirement until January 1, 2015, and the NSFR would not be introduced as a requirement until January 1, 2018. These new standards are subject to further rulemaking and their terms may well change before implementation.

Prompt Corrective Action

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

FDICIA requires the applicable federal regulatory authorities to implement systems for prompt corrective action for insured depository institutions that do not meet minimum requirements. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, as the capital category of an institution declines. Undercapitalized depository institutions are required to submit a capital restoration plan. Although prompt corrective action regulations apply only to depository institutions and not to BHCs, the holding company must guarantee the plan in certain circumstances. The liability of the parent holding company under any such guarantee is limited to the lesser of five percent of the bank s assets at the time it became undercapitalized or the amount needed to comply. The parent holding company might also be liable for civil money damages for failure to fulfill that guarantee. In the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent s general unsecured creditors.

Regulators take into consideration: (a) concentrations of credit risk, (b) interest rate risk, and (c) risks from non-traditional activities, as well as an institution s ability to manage those risks, when determining capital adequacy. This evaluation is made during the institution s safety and soundness examination. An institution may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. Under these guidelines, CIT Bank was considered well capitalized as of December 31, 2010.

Heightened Prudential Requirements on Large Bank Holding Companies

The Dodd-Frank Act creates a new systemic risk oversight body, the Financial Stability Oversight Council (FSOC), to identify, monitor and address potential threats to U.S. financial stability. Additionally, the Dodd-Frank Act imposes heightened prudential requirements on BHCs with at least $50 billion in total consolidated assets, including CIT, and requires the FRB to establish prudential standards for those large BHCs that are more stringent than those applicable to other BHCs, including standards for risk-based capital requirements and leverage limits, liquidity, risk-management requirements, resolution plan and credit exposure reporting, and concentration. The FRB has discretionary authority to establish additional prudential standards, on its own or at the FSOC s recommendation, regarding contingent capital, enhanced public disclosures, short-term debt limits, and otherwise as it deems appropriate.

The Dodd-Frank Act requires the FRB to conduct annual analyses of such BHCs to evaluate whether the companies have sufficient capital on a total consolidated basis necessary to absorb losses as a result of adverse economic conditions. In addition, large BHCs, including CIT, must conduct similar so-called stress tests twice a year. Furthermore, large BHCs are required to maintain a debt-to-equity ratio of no more than 15 to 1 if the FSOC determines that the company poses a grave threat to the financial stability of the U.S. and the imposition of such requirement is necessary to mitigate the posed threat.

Acquisitions, Interstate Banking and Branching

BHCs are required to obtain prior approval of the FRB before acquiring more than five percent of any class of voting stock of any non-affiliated bank. Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the Interstate Act), a BHC may acquire banks in states other than its home state even if the acquisition is not permitted under state law, but subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the BHC, prior to and following the proposed acquisition, control no more than 10% of the total amount of deposits of insured depository institutions in the U.S. and no more than 30% of such deposits in that state (or such amount as established by state law if such amount is lower than 30%). Under the Dodd-Frank Act, the standards for a bank or BHC that seeks to acquire another bank outside its home state were increased to require the acquiring entity to be well-capitalized and well-managed, rather than adequately-capitalized and adequately-managed. In addition, the Dodd-Frank Act restricts BHCs from consummating an interstate merger transaction if the resulting institution would control more than 10% of the total amount of deposits of insured depository institutions in the United States, unless the interstate merger transaction involves one or more insured depository institutions in default or in danger of default or in receipt of FDIC assistance.

The Interstate Act also authorizes banks to acquire branch offices outside their home states by merging with out-of-state banks, purchasing branches in other states, or establishing de novo branches in other states, thereby creating interstate branching. Under the Dodd-Frank Act, states are no longer permitted to limit the ability of out-of-state banks to purchase branches or establish de novo branches or to restrict interstate mergers, and a bank can locate a branch in another state if that other state allows its own state banks to establish branches.

The FRB must approve certain additional capital contributions to an existing non-U.S. investment and certain direct and indirect acquisitions by CIT of an interest in a non-U.S. company, including in a foreign bank, as well as the establishment by CIT Bank of foreign branches in certain circumstances. Additionally, the Dodd-Frank Act requires that a BHC with total consolidated assets equal to or greater than $50 billion give the Federal Reserve written notice before acquiring direct or indirect ownership or control of any voting shares of any company having total consolidated assets of $10 billion or more.

Dividends

CIT Group Inc. is a legal entity separate and distinct from CIT Bank and other subsidiaries. CIT Group Inc., parent of CIT Bank and our other subsidiaries, provides a significant amount of funding to its subsidiaries, which is generally recorded as inter-company loans. Most of CIT Group Inc. s revenue is interest on intercompany loans from its subsidiaries, including CIT Bank. Cash can be transferred to CIT Group Inc. by its subsidiaries, including CIT Bank, through the repayment of intercompany debt or the payment of dividends. CIT Bank is subject to various regulatory policies and requirements relating to the payment of dividends. The appropriate federal regulatory authority is authorized to determine under certain circumstances relating to the financial condition of a bank or BHC that the payment of dividends would be an unsafe or unsound practice and to limit or prohibit payment. Under the terms of the Written Agreement, dated August 12, 2009, between CIT and the FRBNY, CIT cannot declare or pay dividends on common stock without the prior written consent of the FRBNY and the Director of the Division of Banking Supervision of the FRB.

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

Federal and state laws impose limitations on the payment of dividends by our bank subsidiary. The amount of dividends that may be paid by a state-chartered bank that is not a member bank of the Federal Reserve System, such as CIT Bank, is limited to the lesser of the amounts calculated under a recent earnings test and an undivided profits test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year s net income combined with the retained net income of the two preceding years, unless the bank obtains the approval of its chartering authority. Under the undivided profits test, a dividend may not be paid in excess of a bank s undivided profits . Utah law imposes similar limitations on Utah state banks. Under the terms of the Cease and Desist Orders, each dated July 16, 2009, issued by the FDIC and the UDFI to CIT Bank, CIT Bank cannot declare or pay dividends on its common stock or any other form of payment representing a reduction in capital without the prior written consent of the Regional Director of the FDIC s San Francisco Regional Office.

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

Under temporary guidance issued by the FRB in November 2010, BHCs, such as CIT, should consult with the FRB before taking any actions that could result in a diminished capital base, including increasing dividends. The FRB will assess the BHC s capital adequacy based on capital plans and stress tests as submitted by the BHC. The FRB will review the capital plans, including dividend policies, against, among other things, the BHC s ability to achieve Basel III capital ratio requirements referred to above as they are phased in by U.S. regulators and any potential impact of the Dodd-Frank Act on the company s risk profile, business strategy, corporate structure or capital adequacy. The FRB s current guidance provides that, for large BHCs like us, dividend payout ratios exceeding 30% of after-tax net income will receive particularly close scrutiny.

U.S. Treasury s TARP Capital Purchase Program

On December 31, 2008, CIT issued $2.3 billion of preferred stock and a warrant to purchase its common stock to the U.S. Treasury as a participant in the TARP Capital Purchase Program. Under the Company s Plan of Reorganization, which was approved by the U.S. Bankruptcy Court on December 8, 2009, CIT issued contingent value rights (CVR s) to the U.S. Treasury in exchange for the $2.3 billion preferred stock and warrant previously issued, which were cancelled. The CVR s expired without any value on February 8, 2010.

Source of Strength

The FRB has historically expected BHCs such as CIT to serve as a source of strength to subsidiary banks and to commit capital and other financial resources. The Dodd-Frank Act codifies this policy as a statutory requirement and extends it to all insured depository institution subsidiaries, beginning on July 21, 2011, subject to a six month extension. This support may be required at times when CIT may not be able to provide such support without adversely affecting its ability to meet other obligations. If CIT is unable to provide such support, the FRB could instead require the divestiture of CIT Bank and impose operating restrictions pending the divestiture. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, if a loss is suffered or anticipated by the FDIC either as a result of the failure of a bank subsidiary or related to FDIC assistance provided to such subsidiary in danger of failure, the other banking subsidiaries may be assessed for the FDIC s loss, subject to certain exceptions.

Enforcement Powers of Federal Banking Agencies

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

Orderly Liquidation Authority

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

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

FDIC Deposit Insurance

Deposits of CIT Bank are insured by the FDIC and subject to premium assessments. Prior to enactment of the Dodd-Frank Act, FDIC deposit insurance premiums were assessed on deposits held in the U.S. and are risk based, resulting in higher premium assessments to banks that have lower capital ratios or higher risk profiles. These risk profiles take into account findings by the primary banking regulator through its examination and supervision of the bank. A negative evaluation by the FDIC could increase costs to a bank and result in an aggregate cost of deposit funds higher than that of competing banks. The Dodd-Frank Act requires the FDIC to amend the assessment base for federal deposit insurance to use average total assets less tangible equity to calculate deposit insurance premiums, which will likely increase deposit insurance premiums for CIT Bank.

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

In October 2010, the FDIC adopted a new Deposit Insurance Fund (DIF) restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. Under the new restoration plan, the FDIC decided to maintain the current schedule of assessment rates for all depository institutions. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

In February 2011, the FDIC issued a final rule that changes the deposit insurance assessment base from total domestic deposits to average total assets minus average tangible equity, as required by the Dodd-Frank Act, effective April 1, 2011. The FDIC also issued a final rule that revises the deposit insurance assessment system for large institutions and creates a two scorecard system, one for most large institutions, that have more than $10 billion in assets and another for highly complex institutions that have over $50 billion in assets and are fully owned by a parent with over $500 billion in assets. Each scorecard will have a performance score and a loss-severity score that will be combined to produce a total score, which will be translated into an initial assessment rate. In calculating these scores, the FDIC will continue to utilize CAMELS ratings, will introduce certain new financial measures to assess an institution s ability to withstand asset-related stress and funding-related stress, and will eliminate the use of risk categories and long-term debt issuer ratings. The FDIC will also have the ability to make discretionary adjustments to the total score, up or down, by a maximum of 15 points, based upon significant risk factors that are not adequately captured in the scorecard. The total score will translate to an initial base assessment rate on a non-linear, sharply-increasing scale.

For large institutions, including CIT Bank, the initial base assessment rate will range from 5 to 35 basis points on an annualized basis (basis points representing cents per $100 of assessable assets). After the effect of potential base rate adjustments, the total base assessment rate could range from 2.5 to 45 basis points on an annualized basis. The potential adjustments to an institution's initial base assessment rate include (i) a potential decrease of up to 5 basis points for certain long-term unsecured debt (unsecured debt adjustment) and, except for well-capitalized institutions with a CAMELS rating of 1 or 2, (ii) a potential increase of up to 10 basis points for brokered deposits in excess of 10% of domestic deposits (brokered deposit adjustment). As the DIF reserve ratio grows, the rate schedule will be adjusted downward. Additionally, the rule includes a new adjustment for depository institution debt whereby an institution will pay an additional premium equal to 50 basis points on every dollar (above 3% of an institution s Tier 1 capital) of long-term, unsecured debt held that was issued by another insured depository institution (excluding debt guaranteed under the Temporary Liquidity Guarantee Program).

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

Transactions with Affiliates

Transactions between CIT Bank and CIT Group Inc. and its subsidiaries and affiliates are regulated by the FRB and the FDIC pursuant to Sections 23A and 23B of the Federal Reserve Act. These regulations limit the types and amounts of transactions (including loans to and credit extensions from CIT Bank) that may take place and generally require those transactions to be on an arms-length basis and, in the case of extensions of credit, be secured by specified amounts and types of collateral. Effective July 2011, the Dodd-Frank Act significantly expands the coverage and scope of the limitations on affiliate transactions within a banking organization and changes the procedure for seeking exemptions from these restrictions. These regulations generally do not apply to transactions between CIT Bank and its subsidiaries.

In 2009, pursuant to an application filed with the Federal Reserve for an exemption from Section 23A, CIT transferred approximately $5.7 billion of student loan assets and related debt to CIT Bank. In connection with this transfer, CIT is required to repurchase any transferred assets that become past due, to reimburse CIT Bank for credit-related losses due to the transferred assets, or to pledge collateral to CIT Bank to protect it against credit-related losses. CIT does not have any other applications pending to request an exemption from Section 23A to transfer financing and leasing assets to CIT Bank. However, we anticipate requesting permission during 2011 to transfer certain origination and servicing platforms into CIT Bank.

The Dodd-Frank Act will require us to prepare and provide to regulators a resolution plan (a so-called living will) that must, among other things, ensure that our depository institution subsidiaries are adequately protected from risks arising from our other subsidiaries. The establishment and maintenance of this resolution plan may, as a practical matter, present additional constraints on transactions between our bank and non-bank subsidiaries.

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Safety and Soundness Standards

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

Insolvency of an Insured Depository Institution

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

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

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

Community Reinvestment Act and Fair Lending Laws

The Community Reinvestment Act of 1977 (CRA) requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire any company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least satisfactory in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering approval of a proposed transaction.

Incentive Compensation

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

The Dodd-Frank Act

The Dodd-Frank Act significantly restructures the financial regulatory regime in the United States, including through the creation of a new systemic risk oversight body, the FSOC. The FSOC will oversee and coordinate the efforts of the primary U.S. financial regulatory agencies (including the Federal Reserve, the SEC, the CFTC and the FDIC) in establishing regulations to address financial stability concerns. The Dodd-Frank Act directs the FSOC to make recommendations to the FRB as to supervisory requirements and prudential standards applicable to systemically important financial institutions, including capital, leverage, liquidity and risk-management requirements. The Dodd-Frank Act mandates that the requirements applicable to systemically important financial institutions be more stringent than those applicable to other financial companies.

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

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

Many provisions in the Dodd-Frank Act remain subject to regulatory rule-making and implementation, the effects of which are not yet known. In addition, further legislative and regulatory changes are still being considered, including the so called bank tax on institutions with greater than $50 billion in assets, such as CIT.

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

Other Regulation

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

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

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

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Non-accrual Assets include any asset which is maintained on a cash basis because of deterioration in the financial position of the borrower, any asset for which payment in full of interest or principal is not expected, or any asset upon which principal or interest has been in default for a period of 90 days or more unless it is both well secured and in the process of collection.

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

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

Regulatory Credit Classifications used by CIT are as follows: Pass/Unclassified (loans are not considered a greater than normal risk); Other Loans Especially Mentioned (loan is currently protected by sound credit worthiness of the obligor or collateral, but may contain some weakness creating credit risk); Substandard (loan is currently inadequately protected by the obligor or collateral and contains some weakness creating credit risk); Doubtful (collection of entire loan is highly improbable) and Loss (loan will not be collected resulting in a charge-off).

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 1A. Risk Factors

RISK FACTORS

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

Risks Related to Our Strategy and Business Plan

In 2010, we made significant changes in our senior management team and our Board of Directors, which may affect our long-term business strategy and our ability to develop and implement that strategy. There is no assurance that we will be able to develop, refine, and implement our business strategy successfully following the significant changes in our leadership.

John A. Thain was appointed Chairman and Chief Executive Officer effective February 8, 2010. Beginning in the second quarter of 2010, Mr. Thain hired a new Chief Administrative Officer and Head of Strategy, Chief Financial Officer, Controller, Chief Risk Officer, Chief Credit Officer, Chief Auditor, Executive Vice President - Banking, and other high level executives to replace executives who resigned or retired. In addition, the Board includes six directors who joined since December 2009, and are serving with Mr. Thain and five incumbent directors. The new management team and the reconstituted Board of Directors must either refine and implement the current strategy of transitioning to a banking model or identify and implement an alternative business strategy. As a result of the significant changes in the senior management team and the Board of Directors, there is no assurance that our business strategy will not change significantly or that we will be able to successfully implement that strategy.

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

We must currently address a number of strategic issues that affect our business, including capital and liquidity issues, business strategy issues, and operational issues. Among the capital and liquidity issues, we must address our approach to the capital markets, including the amount, availability, and cost of both secured and unsecured debt. If we are unable to gain access to the capital markets on a cost-effective, sustainable basis, we will have to rely more heavily on a bank-centric financing model, which involves significant challenges as described below. See Risks Related to Capital and Liquidity. Among the business strategy issues, we must address which business platforms to transfer to CIT Bank, which business platforms to retain at the holding company level, our funding model, the scope of international operations, and whether to sell any existing business platforms or acquire any new platforms. We may from time to time evaluate acquisitions or divestitures including acquisitions or divestitures which could be material. Among the operational issues, we must address the process and scope for upgrading policies, procedures, and systems. We believe we have a period of time in which to finalize and implement our strategic decisions, but there is no assurance that we will be able to do so effectively. In light of this uncertainty, our new management team will continue to refine our business plan and strategy and may decide to supplement or modify it in significant ways. If we are unable to fully implement our business plan and strategy, it may have a material adverse effect on our business, results of operations, and financial position.

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

Risks Related to Capital and Liquidity

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

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

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

Even if we successfully implement our strategy and business plan, inadequate liquidity could materially adversely affect our future business operations.

Even if we successfully implement our strategy and business plan, obtain additional financing from third party sources to continue operations, and successfully operate our business, our liquidity may be inadequate to expand our business or upgrade our operations and we may be required to sell assets or engage in other capital generating actions over and above our normal financing activities or cut back or eliminate other programs that are important to the future success of our business. In addition, as part of our business we enter into financial commitments and extend lines of credit, and our customers and counterparties might respond to any weakening of our liquidity position by requesting quicker payment, requiring additional collateral, and increasing draws on our outstanding commitments and lines of credit. If this were to happen, our need for cash would be intensified and it could have a material adverse effect on our business, financial condition, or results of operations.

Our indebtedness and other obligations continue to be significant. If the current economic environment does not improve, we may not be able to generate sufficient cash flow from operations to satisfy our obligations as they come due, and as a result we would need additional funding, which may be difficult to obtain.

Even if we successfully implement our strategy and business plan with respect to our capital structure and our businesses, we have a significant amount of indebtedness and other obligations that were issued at higher interest rates than current prevailing market rates, which are likely to have several important consequences. For example, the amount of indebtedness and other obligations could:

- require us to dedicate a significant portion of our cash flow from operations to the payment of principal and interest on our indebtedness and other obligations, which will reduce funds available for other necessary purposes;
- make it more difficult or impossible for us to satisfy our obligations;
- limit our ability to withstand competitive pressures;
- limit our ability to fund working capital, capital expenditures, and other general corporate purposes;
- make us more vulnerable to any continuing downturn in general economic conditions and adverse developments in our industry and business; and
- reduce our flexibility in responding to changing business and economic conditions.

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

Our debt agreements contain restrictions that may limit flexibility in operating our business.

The Indentures for the Second Lien Notes and, under certain circumstances, the agreement governing our Amended Credit Facility (each as defined in Description of Certain Other Indebtedness) contain various covenants that limit our ability to engage in specified transactions. These covenants limit our and our subsidiaries ability to, among other things:

- incur additional indebtedness;
- pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments;
- make certain investments;
- sell, transfer or otherwise convey certain assets;
- create liens;
- designate our subsidiaries as unrestricted subsidiaries;
- consolidate, merge, sell, or otherwise dispose of all or substantially all of our assets;
- enter into a new or different line of business; or
- engage in certain transactions with our affiliates.

A breach of any of these covenants could result in a default under the Second Lien Notes or our Amended Credit Facility and could result in cross defaults against our other outstanding debt and/or credit facilities.

Our business may be adversely affected if we do not successfully expand our deposit-taking capabilities at CIT Bank, which is currently restricted from increasing its level of broker deposits pursuant to the Cease and Desist Orders.

The Company currently has limited access to the unsecured debt capital markets and may be unable to broaden such access in the foreseeable future, which will make the Company reliant upon bank deposits and secured financing structures to fund its business in CIT Bank. CIT Bank does not have a retail branch network and obtains its deposits through brokers. The FDIC and the UDFI, pursuant to Cease and Desist Orders, restricted the total amount of broker deposits that CIT Bank may hold, without the prior written consent of both the FDIC and UDFI. In order to diversify its deposit-taking capabilities beyond broker deposits, the Company will need to either establish de novo or acquire a retail branch network or internet banking operations and/or a cash management operation for existing customers. Any such alternatives will require significant time and effort to implement and will be subject to regulatory approval, which may not be obtained, particularly if the financial condition of the Company does not improve. In addition, we are likely to face significant competition for deposits from stronger bank holding companies who are similarly seeking larger and more stable pools of funding. If CIT Bank is unable to expand its deposit-taking capability, it could have a material adverse effect on our business, results of operations, and financial position.

Our liquidity and/or ability to issue secured or unsecured debt in the capital markets likely will be limited by our capital structure and level of encumbered assets, the performance of our business, market conditions, credit ratings, or regulatory or contractual restrictions.

Our traditional business model depended upon access to the capital markets for unsecured debt (commercial paper, medium-term notes, and corporate bonds) and secured debt (securitizations and conduit facilities) to provide liquidity and efficient funding for asset growth. These markets exhibited heightened volatility and dramatically reduced liquidity beginning in 2007, and generally have offered limited availability to us at economical terms since the fourth quarter of 2007, and may remain so for the foreseeable future. Downgrades in our short- and long-term credit ratings in March 2008, April 2009 and June 2009 to below investment grade and ultimately the consummation of our Plan of Reorganization had the practical effect of leaving us without access to the commercial paper market and other unsecured term debt markets.

As a result of these developments, the Company reduced its funding sources to brokered deposits and secured borrowings, where available. This resulted in significant additional costs due to higher interest rates and restrictions on the types of collateral and advance rates as compared to unsecured funding. Under the Company s Amended Credit Facility and Second Lien Notes, it granted liens on almost all remaining unencumbered assets. The Company s ability to access the secured debt markets in the future will be affected by restrictions in the Amended Credit Facility and Second Lien Notes, and by the existing level of encumbered assets. The Company s ability to access the unsecured debt markets or other capital generating actions is likely to be adversely affected by the Company s outstanding secured financings, which in the aggregate encumber substantially all of the Company s assets.

We believe that conducting a greater proportion of our business activities within CIT Bank will facilitate greater funding stability. As a regulated bank, CIT Bank has access to certain funding sources, such as insured deposits, that are not available to non-banking institutions. However, CIT Bank generally cannot fund any of CIT s businesses conducted outside the Bank and we will need to transfer a substantial portion of our business platforms to CIT Bank in order for CIT Bank to originate and fund such business activities. This will require the approval of our banking regulators, but there is no assurance that we will receive such approvals. Moreover, once we transition our businesses to CIT Bank, they will be subject to greater regulatory oversight and there is no assurance that we will be able to conduct those businesses, or achieve growth and profitability in them, as we might wish. Finally, there is no assurance that CIT Bank will become a reliable funding source as to either the amount of borrowings we might need or the cost of funding. This will depend in significant part on the ability of CIT Bank to attract deposits, which currently is limited by its lack of a branch network and by the Cease and Desist Orders restricting the amount of deposits it may seek from brokers, and on whether CIT Bank will be accepted by depositors and lenders as a reliable borrower.

Even if CIT Bank is successful in originating a significant amount of new business, we will continue to conduct substantial businesses outside CIT Bank and will need to obtain funding for those businesses in the capital markets and through third-party bank borrowings. Access to the unsecured debt markets may be dependent upon our ratings from credit rating agencies, which currently are not investment grade. Although we currently have reasonable access to the secured debt markets, the restricted cash related to securitization transactions is available solely for specific permitted uses under the securitization transactions and cannot be transferred to or used for the benefit of any other affiliate of ours.

There can be no assurance that we will be able to regain access to the unsecured term debt markets, or obtain sufficient funding in the secured debt markets at attractive terms and conditions, and if we are unable to do so, it would adversely affect our business, operating results and financial condition unless the Company is able to obtain alternative sources of liquidity.

Risks Related to Regulatory Obligations and Limitations

We are currently subject to the Written Agreement, which may adversely affect our business.

Under the terms of the Written Agreement, the Company must provide the FRBNY with (i) a corporate governance plan, focusing on strengthening internal audit, risk management, and other control functions, (ii) a credit risk management plan, (iii) a written program to review and revise, as appropriate, its program for determining, documenting and recording the allowance for loan and lease losses, (iv) a capital plan for the Company and CIT Bank, (v) a liquidity plan, including meeting short term funding needs and longer term funding, without relying on government programs or Section 23A waivers, and (vi) a business plan, and we continue to update various of these plans on a periodic basis. The Written Agreement also prohibits the Company, without the prior approval of the FRBNY, from paying dividends, paying interest on subordinated debt, incurring or guaranteeing debt outside of the ordinary course of business, prepaying debt, or purchasing or redeeming the Company s stock. Under the Written Agreement, the Company must comply with certain procedures and restrictions on appointing or changing the responsibilities of any senior officer or director, restricting the provision of indemnification to officers and directors, and restricting the payment of severance to employees. Providing additional resources for internal audit, risk management, and other control functions, and implementing other measures to comply with the Written Agreement will increase our expenses for the foreseeable future. If we do not comply with the terms of the Written Agreement, it could result in additional regulatory action and it could have a material adverse affect on our business.

CIT Bank is currently subject to the Cease and Desist Orders, which may adversely affect our business.

CIT Bank relies principally on brokered deposits to fund its ongoing business, which generally require payment of higher yields than non-brokered deposits and may be subject to inherent limits on the aggregate amount available, depending on market conditions. The FDIC and the UDFI have issued, and CIT Bank has consented to (without admitting or denying the allegations), the Cease and Desist Orders, which, among other things, limit the amount of brokered deposits CIT Bank can maintain and restrict CIT Bank s ability to enter into transactions with affiliates and to make dividend payments. If we are unable to increase our level of deposits through other sources, or to otherwise comply with the requirements of the Cease and Desist Orders, it could have a material adverse effect on our business. Under the Cease and Desist Orders, CIT Bank submitted a contingency plan providing for and ensuring the continuous and satisfactory servicing of all loans held by CIT Bank, which was accepted as satisfactory by the FDIC. If CIT Bank is required to separate all of its operations from the Company, it will eliminate the cost advantages of the scale of operations of the Company and increase the expenses of CIT Bank for the foreseeable future. CIT Bank also must obtain prior regulatory approval in order to increase the level of brokered deposits held by CIT Bank above $5,527 million (the balance at December 31, 2010 is $4,545 million). In addition, if CIT Bank is deemed not to be well capitalized, it may not raise brokered deposits without prior regulatory approval. CIT Bank must notify the FDIC in writing at least 30 days prior to any management changes, and must obtain prior approval before entering into any golden parachute arrangements or any agreement to make any excess nondiscriminatory severance plan payments. In addition, the FDIC is requiring CIT Bank to submit a liquidity plan for funding any maturing debt and an outline of plans or scenarios for the future operation of CIT Bank if we do not maintain our regulatory capital levels.

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

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

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

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

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

Most of the activities in which we currently engage are permissible activities for a bank holding company. However, since we are not a financial holding company, certain of our existing businesses are not permissible under regulations applicable to a bank holding company, including certain real estate investment and equity investment activities. When the Federal Reserve approved our application to become a bank holding company, we were required to conform those activities to the requirements imposed on a bank holding company or divest them by December 22, 2010. We conformed or divested a majority of our impermissible real estate and equity investments prior to December 22, 2010, and the Federal Reserve extended the period to conform or divest the impermissible activities for an additional year to December 22, 2011. However, these impermissible investments continue to require management attention and are still subject to periodic reporting and review by the Federal Reserve.

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

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

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

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

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

Our business may be adversely affected if we do not successfully implement our plan to transform our compliance, risk management, finance, treasury, operations, and other areas of our business to meet the standards of a bank holding company.

When we became a bank holding company and converted our Utah industrial bank to a Utah state bank, we analyzed our business to identify areas that require improved policies and procedures to meet the regulatory requirements and standards for banks and bank holding companies, including but not limited to compliance, risk management, finance, treasury, and operations. We developed and we are implementing project plans to improve policies, procedures, and systems in the areas identified. Our new business model is based on the assumption that we will be able to make this transition in a reasonable amount of time. If we have not identified all of the required improvements, particularly in our control functions, or if we are unsuccessful in implementing the policies, procedures, and systems that have been identified, or if we do not implement the policies, procedures, and systems quickly enough, we may not be able to operate our business as efficiently as we need to. In addition, we could be subject to a variety of formal and informal enforcement actions that could result in the imposition of certain restrictions on our business, or preclude us from making acquisitions, and such actions could impair our ability to execute our business plan and have a material adverse effect on our business, results of operations, or financial position.

Risks Related to the Operation of Our Businesses

We may be adversely affected if we do not properly remediate the material weakness in internal control over financial reporting related to the Company s application of Fresh Start Accounting (FSA) identified by management, which resulted in a material misstatement of interest income and other income and resulted in the restatement of the Company s consolidated financial statements for the first three quarterly periods in the year ended December 31, 2010.

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

Management of CIT, including our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of the Company s internal control over financial reporting as of December 31, 2010 and identified a material weakness related to the Company s application of FSA. Specifically, the Company did not have effective controls over the processes to ensure proper accretion of discounts for loan prepayments, modifications, and charge-offs. This material weakness resulted in a material misstatement of interest income and other income and the restatement of the Company s consolidated financial statements for the first three quarterly periods in the year ended December 31, 2010. In addition, this material weakness could result in a misstatement of the aforementioned account balances and related disclosures that would result in a material misstatement to the amount or interim consolidated financial statements that would not be prevented or detected.

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

We may be additionally negatively affected by credit risk exposures and our reserves for credit losses, including the related non-accretable fair value discount component of the fresh start accounting adjustments, may prove inadequate.

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

Our consolidated reserve for credit losses, and the related non-accretable fair value discount component of the fresh start accounting adjustments, may prove inadequate and we cannot assure that it will be adequate over time to cover credit losses in our portfolio because of adverse changes in the economy or events adversely affecting specific customers, industries or markets. The current economic environment is dynamic and the credit-worthiness of our customers and the value of collateral underlying our receivables declined significantly in prior years, particularly in 2008 and 2009, and may further decline over the near future. Our reserves may not keep pace with changes in the credit-worthiness of our customers or in collateral values. If the credit quality of our customer base declines, if the risk profile of a market, industry, or group of customers changes significantly, or if the markets for accounts receivable, equipment, real estate, or other collateral deteriorates significantly, any or all of which would adversely affect the adequacy of our reserves for credit losses, it could have a material adverse effect on our business, results of operations, and financial position.

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

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

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

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

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

Prices for assets were depressed due to market conditions starting in the second half of 2007 and in some instances continue to be depressed today. In addition, potential purchasers may be unwilling to pay an amount equal to the face value of a loan or lease if the purchaser is concerned about the quality of the Company s credit underwriting. Further, some potential purchasers will intentionally submit bids with purchase prices below the face value of a loan or lease if the purchaser suspects that the seller is under pressure to sell and cannot afford to negotiate the price. There is no assurance that we will receive adequate consideration for any asset or business dispositions. Certain dispositions in 2008 and 2009 resulted in the Company recognizing significant losses. As a result, our future disposition of businesses or asset portfolios could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

We are restricted from paying dividends on our common stock.

Under the terms of the Written Agreement, we are restricted from declaring dividends on our common stock without prior written approval of the FRBNY. In addition, under the terms of the Amended Credit Facility and the Second Lien Notes, we are prohibited from declaring dividends on our common stock until such indebtedness is repaid. We have suspended the payment of dividends on our common stock. We cannot determine when, if ever, we will be able to pay dividends on our common stock in the future.

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

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

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

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

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

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

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

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

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

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

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

In 2005, we began pursuing strategies to leverage our expanded asset generation capability and diversify our revenue base in order to generate higher levels of loan syndication and participation income, advisory fees, servicing fees, and other types of fee income to increase other income as a percentage of total revenue. In addition, we also generate significant fee income from our factoring business. These revenue streams are dependent on market conditions and the confidence of clients, customers, and syndication partners in our ability to perform our obligations, and, therefore, have been more volatile than interest payments on loans and rentals on leased equipment. Current market conditions, including lower liquidity levels in the syndication market and the time required to rebuild our transaction volume, have significantly reduced our syndication activity, and have resulted in significantly lower fee income. In addition, if our clients, customers, or syndication partners become concerned about our ability to meet our obligations on a transaction, it may become more difficult for us to originate new transactions, to syndicate transactions that we originate, or to participate in syndicated transactions originated by others, which could further negatively impact our fee income and have a material adverse effect on our business. If we are unable to sell or syndicate a transaction after it is originated, we will end up holding a larger portion of the transaction and assuming greater underwriting risk than we originally intended, which could increase our capital and liquidity requirements to support our business or expose us to the risk of valuation allowances for assets held for sale. Continued disruption to the capital markets or the failure of our initiatives to produce increased asset and revenue levels could adversely affect our financial position and results of operations.

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

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

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

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

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

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

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

Historically, we generally employed a matched funding approach to managing our interest rate risk, including matching the repricing characteristics of our assets with our liabilities. In many instances, we implemented our matched funding strategy through the use of interest rate swaps and other derivatives. Most of our counterparties relationships were terminated during our reorganization, and we are in the process of reestablishing counterparty relationships to facilitate hedging where economically appropriate. In addition, the restructuring resulted in the conversion of our debt to U.S. dollar, fixed rate liabilities. The restructuring and the derivative terminations left us in an asset sensitive position as our assets will reprice faster than our liabilities. Although interest rates are currently lower than usual, as interest rates rise and fall over time, any significant decrease in market interest rates may result in a decrease in net interest margins to the extent that we are not match funded. Likewise, our non-U.S. dollar denominated debt was converted to U.S. dollars resulting in foreign currency transactional and translational exposures. Our transactional exposures may result in income statement losses should related foreign currencies depreciate relative to the U.S. dollar and our equity account may be similarly impacted as a result of foreign currency movements. Beginning in the second half of 2007, credit spreads for almost all financial institutions, and particularly our credit spreads, widened dramatically and made it highly uneconomical for us to borrow in the unsecured debt markets to fund loans to our customers. In addition, the widening of our credit spreads relative to the credit spreads of many of our competitors has placed us at a competitive disadvantage and made it more difficult to maintain our interest margins. If we are unable to obtain funding, either in the capital markets or through bank deposits, in sufficient amounts and at an economical rate that is competitive with other banks and lenders, we will be operating at a competitive disadvantage and it may have a material adverse effect on our business, financial condition, and results of operations.

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

There are no unresolved SEC staff comments.

Item 2. Properties

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

Item 3. Legal Proceedings

CIT is currently involved, and from time to time in the future may be involved, in a number of judicial, regulatory, and arbitration proceedings relating to matters that arise in connection with the conduct of its business (collectively, Litigation), certain of which Litigation matters are described below. In view of the inherent difficulty of predicting the outcome of Litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages, CIT cannot state with confidence what the eventual outcome of the pending Litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter may be. In accordance with applicable accounting guidance, CIT establishes reserves for Litigation when those matters present loss contingencies as to which it is both probable that a loss will occur and the amount of such loss can be reasonably estimated. Based on currently available information, CIT believes that the results of Litigation that is currently pending, taken together, will not have a material adverse effect on the Company s financial condition, but may be material to the Company s operating results or cash flows for any particular period, depending in part on its operating results for that period. The actual results of resolving such matters may be substantially higher than the amounts reserved. For more information about pending legal proceedings, including an estimate of certain reasonably possible losses in excess of reserved amounts, see *Note 19 Contingencies* of *Item 8. Financial Statements and Supplementary Data.*

SECURITIES CLASS ACTION

In July and August 2008, two putative class action lawsuits were filed in the United States District Court for the Southern District of New York (the New York District Court) on behalf of CIT s pre-reorganization stockholders against CIT, its former CEO and its former CFO. In August 2008, a putative class action lawsuit was filed in the New York District Court by a holder of CIT-PrZ equity units against CIT, its former CEO, former CFO, former Controller and certain members of its current and former Board of Directors. In May 2009, the Court consolidated these three shareholder actions into a single action and appointed Pensioenfonds Horeca & Catering as Lead Plaintiff to represent the proposed class, which consists of all acquirers of CIT common stock and PrZ preferred stock from December 12, 2006 through March 5, 2008, who allegedly were damaged, including acquirers of CIT-PrZ preferred stock pursuant to the October 17, 2007 offering of such preferred stock.

In July 2009, the Lead Plaintiff filed a consolidated amended complaint alleging violations of the Securities Exchange Act of 1934 (1934 Act) and the Securities Act of 1933 (1933 Act). Specifically, it is alleged that the Company, its former CEO, former CFO, former Controller, and a former Vice Chairman violated Section 10(b) of the 1934 Act by making false and misleading statements and omissions regarding CIT s subprime home lending and student lending businesses. The allegations relating to the Company s home lending business are based on the assertion that the Company failed to fully disclose the risks in the Company s portfolio of subprime mortgage loans. The allegations relating to the Company s student lending business are based upon the assertion that the Company failed to account in its financial statements or, in the case of the preferred stockholders, its registration statement and prospectus, for private loans to students of a helicopter pilot training school, which it is alleged were highly unlikely to be repaid and should have been written off. The Lead Plaintiff also alleges that the Company, its former CEO, former CFO and former Controller and those current and former Directors of the Company who signed the registration statement in connection with the October 2007 CIT-PrZ preferred offering violated the 1933 Act by making false and misleading statements concerning the Company s student lending business as described above.

Pursuant to a Notice of Dismissal filed on November 24, 2009, CIT Group Inc. was dismissed as a defendant from the consolidated securities action. On June 10, 2010, the Court denied the remaining defendants motion to dismiss the consolidated amended complaint. The action continues as to the remaining defendants and CIT s obligation to defend and indemnify such defendants continues. The case is in the discovery stage. Plaintiffs seek, among other relief, unspecified damages and interest.

PILOT TRAINING SCHOOL BANKRUPTCY

In February 2008, a helicopter pilot training school (the Pilot School) filed for bankruptcy and ceased operating. Student Loan Xpress, Inc. (SLX), a subsidiary of CIT engaged in the student lending business, had marketed and acquired private (non-government guaranteed) loans made to approximately 2,600 students of the Pilot School (the Pilot School Student Loans), totaling approximately $196.8 million in principal and accrued interest as of December 31, 2007. SLX ceased marketing and acquiring new Pilot School Student Loans in September 2007. SLX voluntarily placed those students who were attending school at the time of the Pilot School s closure in grace such that no payments under their loans have been required to be made and no interest on their loans has been accruing.

Multiple lawsuits (the Pilot School Litigation) were filed against SLX and other lenders based upon a variety of allegations, including violations of state consumer protection laws. The three principal lawsuits are:

(1) a collective action commenced by 37 students and some of their co-signers in Georgia (the "Elrod Action");

(2) an action in the United States District Court for the Middle District of Florida involving a nationwide class of approximately 2,200 students who were in attendance at the Pilot School when it closed (the "Holman Action"); and

(3) a collective action commenced in Texas State Court in February 2010, by approximately 80 students who opted out of the nationwide class settlement in the Holman Action (the "Hughes Action").

In December 2008, SLX completed a confidential settlement of the Elrod Action.

In January 2011, the settlement agreement in the Holman Action was approved by the court. The settlement agreement provides for (i) discounts to students based on the number of certifications earned by such students in connection with their attendance at the Pilot School (which aggregate discount is projected to be approximately $130 million in debt and interest forgiveness); (ii) reduction in interest rates for certain students for up to 3%; (iii) payment of attorneys fees to class counsel; and (iv) service awards to the class representatives.

The plaintiffs in the Hughes Action allege violations of Texas Deceptive Trade Practices Act and aiding and abetting fraud. They seek to have the loans declared unenforceable and an award of actual damages, treble damages, punitive damages, and attorneys fees and costs. The case is currently in the discovery stage.

The Company provided an allowance for credit losses in its pre-emergence financial statements for the estimate of loan forgiveness and a reserve for third party legal fees with respect to the Pilot School Litigation. Following emergence from bankruptcy, the allowance for credit losses was eliminated and the loans were recorded at estimated fair value in connection with the Company s implementation of FSA. As a result, the Company expects that it will have no additional loss with respect to the settlement in the Holman Action. In addition, the Company has fully accounted for the settlement in the Elrod Action. If the Hughes Action settles within a range comparable to the other two lawsuits, the Company would not incur a material additional loss.

VENDOR FINANCE BILLING AND INVOICING INVESTIGATION

The United States Attorney for the Central District of California and several state authorities conducted parallel investigations under the Federal False Claims Act and its state law equivalents regarding billing practices involving a portfolio of equipment leases that CIT purchased from a third-party vendor. The investigations have been resolved by settlement pursuant to which the Company paid an aggregate sum of approximately $6.1 million. The settlement did not exceed previously established reserves and, thus, has not had a material impact on the Company s financial condition.

SNAP-ON ARBITRATION

On January 8, 2010, Snap-on Incorporated (Snap-on) and Snap-on Credit LLC filed a Demand for Arbitration alleging that CIT retained certain monies owed to Snap-on in connection with a joint venture with CIT which was terminated on July 16, 2009. Snap-on alleged that CIT underpaid Snap-on during the course of the joint venture, primarily related to the purchase by CIT of receivables originated and serviced by the joint venture, and is seeking damages of up to $100 million. On January 29, 2010, CIT filed its Answering Statement and Counterclaim, denying Snap-on s allegations on the grounds that the claims are untimely, improperly initiated, or otherwise barred. CIT also claims that Snap-on wrongfully withheld payment of not less than $108 million due to CIT from the receivables serviced by

Snap-on on behalf of CIT. CIT is seeking damages of up to $160 million.

LE NATURE S INC.

CIT was the lead lessor under a syndicated lease of equipment (the Lease) to Le Nature s Inc., a beverage bottler, for a newly-constructed bottling facility in Phoenix, Arizona. In 2005, CIT and co-lessors funded $144.8 million of which approximately $45 million was funded by CIT. In 2006, CIT sold $5 million of its interest in the Lease.

In November 2006, amid allegations that Le Nature s had perpetrated a fraudulent scheme, creditors filed an involuntary bankruptcy against Le Nature s in the United States Bankruptcy Court for the Western District of Pennsylvania. Upon the commencement of the bankruptcy, Le Nature s immediately ceased operations and a Chapter 11 trustee was appointed.

Subsequent to the commencement of the Le Nature s bankruptcy, certain co-lessors and certain parties that participated in CIT s and other co-lessors s interests in the Lease filed lawsuits against CIT and others to recover the balance of their respective investments, asserting various claims including fraud, civil conspiracy, and civil Racketeer Influenced and Corrupt Organizations Act (RICO). Plaintiffs seek damages in excess of $84 million as well as claims for treble damages under RICO. All but one of these actions have been consolidated for discovery purposes in the United States District Court for the Western District of Pennsylvania.

In October 2008, the Liquidating Trustee of Le Nature s commenced an action against, among others, Le Nature s lenders and lessors, including CIT, asserting a variety of claims on behalf of the liquidation trust.

In October 2008, CIT commenced a lawsuit in the Superior Court for the State of Arizona, Maricopa County, against the manufacturer of the equipment that was the subject of the Lease, certain of its principals, and the former CEO of Le Nature s, alleging, among other things, fraud, conspiracy, civil RICO and negligent misrepresentation, seeking compensatory and punitive damages.

In February 2009, CIT commenced a lawsuit in the Superior Court for the State of Arizona, Maricopa County, against the former independent auditing firm for Le Nature s, asserting professional negligence.

In May 2009, one of Le Nature s other equipment lessors commenced an action against CIT, as well as the equipment manufacturer, and certain principals of the equipment manufacturer, in the Circuit Court of Wisconsin, Milwaukee County, asserting claims for fraud and misrepresentation.

PART TWO

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

On November 1, 2009, CIT Group Inc. and CIT Group Funding Company of Delaware LLC (Delaware Funding and together with the Company, the Debtors) filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Southern District of New York (the Court). The Debtors emerged from Chapter 11 of the Bankruptcy Code on December 10, 2009 (the Effective Date or Emergence Date). On the Effective Date, all of the outstanding common stock (Predecessor Common Stock) and all other outstanding equity securities of CIT, including all options and warrants, were cancelled pursuant to the terms of the plan of reorganization and CIT issued 200 million shares of new common stock (Successor Common Stock) to unsecured holders of debt subject to the bankruptcy proceedings.

Market Information Successor Common Stock trades on the New York Stock Exchange (NYSE) under the symbol CIT. The stock began trading on the NYSE on December 10, 2009, in conjunction with our emergence from Chapter 11 proceedings.

From November 3, 2009 through the Effective Date, shares of Predecessor Common Stock of CIT traded on the OTC Bulletin Board under the symbol CITGQ . Before November 1, 2009, Predecessor Common Stock traded on the NYSE under the symbol CIT .

The following tables set forth the high and low reported closing prices for Successor and Predecessor Common Stock.

Successor Common Stock

	2009		2010	
	High	**Low**	**High**	**Low**
First Quarter	NA	NA	$ 39.23	$ 28.37
Second Quarter	NA	NA	$ 41.75	$ 33.81
Third Quarter	NA	NA	$ 40.82	$ 33.26
Fourth Quarter (for 2009, December 10-31)	$ 29.64	$26.04	$ 47.10	$ 39.46

NA Not applicable

Predecessor CIT Common Stock

	2009	
	High	**Low**
First Quarter	$ 5.06	$ 1.74
Second Quarter	$ 4.28	$ 2.12
Third Quarter	$ 2.20	$ 0.41
Fourth Quarter (through December 9)	$ 1.21	$ 0.05

Holders of Common Stock As of February 18, 2011, there were 61,855 beneficial owners of Successor Common Stock.

Dividends We have not declared nor paid any common stock dividends on the shares of Successor Common Stock. The terms of our Amended Credit Facility and Expansion Credit Facility restrict the payment of dividends on shares of common stock, and we do not anticipate paying any such dividends at this time. During the 2009 first quarter, a $0.02 dividend per share of Predecessor Common Stock was paid. The Board suspended further dividend payments during the 2009 second quarter.

Securities Authorized for Issuance Under Equity Compensation Plans All equity compensation plans in effect during 2009 prior to our Chapter 11 proceedings were approved by our shareholders. Equity awards with respect to these plans were cancelled upon emergence from bankruptcy. Our equity compensation plans in effect following the Effective Date were approved by the Court and do not require shareholder approval. Equity awards associated with these plans are presented in the following table.

	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A))
	(A)	**(B)**	**(C)**
Equity Compensation Plan Approved by the Court	68,100	$30.76	9,210,432

We had no other equity compensation plans that were not approved by the Court or by shareholders. For further information on our equity compensation plans, including the weighted average exercise price, see *Item 8. Financial Statements and Supplementary Data, Note 17 Retirement, Other Postretirement and Other Benefit Plans*.

Issuer Purchases of Equity Securities No purchases of equity securities were made during 2010 and there are no repurchase plans or programs under which shares may be purchased.

Unregistered Sales of Equity Securities There were no sales of common stock during 2010, however, there were issuances of common stock under equity compensation plans.

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

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

Shareholder Return The following graph shows the quarterly cumulative total shareholder return for Successor Common Stock during the period from December 10, 2009 to December 31, 2010. Five year historical data is not presented since we emerged from bankruptcy on December 10, 2009 and the stock performance of Successor Common Stock is not comparable to the performance of Predecessor Common Stock. The chart also shows the cumulative returns of the S&P 500 Index and S&P Banks Index for the same period. The comparison assumes $100 was invested on December 10, 2009 (the date our new common stock began trading on the NYSE). Each of the indices shown assumes that all dividends paid were reinvested.

CIT STOCK PERFORMANCE DATA

	12/10/09	12/31/09	3/31/10	6/30/10	9/30/10	12/31/10
CIT	100	102.26	144.30	125.41	151.19	174.44
S&P 500	100	101.60	107.08	94.84	105.54	116.90
S&P Banks	100	100.54	119.56	103.15	101.33	120.49

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

Item 6. Selected Financial Data

The following table sets forth selected consolidated financial information regarding our results of operations, balance sheets and certain ratios. As detailed in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations*, upon emergence from bankruptcy on December 10, 2009, CIT adopted fresh start accounting effective December 31, 2009, which resulted in data subsequent to adoption not being comparable to data in periods prior to emergence. Therefore, balance sheet information for CIT at December 31, 2010 and 2009 and statement of operations information for the year ended December 31, 2010 are presented separately. Data for the year ended December 2009 and at or for the years ended December 2008, 2007 and 2006 represent amounts for Predecessor CIT. Predecessor CIT presents the operations of the home lending business as a discontinued operation. (See *Item 8. Financial Statements and Supplementary Data - Note 1 (Discontinued Operation)* for data pertaining to discontinued operation.) The data presented below is explained further in, and should be read in conjunction with, *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* and *Item 7A. Quantitative and Qualitative Disclosures about Market Risk* and *Item 8. Financial Statements and Supplementary Data*.

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

	CIT		Predecessor CIT			
	At or for the Year Ended December 31		At or for the Years Ended December 31			
	2010	2009	2009	2008	2007	2006
Select Statement of Operations Data						
Net interest revenue	$ 643.9	$	$ (301.1)	$ 499.1	$ 821.1	$ 789.0
Provision for credit losses	(820.3)		(2,660.8)	(1,049.2)	(241.8)	(159.8)
Total other income	2,641.9		1,626.5	2,460.3	3,567.8	2,898.1
Total other expenses	(1,697.4)		(2,767.7)	(2,986.5)	(3,051.1)	(2,319.2)
Reorganization items and fresh start adjustments			4,154.3			
Net income (loss) available (attributable) to common stockholders	516.8		(3.8)	(2,864.2)	(111.0)	1,015.8
Per Common Share Data						
Income (loss) per share diluted	$ 2.58	$	$ (0.01)	$ (2.69)	$ 3.93	$ 4.41
Book value per common share	$ 44.48	$ 41.99		$ 13.22	$ 34.02	$ 38.31
Tangible book value per common share	$ 42.50	$ 39.48	$	$ 11.78	$ 28.42	$ 31.22
Performance Ratios						
Return on average common stockholders' equity	6.0%		N/M	(11.0)%	11.6%	13.6%

Net finance revenue as a percentage of average earning assets	3.93%		0.76%	2.05%	2.71%	3.08%
Return on average total assets	0.93%		N/M	(0.85)%	1.03%	1.50%
Total ending equity to total ending assets	17.5%	14.0%		10.1%	7.7%	10.0%
Balance Sheet Data						
Loans including receivables pledged	$ 24,500.5	$ 34,837.6		$ 53,126.6	$ 53,760.9	$ 45,203.6
Allowance for loan losses	(416.2)			(1,096.2)	(574.3)	(577.1)
Operating lease equipment, net	11,136.7	10,911.9		12,706.4	12,610.5	11,017.9
Goodwill and intangible assets, net	396.6	502.5		698.6	1,152.5	1,008.4
Total cash and interest bearing deposits	11,204.0	9,825.9		8,365.8	6,752.5	4,392.6
Total assets	50,958.2	60,027.4		80,448.9	90,248.0	77,485.7
Total debt and deposits	38,516.0	48,440.7		66,377.5	69,018.3	60,704.8
Total common stockholders equity	8,916.0	8,400.0		5,138.0	6,460.6	7,251.1
Total stockholders equity	8,913.7	8,401.4		8,124.3	6,960.6	7,751.1
Credit Quality						
Non-accrual loans as a percentage of finance receivables	6.60%	4.52%	6.86%	2.66%	0.89%	0.69%
Net credit losses as a percentage of average finance receivables	1.53%		4.04%	0.90%	0.35%	0.33%
Reserve for credit losses as a percentage of finance receivables	1.70%		4.34%	2.06%	1.07%	1.28%
Regulatory Capital Ratios						
Tier 1 Capital	19.1%	14.3%		9.4%	N/A	N/A
Total Risk-based Capital	19.9%	14.3%		13.1%	N/A	N/A

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The following table presents CIT s individual components of net interest revenue and operating lease margins. The data for 2010 is impacted by FSA and the Company s borrowing rates. There is no impact from accretion or amortization of fresh start accounting adjustments in 2009 and 2008.

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

	CIT			Predecessor CIT			Predecessor CIT		
	December 31, 2010			December 31, 2009			December 31, 2008		
	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)
Deposits with banks	$ 10,136.1	$ 19.6	0.19%	$ 6,500.9	$ 38.6	0.59%	$ 6,138.8	$ 176.9	2.88%
Investments[(2)]	345.9	9.3	2.69%	449.1	4.3	0.96%	435.5	7.3	1.68%
Loans and leases (including held for sale)[(3)(4)]									
U.S.	24,560.1	2,737.3	11.57%	39,478.9	1,614.4	4.29%	44,384.5	2,562.0	6.26%
Non-U.S.	6,280.0	954.4	15.22%	9,052.6	701.0	7.77%	10,817.2	892.0	8.28%
Total loans and leases[(3)]	30,840.1	3,691.7	12.33%	48,531.5	2,315.4	4.97%	55,201.7	3,454.0	6.68%
Total interest earning assets / interest income[(3)(4)]	41,322.1	3,720.6	9.21%	55,481.5	2,358.3	4.40%	61,776.0	3,638.2	6.25%
Operating lease equipment, net[(5)]									
U.S. Operating lease equipment, net[(5)]	4,918.3	371.9	7.56%	6,272.1	280.6	4.47%	6,211.4	358.5	5.77%
Non-U.S. operating lease equipment, net[(5)]	6,062.7	588.7	9.71%	6,876.9	477.1	6.94%	6,376.8	461.6	7.24%
Total operating lease equipment, net[(5)]	10,981.0	960.6	8.75%	13,149.0	757.7	5.76%	12,588.2	820.1	6.51%
Total earning assets [(3)]	52,303.1	$ 4,681.2	9.11%	68,630.5	$ 3,116.0	4.67%	74,364.2	$ 4,458.3	6.29%
Non interest earning assets									
Cash due from banks	290.7			538.0			1,409.1		
Allowance for loan losses	(294.8)			(1,367.8)			(754.4)		
All other non-interest earning assets	3,432.8			5,729.5			10,934.3		
Total Average Assets	**$ 55,731.8**			**$ 73,530.2**			**$ 85,953.2**		

Average Liabilities									
Borrowings									
Deposits	$ 4,780.1	$ 87.4	1.83%	$ 4,238.6	$ 150.5	3.55%	$ 2,292.0	$ 101.7	4.44%
Short-term borrowings							778.4	32.1	4.12%
Long-term borrowings	38,807.4	2,989.3	7.70%	57,761.0	2,508.9	4.34%	66,112.9	3,005.3	4.55%
Total interest-bearing liabilities	43,587.5	$ 3,076.7	7.06%	61,999.6	$ 2,659.4	4.29%	69,183.3	$ 3,139.1	4.54%
U.S. credit balances of factoring clients	899.4			1,875.0			3,488.3		
Non-U.S. credit balances of factoring clients	11.1			29.9			37.9		
Non-interest bearing liabilities, noncontrolling interests and shareholders' equity									
Other liabilities	2,532.4			3,221.8			6,485.5		
Noncontrolling interests	(5.2)			41.8			52.5		
Stockholders equity	8,706.6			6,362.1			6,705.7		
Total Average Liabilities and Stockholders Equity	**$ 55,731.8**			**$ 73,530.2**			**$ 85,953.2**		
Net revenue spread			2.05%			0.38%			1.75%
Impact of non-interest bearing sources			1.07%			0.30%			0.11%
Net revenue/yield on earning assets[(4)]		$ 1,604.5	3.12%		$ 456.6	0.68%		$ 1,319.2	1.86%

(1) *The average balances presented are derived based on month-end balances during the year. Tax-exempt income was not significant in any years presented. 2009 and 2008 Predecessor CIT average balances represent balances pre-FSA.*

(2) *Investments are included in Other assets in the Consolidated Balance Sheets and do not include 'retained interests in securitizations' as revenues from these are part of Other Income prior to January 1, 2010.*

(3) *The rate presented is calculated net of average credit balances for factoring clients.*

(4) *Non-accrual loans and related income are included in the respective categories.*

The table below disaggregates Predecessor CIT s year-over-year changes (2010 versus Predecessor CIT 2009 and Predecessor CIT 2009 versus 2008) in net interest revenue as presented in the preceding tables between volume (level of lending or borrowing) and rate (rates charged customers or incurred on borrowings). 2010 data is impacted by FSA and the Company s borrowing rates. Factors contributing to the lower rates in 2009 as compared to 2008 include the overall drop in market interest rates and lower asset yields due to lower market rates. In 2009, the Company s lending rates declined further than borrowing rates due to increase in our borrowing spreads (over Libor) due to market dislocation, our distressed circumstances and higher costs for maintaining liquidity. See *Net Finance Revenue* section for further discussion.

Changes in Net Finance Revenue (dollars in millions)

	2010 Compared to Predecessor CIT 2009			Predecessor CIT 2009 Compared to 2008		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
	Volume	Rate	Net	Volume	Rate	Net
Interest Income						
Loans and leases (including held for sale)						
U.S.	$ (1,726.0)	$ 2,848.9	$ 1,122.9	$ (210.6)	$ (737.0)	$ (947.6)
Non-U.S.	(422.1)	675.5	253.4	(137.1)	(53.9)	(191.0)
Total loans and leases	(2,148.1)	3,524.4	1,376.3	(347.7)	(790.9)	(1,138.6)
Deposits with banks	7.0	(26.0)	(19.0)	2.2	(140.5)	(138.3)
Investments	(2.8)	7.8	5.0	0.1	(3.1)	(3.0)
Interest income	(2,143.9)	3,506.2	1,362.3	(345.4)	(934.5)	(1,279.9)
Operating lease equipment, net[(1)]	(181.4)	384.3	202.9	37.4	(99.8)	(62.4)
Interest Expense						
Interest on deposits	9.9	(73.0)	(63.1)	69.1	(20.3)	48.8
Interest on short-term borrowings					(32.1)	(32.1)
Interest on long-term borrowings	(1,460.0)	1,940.4	480.4	(362.8)	(133.6)	(496.4)
Interest expense	(1,450.1)	1,867.4	417.3	(293.7)	(186.0)	(479.7)
Net finance revenue	$ (875.2)	$ 2,023.1	$ 1,147.9	$ (14.3)	$ (848.3)	$ (862.6)

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

The average long-term borrowings balances presented below, both quarterly and for the full year, are derived based on daily balances and the average rates are based on a 30 days per month day count convention. The average rates include FSA amortization, as well as prepayment penalty fees that impacted the Series B Notes in the fourth quarter and the Secured Credit and Expansion Facility prior to the refinancing in August. The average debt coupon rates at December 31, 2010, on a pre-FSA basis, are as follows: Secured Borrowings 2.52%, Secured Credit and Expansion Facility 6.25%, Secured Series A Notes 7.00%, Secured Series B Notes 10.25%, and Senior, Unsecured Notes 5.60%.

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

	Quarters Ended											
	December 31, 2010			September 30, 2010			June 30, 2010			March 31, 2010		
	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)
Secured Borrowings(1)	$ 11,702.7	$ 126.5	4.32%	$ 12,446.7	$ 127.2	4.09%	$ 12,972.2	$ 133.5	4.12%	$ 14,626.0	$ 135.9	3.72%
Secured Credit & Expansion Facility	3,043.1	51.4	6.76%	3,547.2	78.9	8.90%	5,857.3	153.0	10.45%	7,181.9	172.6	9.61%
Secured Series A Notes	19,011.5	446.9	9.40%	18,959.1	445.5	9.40%	18,882.2	443.7	9.40%	18,807.0	443.1	9.42%
Secured Series B Notes	1,193.0	49.2	16.50%	2,192.9	53.3	9.72%	2,194.7	53.3	9.71%	2,196.5	53.3	9.71%
Senior, Unsecured Notes	177.0	5.1	11.53%	194.3	5.5	11.32%	210.9	5.7	10.81%	244.9	5.7	9.31%
Long-term borrowings	$ 35,127.3	$ 679.1	7.73%	$ 37,340.2	$ 710.4	7.61%	$ 40,117.3	$ 789.2	7.87%	$ 43,056.3	$ 810.6	7.53%

(1) See Note 26 Selected Quarterly Financial Data (Unaudited) for restatement detail.

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

	Year Ended December 31, 2010		
	Average Balance	Interest	Average Rate (%)
Secured Borrowings	$ 12,936.9	$ 523.1	4.04%
Secured Credit & Expansion Facility	4,907.4	455.9	9.29%
Secured Series A Notes	18,914.9	1,779.2	9.41%
Secured Series B Notes	1,944.3	209.1	10.75%
Senior, Unsecured Notes	206.8	22.0	10.64%
Long-term borrowings	$ 38,910.3	$ 2,989.3	7.68%

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and
Item 7A. Quantitative and Qualitative Disclosures about Market Risk

BACKGROUND

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

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

On November 1, 2009, CIT filed a prepackaged voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code and emerged 40 days later on December 10, 2009. The Plan of Reorganization significantly improved our liquidity and capital profiles and our December 31, 2009 balance sheet was adjusted to reflect our assets, liabilities and equity at fair value.

A reconstituted Board of Directors and senior corporate management team have been put in place and made significant progress that position the Company for sustainable profitability. We seek to retain our role as a leading provider of financing to small and middle market businesses while leveraging our bank capabilities to create a sustainable funding model that will provide us with a competitive cost of funds.

As of December 31, 2010 the Company had 3,778 employees and approximately $51 billion in assets.

The terms we , CIT and Company , when used with respect to periods commencing after emergence from bankruptcy, are references to Successor CIT, and when used with respect to periods prior to emergence, are references to Predecessor CIT. Financial information about Successor CIT reflects the impact of fresh start accounting (FSA), unless otherwise indicated. Historical financial statements of Predecessor CIT are presented separately from CIT due to the impacts from fresh start accounting, which makes year over year comparisons less relevant.

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

Financial information is presented separately for continuing operations with the home lending business shown in discontinued operation. See *Discontinued Operation* and *Note 1* in *Item 8. Financial Statements and Supplementary Data* for further information. Disclosures contain certain non-GAAP financial measures, see *Non-GAAP Financial Measurements* for reconciliation of these to comparable GAAP measures.

2010 PRIORITIES AND PROGRESS

2010 was a year of transition as the senior corporate management team was rebuilt, our businesses addressed the challenges brought on by our restructuring in 2009, including client and employee retention, and the Company worked to reduce the interest burden from high cost debt while increasing focus on enhancing risk and control systems and processes.

Early in 2010 management identified the following priorities, which addressed the challenges we faced as we emerged from our restructuring.

- Hire and retain key personnel in risk and control functions

- Restructure and refine the Company and segment-level business models
- Continue to build a hybrid funding model
- Develop and implement a plan to reduce funding costs
- Improve bank holding company capabilities

These priorities defined certain sets of action steps that were critical to our turnaround. The section below details our accomplishments with respect to each of these priorities.

Hire and Retain Key Personnel in Risk and Control Functions
We completed the hiring of our senior corporate management team and enhancing our governance structure with the goal of aligning to industry best practices. In addition, we made significant progress in the build-out of our risk and control function with qualified employees.

We reconstituted the Board of Directors, which includes six members who were appointed in late December 2009 and 2010. In February 2010 the Board appointed John Thain as Chairman and Chief Executive Officer, and during the remainder of 2010 he assembled the senior corporate management team, which included the hiring of a Chief Administrative Officer and Head of Strategy, Chief Financial Officer, Chief Auditor, Chief Risk Officer, Chief Credit Officer, Corporate Controller, and Executive Vice President - Banking. In addition, we also expanded and enhanced our Corporate Risk Management, Internal Audit, Compliance, and Loan Risk Review functions with experienced bank, finance and risk management professionals.

We concurrently developed and implemented a program designed to retain employees by aligning incentive compensation with industry standards, with a significant focus on equity-based incentives.

Restructure and refine the Company and segment-level business models
We assessed each segment based on its expected profitability, competitive profile, risk profile and funding needs and concluded each of the four commercial segments were core to CIT. However, within each segment, we identified and exited certain non-core activities and sold assets and/or portfolios that were deemed to be non-strategic. During 2010, we divested over $5 billion (after FSA) of such financing and leasing assets across our segments, including the following:

- Corporate Finance ($2.0 billion)   Loans with sub-optimal risk-return characteristics, our share of a joint venture in Canada, and Edgeview, an M&A advisory business headquartered in Charlotte, N.C.;
- Vendor Finance ($2.0 billion)   Our Australian / New Zealand business and certain consumer-oriented and international assets;
- Consumer ($0.7 billion)   Substantially all private student loans and approximately 7% of the government guaranteed student loan portfolio; and
- Transportation Finance ($0.4 billion)   certain commercial aircraft, railcars and locomotives.

We also focused on operating efficiency as we worked to align operating expenses and headcount with our asset base and revenue generation. Since year-end 2009, CIT s total headcount decreased from nearly 4,300 employees to 3,778, while total balance sheet assets have declined from $60 billion to $51 billion. We consolidated our leased office space and exited our former headquarters at 505 Fifth Avenue in New York City. We continued to increase investment in those support areas required for a well run Bank and Bank Holding Company.

Continue to Build a Hybrid Funding Model
Having addressed the Company s immediate liquidity and capital challenges through the restructuring, management identified a series of key near-term funding objectives integral to the Company s long-term funding strategy, which is predicated upon:

- Maintaining a capital structure with lower leverage ratios and with capital ratios that exceed regulatory standards and compare favorably to the strongest of our peers;
- Further enhancing liquidity and reducing our immediate need to access the capital markets through debt restructuring, including lengthening our debt maturity profile; and
- Positioning the Company for a return to profitability and investment grade ratings.

Specific near-term objectives to support this strategy included: (1) reestablishing the Company s credit ratings, (2) obtaining economic funding sources for each of our businesses, and (3) reducing high cost debt. As described in the section below, we made considerable progress on each of these objectives.

Additionally, we evaluated our businesses with emphasis on determining the attractiveness of operating the businesses as part of CIT Bank. We concluded that our Small Business Lending and US Vendor Finance origination platforms are best positioned to be operated in CIT Bank and should be transferred to CIT Bank as soon as we can obtain the necessary regulatory approvals. Upon approval, originating these assets in the Bank, in conjunction with our existing ability to originate corporate loans, would provide CIT Bank with the necessary critical mass to economically implement a more diverse deposit strategy. For the near term, financing for the Transportation Finance segment is expected to include bank borrowings, securitizations, secured bonds and term loans, including aircraft financings with export agency support. We continue to evaluate whether the Trade Finance platform should be transferred into the Bank. Funding of Trade Finance has resumed through the capital markets with a securitization facility completed in the second quarter. Given the limited financing needs of this business, transferring the Trade Finance platform into the Bank is not a current priority.

Develop and implement a plan to reduce funding costs

We made significant progress paying down high cost debt and re-accessing the capital markets for cost-efficient financing this year. We repaid $4.5 billion of the $7.5 billion of high cost first lien debt that existed at emergence and refinanced the remaining $3.0 billion at a lower cost, with an extended maturity and more flexible terms. We also redeemed $1.4 billion of second lien Series B Notes maturing in 2013 through 2016 in the fourth quarter of 2010 and redeemed the remaining Series B Notes maturing in 2017 in January 2011.

We entered into over $3 billion of new secured funding transactions in 2010 across a variety of asset classes, including trade and vendor receivables, aircraft and student loans. These bank and capital market financings have all been executed at attractive rates, with costs averaging approximately 4%, including amortization of related fees.

We also worked with the credit rating agencies to re-establish credit ratings for CIT. Our current debt ratings are summarized below. See *Funding, Liquidity and Capital   Debt Ratings*. It is our objective to regain investment grade ratings over the long term.

	S&P	**DBRS**	**Moody s**
First Lien Debt Rating	BB	BB(high)	B1
Second Lien Debt / Counterparty Rating	B+	B(high)	B3
Outlook/Trend	Positive	Positive	Stable

Improve Bank Holding Company Capabilities

Since the restructuring, the Company has rebuilt the senior corporate management team to complement the business management team and added key employees in the control and risk management areas. We also approved plans for the remediation and closing of gaps in our risk, controls and IT infrastructure and processes. Management commenced work on an array of projects, the largest of which are an Enterprise Data Management Program and a series of credit grading and problem loan management initiatives.

CIT s principal funding objectives are to be well-capitalized and hold adequate liquidity to support our business plan, while protecting the interest of depositors, creditors, shareholders, customers and the deposit insurance fund. As such, we manage capital and liquidity at the BHC to be a source of strength to the Bank. As of December 31, 2010, Total Capital Ratio at the BHC was 19.9%, well in excess of the 13% regulatory commitment. Our liquid cash balance was over $6 billion and our 12-month liquidity forecast indicated more than enough liquid cash to cover our requirements in a stress environment.

2010 FINANCIAL OVERVIEW

Our 2010 financial results reflect the aforementioned business accomplishments. The balance sheet contracted due to our efforts to optimize the portfolio, as well as from net portfolio run-off, as the growing pace of new originations was outpaced by customer pre-payments and maturities. We repaid or refinanced a significant portion of our high cost debt. We increased capital, built loan loss reserves and maintained considerable cash liquidity. Net income exceeded $500 million this year, driven by FSA accretion. Importantly, our new business initiatives are taking hold, with new lending commitments and funded volume increasing sequentially each quarter.

Net finance revenue[1] (the combination of net interest revenue and net operating lease revenue) of $1.6 billion benefitted from $1.4 billion of net accretion from FSA. Excluding FSA, net finance revenue trends were down on lower earning assets and high cash balances, partially offset by interest expense savings from the accelerated repayment of high-cost debt. As a percentage of average earning assets, reported net finance revenue was 3.93%, while the comparable figure excluding FSA benefits and high cost debt prepayment fees was 0.74%.

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

Non-interest revenue (excluding operating lease rentals) exceeded $1.0 billion, due in large part to higher gains on sales of loans and operating lease equipment, and strong recoveries on loans charged off prior to emergence (recorded in other income), while fee income continues to reflect low levels of capital markets activity.

Credit costs remained elevated in 2010 due to high net charge-offs and establishment of over $400 million of loan loss reserves. This reserve increase includes specific reserves for incremental deterioration beyond the FSA discount on pre-emergence loans and loans identified as impaired post emergence, as well as non-specific reserves on new originations and pre-emergence performing loans. Our estimates of incurred losses include a two-year horizon for purposes of calculating non-specific reserves. Recent credit metrics have shown signs of stabilization, although charge-off and nonaccrual balances remain elevated. While improving, nonaccruals remain high due in part to tightening standards and procedures. Credit ratios have been adversely impacted by our portfolio contraction this year.

Excluding restructuring charges related to facility consolidations and severance, operating expenses were less than $1 billion as we continue to reduce operating expenses to better correspond to the lower asset base. Headcount declined 10% in 2010 to 3,778.

We continued to increase funding to small and middle market customers, as new business volume was sequentially higher each quarter in 2010. CIT Bank continues to originate new loans, with approximately 40% of the U.S. funded volume underwritten by CIT Bank this year. While these results demonstrate meaningful progress, there is opportunity to significantly improve new business volumes both at CIT Bank and at other subsidiaries.

Our business strategies and financial results for 2010 culminated in much stronger capital ratios at the BHC and CIT Bank. Strong earnings, due in part to accelerated FSA accretion, resulted in considerable capital generation, while our portfolio optimization strategies resulted in significantly lower asset and debt balances. As a result, our year-end Tier 1 and Total Capital ratios increased to 19.1% and 19.9%, respectively, at the BHC and in excess of 50% at CIT Bank. We also maintained strong cash liquidity throughout the year with an average total cash balance in excess of $10 billion, including over $6 billion of unrestricted cash at the BHC and $1.3 billion at the Bank.

2011 PRIORITIES AND COMMENTARY

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

Specific business objectives established for 2011 include:

1. Focus on growth in our four core businesses, both domestically and internationally;
2. Improve profitability, including reductions in our cost of capital and operating expenses;
3. Expand the role of CIT Bank, both in asset origination and funding capabilities;
4. Advance our risk management, compliance and control functions; and
5. Substantially satisfy the open items in the Written Agreement.

The Company expects 2011 results to reflect significantly reduced FSA benefits, as expectations for asset repayments slow and voluntary Series A debt redemptions result in both prepayment fees and FSA-related costs, since the debt is carried at a discount. The Company remains committed to increasing new business volume in our four core businesses, both domestically and internationally, and utilizing cost efficient funding sources, such as deposits and securitization facilities, to improve pre-FSA net finance margins. The Company remains focused on reducing operating expenses, but will continue to invest in infrastructure and controls, including the remediation of the material weakness related to the company's application of FSA.

We remain committed to maintaining a strong balance sheet in terms of solid liquidity, appropriate loan loss reserves and strong capital ratios at both the Bank and BHC as we look to expand CIT Bank, by both increasing assets and diversifying the Bank s funding base, and re-enforce the holding company s role as a source of strength to the bank.

PERFORMANCE MEASUREMENTS

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

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

	Ratio of short-term debt to total debt.
Market Risk substantially insulate our profits from movements in interest and exchange rates.	Net Interest Income (NII); and Economic Value of Equity (EVE).

FRESH START ACCOUNTING

Upon emergence from bankruptcy, CIT applied Fresh Start Accounting (FSA) in accordance with generally accepted accounting principles in the United States of America (GAAP). As a result, assets, liabilities and equity were reflected in our financial statements at fair value at December 31, 2009. FSA adjustments are reflected in December 31, 2010 and 2009 ending balances, while accretion and amortization of certain FSA adjustments are reflected in operating results for 2010. Because the FSA accretion and amortization adjustments are reflected in 2010 and not 2009, year over year comparisons are not on the same basis, and therefore comparisons throughout this document primarily discuss 2010 activity.

Summary of Fresh Start Accounting

The following table presents FSA adjustments by balance sheet caption:

Fresh Start Accounting (Discount) / Premium (dollars in millions)

	At December 31, 2010		At December 31, 2009	
	Accretable	Non-accretable	Accretable	Non-accretable
Finance receivables	$ (1,555.4)	$ (372.2)	$ (3,619.2)	$ (1,668.7)
Operating lease equipment, net	(3,022.0)		(3,237.9)	
Intangible assets and goodwill	119.2	277.4	225.1	277.4
Other assets	(223.4)		(320.8)	
Total FSA assets	$ (4,681.6)	$ (94.8)	$ (6,952.8)	$ (1,391.3)
Deposits	$ 38.5	$	$ 90.5	$
Long-term borrowings	(2,948.5)		(3,396.5)	
Other liabilities		351.6		336.6
Total FSA liabilities	$ (2,910.0)	$ 351.6	$ (3,306.0)	$ 336.6

In addition to the FSA accretion on loans recorded in interest income ($1.6 billion for the year ended December 31, 2010), the accretable balance declined as a result of asset sales and transfers to held for sale. The decline in non-accretable balance was primarily due to asset sales, prepayments, and loans transferred to held for sale, and also reflected charge-offs and transfer of loan non-accretable discount to accretable discount.

The following table summarizes the impact of accretion and amortization of FSA adjustments on the Consolidated Statement of Operations for the year ended December 31, 2010:

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

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

Interest income	$ 1,137.7	$ 104.7	$ 15.4	$ 239.6	$ 118.8	$	$1,616.2
Interest expense	(219.4)	(103.9)	(8.1)	(40.4)	(24.7)	1.8	(394.7)
Rental income on operating leases		(103.7)					(103.7)
Other income	74.8	15.0			7.5	0.1	97.4
Depreciation expense	9.7	232.2		30.6			272.5
Total	$ 1,002.8	$ 144.3	$ 7.3	$ 229.8	$ 101.6	$ 1.9	$1,487.7

The table below presents fresh start accretion and amortization based on the contractual maturities of the underlying assets and liabilities that have an accretable discount, with the accretable discount accreted/(amortized) based on a level yield basis. Actual results will differ from contractual realization when timing or amounts of payments received differ from contractual amounts due and when timing or amounts of payments made differ from contractual amounts owed. Differences will also occur if the assets are sold prior to their maturity. The differences from the estimates could vary materially and are inherently subject to significant uncertainties that may be beyond the control of the Company.

FSA accretion and amortization adjustments in future periods, based on the contractual maturities of the underlying assets and liabilities, is discussed below:

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

	Accretable Discount		
	2011	**2012 and Thereafter**	**Total Accretable Discount**
Interest income	$ 664.2	$ 891.2	$ 1,555.4
Interest expense	(529.3)	(2,380.7)	(2,910.0)
Rental income on operating leases	(50.7)	(68.5)	(119.2)
Other income	59.1	164.3	223.4
Depreciation expense	246.5	2,775.5	3,022.0
Total pretax impact	$ 389.8	$ 1,381.8	$ 1,771.6

Interest income accretion primarily relates to Corporate Finance ($0.8 billion) and Consumer ($0.5 billion). Due to the contractual maturity of the underlying loans, accretion income will be realized primarily within the next 2 years.

Interest expense accretion will be recognized over the contractual maturity of the underlying debt, which has maturity terms of 2013-2017 for the Series A Notes (accretable discount of $2.0 billion), 2015 for the Expansion Credit Facility (accretable premium of $0.1 billion) and 2011-2040 for the other secured borrowings (accretable discount of $1.0 billion). If the debt is repaid prior to its contractual maturity, and the repayment is accounted for as a debt extinguishment, accretion of the interest expense on the underlying debt would be accelerated.

Rental income on operating leases accretion is based on the contractual maturity of the underlying operating lease. The majority of the remaining accretion has a contractual maturity of less than two years.

Depreciation expense accretion is primarily on the Transportation Finance aircraft and rail operating lease assets, which have an average life of approximately 15 and 30 years, respectively.

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

(dollars in millions)	Contractual Accretion/ (Amortization)	Actual Accretion/ (Amortization)
Interest income	$ 1,051.0	$ 1,616.2
Interest expense	(417.4)	(394.7)
Rental income on operating leases	(90.6)	(103.7)
Other income	128.3	97.4
Depreciation expense	276.9	272.5
Total pretax impact	$ 948.2	$ 1,487.7

NET FINANCE REVENUE[1]

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

Net Finance Revenue (dollars in millions)

	Years Ended December 31		
	2010	2009	2008
	CIT	Predecessor CIT	
Interest income	$ 3,720.6	$ 2,358.3	$ 3,638.2
Rental income on operating leases	1,639.7	1,899.5	1,965.3
Finance revenue	5,360.3	4,257.8	5,603.5
Interest expense	(3,076.7)	(2,659.4)	(3,139.1)
Depreciation on operating lease equipment	(679.1)	(1,141.8)	(1,145.2)
Net finance revenue	$ 1,604.5	$ 456.6	$ 1,319.2
Average Earnings Assets (AEA)	$ 40,844.3	$ 59,990.8	$ 64,225.8
As a % of AEA:			
Interest income	9.11%	3.93%	5.66%
Rental income on operating leases	4.01%	3.17%	3.06%
Finance revenue	13.12%	7.10%	8.72%
Interest expense	(7.53)%	(4.43)%	(4.89)%
Depreciation on operating lease equipment	(1.66)%	(1.91)%	(1.78)%
Net finance revenue	3.93%	0.76%	2.05%
As a % of AEA by Segment:			
Corporate Finance	6.89%	2.27%	2.74%
Transportation Finance	1.37%	2.19%	2.63%
Trade Finance	(3.70)%	2.39%	3.98%
Vendor Finance	8.70%	2.92%	3.93%
Commercial Segments	4.64%	2.41%	3.06%
Consumer	1.28%	(0.24)%	0.91%

Average earning assets are less than comparable balances in Item 7 (Average Balance Sheet tables) due to the exclusion of deposits with banks and other investments and the inclusion of credit balances of factoring clients.

Net finance revenue for 2010 reflects net FSA accretion of $1,390 million. Exclusive of net FSA accretion, the decline reflects lower earning assets and high cash balances, partially offset by interest expense savings from the accelerated repayment of high-cost debt and higher net operating lease revenues. As a result of our portfolio optimization efforts, our earning asset base declined throughout 2010 as our average earning assets decreased from $60.0 billion for the year ended December 31, 2009 to $40.8 billion in the current year. The asset decline was partially offset by new business volume and growth in operating lease assets.

High debt costs remained a contributing factor in the low margin rate. During 2010, we prepaid approximately $4.5 billion of our high cost first lien debt and refinanced in the third quarter the remaining $3 billion at a lower cost. In addition, in the fourth quarter of 2010 we redeemed $1.4 billion of the $2.1 billion of 10.25% Series B Second Lien Notes, representing those that mature from 2013 through 2016. Interest expense for 2010 included prepayment penalty fees of $138 million. The remaining Series B Second Lien Notes due in 2017 were redeemed in January, 2011.

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

As detailed in the following table, net finance revenue as a percentage of AEA for 2010 includes significant favorable impact from net accretion as a result of FSA. There was no impact from accretion or amortization of FSA adjustments prior to 2010.

Net Finance Revenue as a % of AEA

	Year Ended December 31, 2010
	CIT
GAAP - net finance revenue %	3.93%
FSA	(3.48%)
Prepayment penalty fees	0.29%
	0.74%

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

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

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

	Years Ended December 31		
	2010	**2009**	**2008**
	CIT	**Predecessor CIT**	
Rental income on operating leases	14.93%	14.44%	15.61%
Depreciation on operating lease equipment	(6.18)%	(8.68)%	(9.10)%
Net operating lease revenue %	8.75%	5.76%	6.51%
Net operating lease revenue %, excluding FSA	5.62%	5.76%	6.51%
	$10,981.0	$13,149.0	$12,588.2

Average Operating Lease Equipment
(AOL)

2010 net operating lease revenue included an FSA benefit of $169 million. Before FSA adjustments, net operating lease revenue increased as higher asset balances offset downward pressure on lease rents. Net operating lease revenue is primarily generated from aircraft and rail transportation portfolios. Utilization remained strong in aerospace, and all new aircraft scheduled for delivery over the next twelve months from our order book are placed on lease. Rail utilization rates, including customer commitments to lease, improved to 94% from 90% at December 31, 2009 on modest increases in activity across most major car types. Market rents improved modestly, but 2010 renewal rates remained under pressure.

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

CREDIT METRICS

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

Our credit metrics showed signs of stabilization in the second half of 2010. Non-accrual loans declined from a peak of $2.1 billion at the end of the second quarter to $1.6 billion at December 31, 2010, as additions to non-accrual loans dropped significantly in the second half. Charge-offs, while high compared to historical standards, were considerably below 2009 levels.

In the fourth quarter of 2010, we further refined our practices to accelerate charge-offs based on delinquency status in selected small-ticket portfolios in Vendor Finance and small business lending in Corporate Finance. This change, which accelerated automatic charge-offs in these portfolios to between 120 and 150 days delinquent from the previous 180 day standard, increased charge-offs by approximately $75 million in the second half of 2010. This refinement had no material impact on provision expense.

Credit performance throughout 2009 was impacted negatively by ongoing economic weakness globally. Non-accrual loans and charge-offs increased significantly, particularly in the commercial real estate, printing, publishing, energy, lodging, leisure and small business lending sectors. Our Corporate Finance cash flow loan portfolio was most severely impacted. As a result, we had a higher provision for loan losses and increased our allowance for loan losses significantly from prior year levels.

As a result of adopting FSA, the allowance for loan losses at December 31, 2009 was eliminated and effectively recorded as discounts on loans as part of the fair value of finance receivables. A portion of the discount attributable to embedded credit losses is recorded as non-accretable discount and is utilized as such losses occur, primarily on impaired, non-accrual loans. Any incremental deterioration of loans in this group results in incremental provisions or charge-offs. Improvements or increases in forecasted cash flows in excess of the non-accretable discount will reduce any allowance on the loan established after emergence from bankruptcy. Once such allowance (if any) has been reduced and the account is returned to accruing status, the non-accretable discount is reclassified to accretable discount and is recorded as finance income over the remaining life of the account. For performing pre-emergence loans, an allowance for loan losses is established to the extent the net carrying value (after FSA discount) is not deemed to be recoverable. Recoveries on pre-emergence (2009 and prior) charge-offs are reflected in other income, and totaled $278 million for 2010.

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

Our allowance for loan losses includes: (1) specific reserves for impaired loans, (2) non-specific reserves for estimated losses inherent in non-impaired loans based on historic loss experience and our estimates of projected loss levels and (3) a qualitative adjustment to the reserve for economic risks, industry and geographic concentrations, and other factors. Our policy is to recognize losses through charge-offs when there is high likelihood of loss after considering the borrower s financial condition, underlying collateral and guarantees, and the finalization of collection activities.

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

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

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

	Years Ended December 31				
	CIT	Predecessor CIT			
	2010	2009	2008	2007	2006
Allowance beginning of period	$	$ 1,096.2	$ 574.3	$ 577.1	$ 540.2
Provision for credit losses(1)	820.3	2,660.8	1,049.2	241.8	159.8
Change related to new accounting guidance(2)	68.6				
Changes relating to foreign currency translation, other(1)	(8.2)	(12.2)	(36.8)	(64.6)	10.4
Net additions	880.7	2,648.6	1,012.4	177.2	170.2
Gross charge-offs	(510.3)	(2,068.2)	(557.8)	(265.4)	(204.8)
Recoveries(3)	45.8	109.6	67.3	85.4	71.5
Net Charge-offs	(464.5)	(1,958.6)	(490.5)	(180.0)	(133.3)
Allowance before fresh start adjustments	416.2	1,786.2	1,096.2	574.3	577.1
Fresh start adjustments		(1,786.2)			
Allowance end of period	$ 416.2	$	$ 1,096.2	$ 574.3	$ 577.1
Loans					
Commercial Segments loans	$ 16,424.6	$ 25,153.9	$ 40,654.0	$ 41,581.2	$ 36,177.6
Consumer loans	8,075.9	9,683.7	12,472.6	12,179.7	9,026.0
Total loans	$ 24,500.5	$ 34,837.6	$ 53,126.6	$ 53,760.9	$ 45,203.6
Allowance					
Commercial Segments	416.2		857.9	512.2	548.8
Consumer			238.3	62.1	28.3
Total allowance for credit losses	$ 416.2	$	$ 1,096.2	$ 574.3	$ 577.1

(1) Includes amounts related to reserves on unfunded loan commitments, which are reflected in other liabilities.

(2) Reflects reserves associated with loans consolidated in accordance with 2010 adoption of accounting guidance on consolidation of variable interest entities.

(3) Recoveries for the year ended December 31, 2010 do not include $278.2 million of recoveries on accounts that were charged-off pre-FSA, which are included in Other Income.

In addition to amounts related to pre-emergence loans, the allowance and provision also include amounts related to finance receivables originated during 2010. The following table summarizes the components of the provision and allowance recorded in 2010:

(dollars in millions) For the year ended / at December 31, 2010:	**Provision for Credit Losses**	**Allowance for Loan Losses**
Specific Reserves on Impaired Loans	$ 121.3	$ 121.3
New Originations, including Trade Finance	91.1	91.1
Securitized assets brought on-balance sheet	(7.5)	51.2
Other non-specific reserves (including qualitative)	150.9	152.6
Non-specific Reserves	234.5	294.9
Net Charge-offs	464.5	
Totals	$ 820.3	$ 416.2

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The reported allowance was 1.70% of finance receivables at December 31, 2010. Management also analyzes the amount of coverage on a pre-FSA basis by combining the non-accretable discount balance and the allowance for loan losses. On this basis, a total of $788 million, or 2.98% of pre-FSA finance receivables, is available to cover losses, down from 4.16% at December 31, 2009. The decline during 2010 largely reflects the utilization of approximately $400 million in non-accretable discount related to the sale of substantially all the private student loan portfolio and the valuation allowance taken on the remaining private loan portfolio in assets held for sale. For the commercial segments, total reserves on this basis were 4.36% of pre-FSA receivables, versus 4.14% at December 31, 2009. The consumer segment consists primarily of U.S. Government guaranteed loans at December 31, 2010.

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

	At December 31, 2010					
	Finance Receivables pre-FSA	**FSA - Accretable Discount**	**FSA - Non-accretable Discount[1]**	**Finance Receivables post-FSA**	**Allowance for Credit Losses**	**Net Carrying Value**
Corporate Finance	$ 9,571.3	$ (763.4)	$ (325.7)	$ 8,482.2	$ (303.7)	$ 8,178.5
Transportation Finance	1,536.8	(146.1)	(1.8)	1,388.9	(23.7)	1,365.2
Trade Finance	2,387.4			2,387.4	(29.9)	2,357.5
Vendor Finance	4,348.0	(147.3)	(34.6)	4,166.1	(58.9)	4,107.2
Commercial Segments	17,843.5	(1,056.8)	(362.1)	16,424.6	(416.2)	16,008.4
Consumer	8,584.6	(498.6)	(10.1)	8,075.9		8,075.9
Total	$ 26,428.1	$ (1,555.4)	$ (372.2)	$ 24,500.5	$ (416.2)	$ 24,084.3

	At December 31, 2009					
	Finance Receivables pre-FSA	**FSA - Accretable Discount**	**FSA - Non-accretable Discount**	**Finance Receivables post-FSA**	**Allowance for Credit Losses**	**Net Carrying Value**
Corporate Finance	$ 15,310.8	$ (2,232.5)	$ (912.5)	$ 12,165.8	$	$ 12,165.8
Transportation Finance	2,081.6	(271.4)	(2.1)	1,808.1		1,808.1
Trade Finance	3,008.4	(10.6)	(6.8)	2,991.0		2,991.0
Vendor Finance	8,859.7	(381.2)	(289.5)	8,189.0		8,189.0
Commercial Segments	29,260.5	(2,895.7)	(1,210.9)	25,153.9		25,153.9
Consumer	10,865.0	(723.5)	(457.8)	9,683.7		9,683.7
Total	$ 40,125.5	$ (3,619.2)	$ (1,668.7)	$ 34,837.6	$	$ 34,837.6

(1) Non-accretable discount including certain accretable discount amounts relating to non-accrual loans for which accretion has been suspended.

The following table presents charge-off, by business segment. See *Results by Business Segment* for additional information.

Charge-offs as a Percentage of Average Finance Receivables (dollars in millions)

	Years Ended December 31									
	CIT		Predecessor CIT							
	2010		2009		2008		2007		2006	
Gross Charge-offs										
Corporate Finance	$ 266.3	2.43%	$ 1,440.6	7.70%	$ 193.1	0.89%	$ 92.7	0.45%	$ 81.8	0.48%
Transportation Finance	4.8	0.29%	3.4	0.14%			0.5	0.02%	1.4	0.08%
Trade Finance	29.8	1.12%	111.8	2.42%	64.1	0.95%	33.8	0.47%	42.6	0.63%
Vendor Finance	183.3	2.94%	373.0	3.46%	174.7	1.64%	82.4	0.81%	63.5	0.88%
Commercial Segments	484.2	2.25%	1,928.8	5.27%	431.9	1.04%	209.4	0.53%	189.3	0.57%
Consumer	26.1	0.30%	139.4	1.17%	125.9	0.99%	56.0	0.52%	15.5	0.21%
Total	510.3	1.68%	2,068.2	4.27%	557.8	1.02%	265.4	0.52%	204.8	0.51%
Recoveries[1]										
Corporate Finance	12.9	0.11%	41.4	0.22%	15.8	0.07%	23.2	0.11%	44.1	0.26%
Transportation Finance			0.9	0.04%	1.3	0.05%	32.7	1.41%	0.1	0.01%
Trade Finance	1.2	0.04%	3.2	0.07%	1.9	0.03%	2.1	0.03%	5.2	0.08%
Vendor Finance	30.9	0.49%	57.0	0.53%	42.3	0.40%	24.4	0.24%	20.4	0.28%
Commercial Segments	45.0	0.21%	102.5	0.28%	61.3	0.15%	82.4	0.21%	69.8	0.21%
Consumer	0.8	0.01%	7.1	0.06%	6.0	0.05%	3.0	0.03%	1.7	0.02%
Total	45.8	0.15%	109.6	0.23%	67.3	0.12%	85.4	0.17%	71.5	0.18%
Net Charge-offs										
Corporate Finance	253.4	2.32%	$ 1,399.2	7.48%	$ 177.3	0.82%	$ 69.6	0.34%	37.6	0.22%
Transportation Finance	4.8	0.29%	2.5	0.10%	(1.3)	(0.05)%	(32.3)	(1.39)%	1.4	0.08%
Trade Finance	28.6	1.08%	108.6	2.35%	62.2	0.92%	31.6	0.44%	37.4	0.55%
Vendor Finance	152.4	2.45%	316.0	2.93%	132.4	1.24%	58.0	0.57%	43.1	0.60%
Commercial Segments	439.2	2.04%	1,826.3	4.99%	370.6	0.89%	126.9	0.32%	119.5	0.36%
Consumer	25.3	0.29%	132.3	1.11%	119.9	0.94%	53.1	0.49%	13.8	0.19%
Total	$ 464.5	1.53%	$ 1,958.6	4.04%	$ 490.5	0.90%	$ 180.0	0.35%	$ 133.3	0.33%
Supplemental Non-U.S. Commercial Disclosure										
Gross Charge-offs	$ 134.1		$ 308.6		$ 109.3		$ 77.1		$ 54.0	
Recoveries	$ 19.5		$ 37.2		$ 24.6		$ 18.2		$ 10.8	

(1) Amounts for the year ended December 31, 2010 do not include $278.2 million of recoveries on receivables charged off prior to 2010 and classified as other income.

Gross Charge-offs (pre-FSA) as a Percentage of Average Finance Receivables (dollars in millions)

	Years Ended December 31									
	CIT		Predecessor CIT							
	2010		2009		2008		2007		2006	
Gross Charge-offs										
Corporate Finance	$ 612.7	4.78%	$ 1,440.6	7.70%	$ 193.1	0.89%	$ 92.7	0.45%	$ 81.8	0.48%
Transportation Finance	5.0	0.27%	3.4	0.14%			0.5	0.02%	1.4	0.08%
Trade Finance	31.8	1.19%	111.8	2.42%	64.1	0.95%	33.8	0.47%	42.6	0.63%
Vendor Finance	302.1	4.54%	373.0	3.46%	174.7	1.64%	82.4	0.81%	63.5	0.88%
Commercial Segments	951.6	3.96%	1,928.8	5.27%	431.9	1.04%	209.4	0.53%	189.3	0.57%
Consumer	76.1	0.78%	139.4	1.17%	125.9	0.99%	56.0	0.52%	15.5	0.21%
Total	$ 1,027.7	3.05%	$ 2,068.2	4.27%	$ 557.8	1.02%	$ 265.4	0.52%	$ 204.8	0.51%

Similar to 2009, in 2010 Corporate Finance was the primary driver of charge-off trends, as this segment continues to be our business most severely impacted by the weak economic environment due to a higher proportion of leveraged cash flow loans and exposure to industries dependent on discretionary business and consumer spending. Though down from 2009, credit losses remained high in the energy, print, media and gaming industries, as well as in our small business lending unit.

Transportation Finance had a minimal level of charge-offs in all years presented, as the majority of assets in this segment are operating leases. The 2010 and 2009 charge-offs were largely related to business air loans, while the large recovery in 2007 related to a charge-off taken on a U.S. hub carrier in 2005.

Trade Finance net charge-offs in 2010 improved from 2009, as the continued lackluster retail environment was mitigated by inventory reduction, cost containment and liquidity management discipline by retail customers. Though down in amount, the percentage is above earlier years due to the shift from factoring to deferred purchase agreements, which had the effect of lowering the average receivable balance, as they are off-balance sheet. Additionally, approximately $18 million of recoveries on receivables charged off prior to 2010 were classified as other income under FSA. 2009 reflected the weak economic environment and constrained consumer spending, which negatively impacted retailers and suppliers. Proactive management of our exposure and obtaining additional collateral where possible on problem accounts has helped to minimize the impact of the downturn over the past two years.

Similar to the other commercial segments, Vendor Finance charge-offs declined from 2009, but remained above historic levels. Given our focus on smaller balance transactions with broad industry and geographic diversification, and the essential nature of the equipment we lend and lease against in this segment, the impact of the macro economic slowdown, although significant, has been less severe in Vendor Finance than in Corporate Finance.

Consumer charge-offs were down from 2009, due to reduced charge-offs in the private student loan portfolio, as charge-offs were virtually fully-absorbed by FSA discount through the sale of the portfolio in the fourth quarter. As a result, as of December 31, 2010, the Consumer portfolio consists primarily of student loans that are 97%-98% guaranteed by the U.S. government, thereby mitigating our ultimate credit risk.

The tables below present information on non-performing loans:

Non-accrual and Past Due Loans at December 31
(dollars in millions)

	CIT		Predecessor CIT			
	2010	2009	2009[(1)]	2008	2007	2006
Non-accrual loans						
U.S.	$ 1,336.1	$ 1,465.5	$ 2,335.3	$ 1,081.7	$ 387.0	$ 269.1
Foreign	279.2	108.8	292.4	138.8	82.0	38.2
Commercial Segments	1,615.3	1,574.3	2,627.7	1,220.5	469.0	307.3
Consumer	0.7	0.1	197.7	194.1	8.5	3.0
Non-accrual loans	$ 1,616.0	$ 1,574.4	$ 2,825.4	$ 1,414.6	$ 477.5	$ 310.3
Troubled Debt Restructurings						
U.S.	$ 412.4	$ 116.5	$ 189.2	$ 107.6	$ 44.2	$ 9.9
Foreign	49.3	4.5	24.9	21.7	23.7	
Restructured loans	$ 461.7	$ 121.0	$ 214.1	$ 129.3	$ 67.9	$ 9.9
Government guaranteed accruing student loans past due 90 days or more	$ 433.6	$ 480.7	$ 493.7	$ 466.5	$ 409.9	$ 260.2
Other accruing loans past due 90 days or more	1.7	89.4	88.2	203.1	44.9	110.0
Total accruing loans past due 90 days or more	$ 435.3	$ 570.1	$ 581.9	$ 669.6	$ 454.8	$ 370.2

(1) Reflects balances pre-FSA.

Non-accrual loans as a Percentage of Finance Receivables at December 31
(dollars in millions)

	CIT				Predecessor CIT			
	2010		2009		2009[(1)]		2008	
Corporate Finance	$ 1,239.8	14.62%	$ 1,374.8	11.30%	$ 2,226.1	14.64%	$ 946.6	4.56%
Transportation Finance	63.2	4.55%	6.8	0.38%	8.4	0.38%	24.3	0.92%

Trade Finance	164.4	6.89%	90.5	3.03%	97.3	3.24%	81.5	1.35%
Vendor Finance	147.9	3.55%	102.2	1.25%	295.9	3.14%	168.1	1.50%
Commercial Segments	1,615.3	9.84%	1,574.3	6.26%	2,627.7	8.80%	1,220.5	3.00%
Consumer	0.7	0.01%	0.1		197.7	1.74%	194.1	1.56%
Total	$ 1,616.0	6.60%	$ 1,574.4	4.52%	$ 2,825.4	6.86%	$ 1,414.6	2.66%

	2010(1)	
Corporate Finance	$ 1,604.0	16.76%
Transportation Finance	71.3	4.64%
Trade Finance	164.4	6.89%
Vendor Finance	174.9	4.02%
Commercial Segments	2,014.6	11.29%
Consumer	1.0	0.01%
Total	$ 2,015.6	7.63%

(1) Reflects balances pre-FSA.

See *Non-GAAP Financial Measurements* for reconciliation to GAAP measurement.

The reduction in Corporate Finance non-accruals from 2009 reflected workouts and asset sales, as well as a reduction in new account additions during the second half of 2010 in the previously-mentioned sectors that are impacted by economic weakness caused by lower consumer spending. Trade Finance nonaccrual balances increased as clients and retailers remained challenged by reduced consumer demand resulting from high unemployment levels, while the Transportation Finance non-accrual loan balance is comprised primarily of one leveraged finance account and one commercial air account. The reduction in pre-FSA Consumer non-accrual loans from 2009 reflects the sale of substantially all the private student lending portfolio and the valuation of the remaining private loan portfolio in assets held for sale.

Non-accrual loans, prior to FSA, declined 29% in amount from 2009, as reductions in Corporate Finance and Vendor Finance were mitigated by increases in Transportation Finance and Trade Finance. This decline followed a virtual doubling of non-accrual loan balances from the preceding year in 2009, most notably in Corporate Finance, reflecting the negative performance by our borrowers and the prolonged global recessionary economic environment. Though down in amount from 2009, the continued portfolio liquidation during the year resulted in an increase in 2010 non-accrual loans as a percentage of finance receivables from the prior year.

Reported non-accrual loans, including related FSA discounts, increased 3% from 2009, as losses on non-accrual loans are first applied against discounts and thus do not reduce post-FSA loan balances to the same extent as pre-FSA balances.

Prospective net charge-offs and non-accrual loans will continue to be impacted by FSA, though to a lesser degree than in 2009, as $372 million of non-accretable discount is available to absorb future charge-offs at December 31, 2010, versus $1.7 billion at December 31, 2009.

Foregone Interest on Non-accrual Loans and Troubled Debt Restructurings (dollars in millions)

	CIT			Predecessor CIT		
	2010			2009		
	U.S.	**Foreign**	**Total**	**U.S.**	**Foreign**	**Total**
Interest revenue that would have been earned at original terms	$ 244.7	$ 35.6	$ 280.3	$ 264.3	$ 27.6	$ 291.9
Interest recorded	35.4	15.0	50.4	80.9	16.9	97.8
Foregone interest revenue	$ 209.3	$ 20.6	$ 229.9	$ 183.4	$ 10.7	$ 194.1

The Company periodically modifies the terms of loans / finance receivables in response to borrowers difficulties. Modifications that include a financial concession to the borrower that otherwise would not have been considered, are accounted for as Troubled Debt Restructurings (TDR). The discussion and tables that follow reflect loan carrying values as of December 31, 2010 of accounts that have been modified. These balances are further detailed in the following table.

Borrower compliance with the modified terms is the primary measurement that we use to determine the success of these programs.

Troubled Debt Restructurings and Modifications (dollars in millions)

	December 31, 2010		% Compliant
	(excluding FSA)	(including FSA)	
Troubled Debt Restructurings			
Deferral of interest and/or principal	$ 299.9	$ 209.0	86%
Modification of contract terms	215.7	184.0	67%
Debt forgiveness	66.4	45.8	96%
Debt exchange	27.8	22.9	20%
	$ 609.8	$ 461.7	76%
Percent non-accrual	95%	95%	

		% Compliant
Modifications		
Modification of contract terms	$ 249.0	90%
Extended maturity	93.0	100%
Covenant relief	33.5	100%
Principal deferment	19.1	98%
Debt exchange	14.2	100%
Interest rate increase	6.7	100%
	$ 415.5	94%
Percent non-accrual	37%	

Cross-Border Transactions

Cross-border transactions reflect monetary claims on borrowers domiciled in foreign countries and primarily include cash deposited with foreign banks and receivables from residents of a foreign country, reduced by amounts funded in the same currency and recorded in the same jurisdiction. The following table includes all countries that we have cross-border claims of 0.75% or greater of total consolidated assets at December 31, 2010:

Cross-border Outstandings as of December 31 (dollars in millions)

	CIT								Predecessor CIT	
	2010						2009		2008	
Country	Banks	Government	Other	Net Local Country Claims	Total Exposure	Exposure as a Percentage of Total Assets	Total Exposure	Exposure as a Percentage of Total Assets	Total Exposure	Exposure as a Percentage of Total Assets

Canada	$ 22.0	$	$ 140.0	$ 3,206.0	$ 3,368.0	6.61%	$ 2,753.1	4.59%	$ 3,194.1	3.97%
United Kingdom	33.0	1.0	110.0	238.0	382.0	0.75%	1,311.3	2.18%	1,852.4	2.30%
Germany	150.0	3.0	75.0	356.0	584.0	1.15%	733.7	1.22%	1,324.1	1.65%
France	189.0		501.0	22.0	712.0	1.40%	344.5	0.57%	854.9	1.06%
Ireland (*)							496.7	0.83%	674.5	0.84%

(*) - cross-border outstandings were less than 0.75% of total consolidated assets for 2010.

OTHER INCOME

Other Income (dollars in millions)

	Years Ended December 31		
	CIT	Predecessor CIT	
	2010	2009	2008
Rental income on operating leases	$ 1,639.7	$ 1,899.5	$ 1,965.3
Other:			
Recoveries of pre-FSA charge-offs	278.2		
Gains (losses) on loan and portfolio sales	251.8	(197.5)	19.8
Gains on sales of leasing equipment	154.6	56.0	173.4
Factoring commissions	145.0	173.5	197.2
Fees and commissions	135.6	234.6	227.5
Counterparty receivable accretion	97.4		
Investment (losses) gains	19.2	(58.0)	(19.0)
Change in estimated fair value TARP Warrant liability		70.6	
Valuation allowance for assets held for sale	(8.9)	(79.8)	(103.9)
Losses on non-qualifying derivatives and foreign currency exchange	(70.7)	(187.4)	
Change in GSI facility derivative fair value		(285.0)	
Total Other	1,002.2	(273.0)	495.0
Total other income	$ 2,641.9	$ 1,626.5	$ 2,460.3

Other income improved from 2009 reflecting gains on loan and portfolio sales, increased gains on sales of leasing equipment, recoveries from loans charged off prior to emergence (recorded in other income) and greater fees and commissions, as well as increased investment gains. The prior year reflected loan sales at discounts, impairment charges on investments and retained interests and the recognition of a $285 million charge related to a derivative in conjunction with the reduction in the size of the Goldman Sachs lending facility (GSI Facility).

Rental income on operating leases decreased on lower asset balances, as average operating lease equipment declined 16%. See *Net Finance Revenues* and *Financing and Leasing Assets* *Results by Business Segment* and *Concentrations* *Operating Leases* for additional information.

Recoveries of pre-FSA charge-offs reflects repayments or other workout resolutions on loans charged off prior to emergence from bankruptcy. These recoveries are recorded as other income, not as a reduction to the provision for loan losses.

Gains on loan and portfolio sales reflect amounts received in excess of current net asset carrying values. Loans sold totaled $4.2 billion, consisting of $1.8 billion in Corporate Finance, $1.6 billion in Vendor Finance, $0.7 billion in Consumer and approximately $0.1 billion in Transportation.

Gains on sales of leasing equipment resulted from sales volume of $0.9 billion in 2010 versus $0.6 billion in 2009. Equipment sales for 2010 consist of $0.4 billion in Vendor Finance assets, $0.3 billion in Transportation assets and

$0.2 billion in Corporate Finance assets.

Factoring commissions declined, as they were impacted by lower factoring volume and a modest reduction in rates.

Fees and commissions are comprised of asset management, agent and advisory fees, and servicing fees, as well as income from joint ventures. 2009 and 2008 also included securitization-related servicing fees, accretion and impairments. Agent and advisory fees and commissions declined over the past three years due to lower deal activity, and asset management and servicing fees declined on lower asset levels. 2010 fees and commissions declined in connection with bringing on-balance sheet certain previously securitized receivables, which reduced securitization-related servicing fees and eliminated retained interest accretion.

Counterparty receivable accretion primarily relates to the accretion of a fair value mark on the receivable from GSI related to a secured borrowing facility. *See Note 7 Long-term Borrowings.*

Investment gains (losses) primarily reflects the gain on sale of our equity interest in Care Investment Trust Inc., an externally managed real estate investment trust (REIT) formed by CIT in 2007.

Valuation allowance for assets held for sale relates to the sale of Corporate Finance and Consumer loans and Transportation and Vendor Finance equipment.

Losses on derivatives and foreign currency exchange largely reflects losses on transactional exposures, in part offset by economic hedges that do not qualify for hedge accounting, and losses on interest rate swaps that arose from the bankruptcy, when most of our derivative transactions that we used to establish our hedge positions were terminated in 2009.

Change in GSI facility derivative fair value represents a charge for a change in the fair value of the GSI facility derivative financial instrument, relating to our downsizing of the facility.

EXPENSES

Other Expenses (dollars in millions)

	Years Ended December 31		
	CIT 2010	Predecessor CIT 2009	2008
Depreciation on operating lease equipment	$ 679.1	$ 1,141.8	$ 1,145.2
Salaries and general operating expenses:			
Compensation and benefits	571.5	522.5	752.4
Professional fees other	115.8	125.9	124.6
Technology	75.0	77.0	83.7
Net occupancy expense	48.9	66.8	74.7
Professional fees Restructuring Plan		98.4	
Other expenses	154.9	207.2	245.1
Total salaries and general operating expenses	966.1	1,097.8	1,280.5
Provision for severance and facilities exiting activities	52.2	42.9	166.5
Goodwill and intangible assets impairment charges		692.4	467.8
(Gains) losses on debt and debt-related derivative extinguishments		(207.2)	(73.5)
Total expenses	$ 1,697.4	$ 2,767.7	$ 2,986.5
Headcount	3,778	4,293	4,995

Depreciation on operating leases is recognized on owned equipment over the lease term or projected economic life of the asset. FSA adjustments reduced 2010 depreciation expense by $272.5 million. See *Net Finance Revenues* and *Financing and Leasing Assets Results by Business Segment* and *Concentrations Operating Leases* for additional information.

Salaries and general operating expenses declined year over year as we continued to focus on efficiency improvements, headcount reductions and facility consolidating activities to better correspond with the lower asset base. Headcount declined 12% from prior year.

- *Compensation and benefits* were up as 2010 included both equity and cash incentive costs, while 2009 had limited incentive costs. Excluding incentive compensation costs, Compensation and benefits were down from 2009.
- *Professional fees other* reflect legal and other professional fees such as tax, audit, and consulting services.
- *Technology costs* decreased slightly in 2010 in connection with efficiency improvements.
- *Net Occupancy expense* decreased 27% due to real estate facility restructuring activities.
- *Other expenses* decreased 25% in connection with streamlining initiatives, including lower discretionary spending in advertising, marketing, travel and entertainment.

- *Provision for severance and facilities exiting activities* reflects office space consolidation as we exited our headquarters in New York and reflects reductions of over 500 employees, approximately 12% of the workforce. See *Note 24 Severance and Facility Exiting Reserves* for additional information.

Goodwill and intangible assets impairment charges in 2009 relate to Corporate Finance and Trade Finance pretax goodwill impairment charges of $567.6 million and a pretax intangible asset impairment charge of $124.8 million. Goodwill and intangible asset impairment charges in 2008 primarily relate to Vendor Finance.

Gains (losses) on debt and debt-related derivative extinguishments in 2009 includes a pre-tax gain of $67.8 million recognized on our August 17, 2009 notes tender and the pre-tax gain of $139.4 million (net of costs to unwind related hedges) from the repurchase of $471 million of senior unsecured notes. The 2008 balance includes gains of approximately $216 million primarily relating to extinguishment of $490 million in debt related to our equity unit exchange (gain of $99 million) and the extinguishment of $360 million in Euro and Sterling denominated senior unsecured notes (gain of $110 million), in part offset by losses of $148 million due to the discontinuation of hedge accounting for interest rate swaps hedging our commercial paper.

INCOME TAXES

Income Tax Data for the years ended December 31 (dollars in millions)

		Predecessor CIT			
		2009			
	CIT 2010	**Pre FSA/ Reorganization**	**FSA/ Reorganization**	**Total**	**2008**
(Benefit) provision for income taxes	$ 193.0	$ 9.0	$ (212.9)	$ (203.9)	$ (314.5)
Tax (benefit) provision on significant, unusual items					(98.3)
Discreet items (Tax liability releases/NOL valuation adjustments/Changes in uncertain tax liabilities)	53.9	39.8	32.0	71.8	(31.6)
(Benefit) provision for income taxes on continuing operations	246.9	48.8	(180.9)	(132.1)	(444.4)
(Benefit) for income taxes on discontinued operation					(509.2)
(Benefit) provision for income taxes Total	$ 246.9	$ 48.8	$ (180.9)	$ (132.1)	$ (953.6)
Effective tax rate continuing operations	32.1%	(0.2)%	(5.5)%	(399.1)%	41.3%
Effective tax rate continuing operations excluding					

discrete items		25.1%	(1.3)%	(4.7)%	(258.6)%	38.1%
Effective tax rate	discontinued operation					19.0%
Effective tax rate	total	32.1%	(1.3)%	(4.7)%	(258.6)%	25.4%

The 2010 tax provision of $193 million was primarily driven by taxes on earnings from international operations, and valuation allowances against U.S. losses. The tax provision of $53.9 million for discrete items primarily relates to the establishment of valuation allowances against certain deferred tax assets partially offset by favorable settlements of prior year international tax audits. Income tax benefits were not recognized on domestic losses due to uncertainties related to future utilization of net operating loss carry forwards.

The 2009 tax benefit was primarily driven by the recognition of net deferred tax assets resulting from FSA write-downs of assets used in the Company s international operations. The tax benefit was not impacted by domestic fresh start adjustments or reorganization items (largely cancellation of indebtedness income) due to the Company s domestic tax position of not recognizing future tax benefits on its net deferred tax assets. The provision for taxes prior to FSA and reorganization items largely reflects income taxes on earnings in international operations. Tax benefits were not recognized on the Company s domestic losses due to its tax position of not recognizing future tax benefits on its net deferred tax assets.

The 2008 tax benefit was primarily driven by the establishment of deferred tax assets on domestic losses and certain reductions in reserves established on uncertain tax positions. The tax benefit related to discontinued operations of $509.2 million relates to deferred tax assets established on net operating losses from the disposal of the home lending business.

See *Note 16 Income Taxes* for additional information.

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DISCONTINUED OPERATION

In June 2008, management contractually agreed to sell the home lending business, including the home mortgage and manufactured housing portfolios and the related servicing operations. The sale closed in July 2008 and we transferred servicing in February 2009. Related summarized financial information is shown in *Note 1 Discontinued Operation*, in *Item 8. Financial Statements and Supplementary Data.*

RESULTS BY BUSINESS SEGMENT

See *Note 22 Business Segment Information* for additional details.

Corporate Finance

Corporate Finance s middle-market lending business in the U.S. and Canada provides financing to customers in a wide range of industries, including Commercial & Industrial, Communications, Media & Entertainment, Healthcare, and Energy. We also have specialized business units focusing on small business lending in the US, and on financial sponsors in Europe. Revenue is generated primarily from interest earned on loans, supplemented by fees collected on services provided.

	CIT	**Predecessor CIT**	
For the year ended December 31, (dollars in millions)	**2010**	**2009**	**2008**
Earnings Summary			
Interest income	$ 1,783.7	$ 920.6	$ 1,471.8
Interest expense	(1,021.8)	(496.6)	(883.5)
Provision for credit losses	(503.6)	(1,856.8)	(520.0)
Rental income on operating leases	28.6	41.7	55.6
Other income, excluding rental income	601.5	(333.9)	20.6
Depreciation on operating lease equipment	(15.6)	(32.0)	(33.5)
Other expenses, excluding depreciation	(293.5)	(337.5)	(409.3)
Goodwill and intangible assets impairment charges		(316.8)	
Reorganization items		(10.2)	
FSA adjustments		(2,063.2)	
(Provision) benefit for income taxes and noncontrolling interests, after tax	(114.8)	1,584.5	131.3
Net income (loss)	$ 464.5	$ (2,900.2)	$ (167.0)
Select Average Balances			
Average finance receivables (AFR)	$10,944.1	$18,714.9	$21,692.1
Average operating leases (AOL)	111.9	155.0	215.3
Average earning assets (AEA)	11,246.5	19,075.2	22,307.9
Statistical Data			
Net finance revenue (interest and rental income, net of interest and depreciation expense) as a % of AEA	6.89%	2.27%	2.74%
Funded new business volume	$ 1,203.7	$ 1,182.5	$ 6,269.6

2010 Summary

Corporate Finance results were positively affected by the Interest Income generated from the accretion of $1.1 billion of FSA adjustments, including acceleration due to sales and prepayments, that helped offset higher interest expense costs resulting from CIT s post emergence debt structure. Credit costs were significantly lower as the portfolio credit performance stabilized and provisioning actions proved to be adequate. Other Income was significantly higher driven by gains on asset sales and recoveries of pre-FSA charge-offs by Predecessor CIT. Asset levels declined significantly as a result of sales of non-strategic assets and prepayment activity. Operating expenses declined primarily due to reductions in headcount commensurate with the decline in asset levels.

Total net revenues were $1,376 million, well above prior year due to yield accretion of FSA marks, gains on asset sales and recoveries of pre-FSA charge-offs.

- Other income was higher due to gains on asset sales and recoveries on accounts charged off pre-FSA. Fee generation improved over the prior period.
- Net finance revenue as a percentage of average earning assets was higher than the prior year due to accretion related to FSA marks.
- The portfolio stabilized in 2010. Credit cost provisions were significantly lower than the prior period. Net charge offs decreased to $253 million from $1.4 billion in 2009. Non-accrual loans declined $622 million on a pre-FSA basis from 2009. Part of the decline was due to assets sold and charge-offs.
- New business volume was relatively flat with the prior year but improved significantly in the second half of 2010. New business volume in 2010 was principally in the commercial and industrial, healthcare and communications, media and entertainment industries and in the Canadian business. New business volume reflects a mix of asset-based lending, cash flow products and equipment financing. As in 2009 originations there was soft demand for syndication and loan sales; however, we began to see improvement in the area in the second half of 2010.
- Owned assets (pre-FSA) were down 37%, reflecting sales of non-strategic and uneconomic receivables, a high level of prepayment activity and modest volume levels.

2009 and 2008 Summary

- Total net revenues were $99.8 million, well below the prior year due to restricted asset growth, higher non-accrual loans and lower other income.
- Other income was down due to higher losses on receivable sales, valuation charges on assets held for sale and impairment charges on equity investments and retained interests and lower fees due to limited syndication activity. Other income for 2008 included valuation charges on receivables held for sale ($104 million), impairment charges on our commercial real estate portfolio and lower fee generation.
- Net finance revenue as a percentage of average earning assets remained below 2008 level due to high funding costs.
- Weak economic conditions and poor performance in cash flow loans negatively impacted credit performance as net charge-offs increased to $1.4 billion from $177 million in 2008. Increases were across most units, with higher levels in media, energy, small business lending and commercial real estate.
- The FSA adjustment principally reflected the reduction of finance receivables to fair value. See *Note 25 Fresh Start Accounting* for additional information. Pre-FSA, non-accrual loans were at elevated levels.
- New business volume was significantly down from the prior year. 2009 originations were principally in the Canadian business, commercial and industrial, energy and infrastructure, and small business lending.
- Owned assets (before fresh start accounting) were down 26%, reflecting receivables and asset sales and lower volumes. During 2009, $1.6 billion of assets were sold or syndicated compared to $3.5 billion in 2008.

Transportation Finance

Transportation Finance leases primarily commercial aircraft to airlines globally and rail equipment to North American operators, and provides other financing to these customers as well as those in the defense sector. Revenue is generated from rents collected on leased assets, and to a lesser extent from interest on loans, fees, and gains from assets sold.

	CIT	Predecessor CIT	
	2010	2008	2009
For the year ended December 31, (dollars in millions)			
Earnings Summary			
Interest income	$ 230.7	$ 162.9	$ 193.4
Interest expense	(970.8)	(546.1)	(577.2)
Provision for credit losses	(28.9)	(13.2)	25.0
Rental income on operating leases	1,240.0	1,373.1	1,345.3
Other income, excluding rental income	82.7	27.6	124.0
Depreciation on operating lease equipment	(335.9)	(669.4)	(596.1)
Other expenses, excluding depreciation	(152.2)	(137.7)	(138.6)
Reorganization items		(854.7)	
FSA adjustments		(3,635.3)	
(Provision) benefit for income taxes and noncontrolling interest, after tax	(24.4)	1,861.1	(48.7)
Net income (loss)	$ 41.2	$ (2,431.7)	$ 327.1
Select Average Balances			
Average finance receivables	$ 1,681.4	$ 2,494.9	$ 2,607.2
Average operating leases	10,298.9	12,141.5	11,310.4
Average earning assets	11,980.9	14,641.2	13,918.2
Statistical Data			
Net finance revenue (interest and rental income, net of interest and depreciation expense) as a % of AEA	1.37%	2.19%	2.63%
Operating lease margin as a % of AOL	8.78%	5.80%	6.62%
Funded new business volume	$ 1,116.1	$ 1,246.1	$ 2,755.1

2010 Summary

Results for 2010 reflect the benefits of higher gains on asset sales and improved rail utilization rates, however, renewal rates were lower than previous rates in both aerospace and rail. 2010 pre-tax results also reflect a pre-tax benefit of $144 million from FSA accretion.

During 2010 we placed all 22 new aircraft from our order book and have leases in place for all 2011 scheduled deliveries. Although we consistently were able to utilize our aircraft, rental rates had softened. We also funded several aircraft with secured debt backed by the ECA and CIT Bank originated aerospace loan transactions. In late December, we announced an order for 38 new Boeing aircraft, to be delivered between 2014 and 2017. Rail fleet utilization, including customer commitments to lease, improved from 90% to 94%. Rail lease rates and utilization have been impacted by weak freight demand and increased velocity on the rail network which have combined to generate a broad-based surplus of rail assets.

- Net finance revenue was $164 million and includes a $129 million benefit from FSA accretion, as lease rate pressure and increased allocated funding costs offset revenues generated on new volume. The operating lease margin of 8.78% reflects FSA accretion, while on a pre-FSA basis, the margin was 5.81%.
- The favorable earnings impact of FSA accretion is recognized over a longer time horizon in Transportation Finance as compared to other segments given the longer asset lives. FSA accretion resulted in an increase to interest income of $105 million, a reduction to rental income on operating leases of $104 million from amortization of lease contract intangible assets, an increase to interest expense of $104 million and a $232 million reduction to depreciation expense.
- Other income includes $60 million of gains on $380 million of equipment and receivable sales. Other income also includes $15 million of FSA accretion on a counterparty receivable.
- Volume consisted primarily of the delivery of commercial aircraft from our existing order book. See *Note 18 Commitments*.

- Credit metrics were stable. The provision for loan losses reflected the establishment of non-specific reserves, as well as a specific reserve for one aerospace exposure. Net charge-offs were $5 million and non-accrual loans were $63 million.
- Financing and leasing assets were stable at $12.0 billion as new equipment purchases (principally aircraft) were offset by equipment sales and depreciation.

2009 and 2008 Summary

- Total net revenues decreased primarily due to lower gains on aircraft sales. Operating lease margins declined, reflecting somewhat lower rates in aerospace, weaker rail utilization and rental rates, and higher depreciation due to a higher asset base.
- Credit quality remained strong, as collection efforts and active portfolio management minimized charge-offs and non-accrual loans.
- As a result of the bankruptcy, we purchased rail and aircraft equipment we previously leased from various third party lessors and subleased to various end users and we recorded a loss for the difference between the purchase price and the asset fair value, the write-off of prepaid rent balances, and related expenses incurred. The fresh start accounting adjustment reflects the reduction of finance receivables and operating lease equipment to fair value.
- New business volume decreased as the slowing economy affected air and rail. Volume consisted primarily of previously committed aircraft orders, all of which were leased.
- Asset growth was 9% in 2009, of which 6% was due to the purchase of rail cars that we held as lessee and sub-leased to customers. Asset growth was up 5% during 2008, driven by new aircraft deliveries from our existing order book. During 2009, we took delivery of 13 new aircraft compared to 23 in 2008 from our order book. All commercial aircraft were on lease at the end of 2009. Rail demand experienced softening throughout 2009. Rail assets were 90% utilized, including customer commitments to lease, down from 95% at 2008.
- The FSA adjustment reflects the reduction of finance receivables and operating lease equipment to fair value. See *Note 25 Fresh Start Accounting* for additional information.

Trade Finance

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

	CIT	Predecessor CIT	
	2010	**2009**	**2008**
For the year ended December 31, (dollars in millions)			
Earnings Summary			
Interest income	$ 99.8	$ 126.7	$ 210.2
Interest expense	(162.8)	(62.7)	(80.5)
Provision for credit losses	(58.6)	(105.6)	(74.5)
Other income, commissions	145.0	173.5	197.2
Other income, excluding commissions	44.8	35.1	46.8
Other expenses	(122.5)	(129.5)	(141.2)
Goodwill and intangible assets impairment charges		(363.8)	
FSA adjustments		83.0	
Benefit (provision) for income taxes	5.6	98.5	(58.4)
Net (loss) income	$ (48.7)	$ (144.8)	$ 99.6
Select Average Balances			
Average finance receivables	$ 2,662.1	$ 4,622.7	$ 6,740.3
Average earning assets[(1)]	$ 1,702.7	$ 2,676.4	$ 3,258.4
Statistical Data			
Net finance revenue as a % of AEA	(3.70)%	2.39%	3.98%
Factoring volume	$ 26,675.0	$ 31,088.0	$ 42,204.2

[(1)] AEA is lower than AFR as it is reduced by the average credit balances for factoring clients.

2010 Summary

Trade Finance was significantly impacted in 2009 by CIT s weakened financial condition and reorganization. However, in 2010 the business stabilized as evidenced by steadily declining client terminations, the signing of an estimated $1.6 billion of volume from new clients and the resumption of approximately $1.5 billion in volume by clients that had previously been withholding their business. In addition, during 2009 certain clients switched to deferred purchase agreements in which the receivables pertaining to these agreements are not owned by CIT and resulted in lower receivable balances. During 2010 this switch slowed significantly and some clients have returned to traditional factoring products.

- Net interest income reflected the impact of high cost debt and prepayment penalties that more than offset the benefit from the $650 million securitization facility that was established in June 2010
- Factoring commissions declined, as they were impacted by lower factoring volume and a modest reduction in rates.

- Other income includes $18 million of recoveries on accounts charged off pre-FSA.
- The provision for credit losses includes amounts for rebuilding loan loss reserves in the first quarter after the reserve was eliminated under FSA.
- Non-accruing loans increased to $164 million reflecting the addition of certain secured loans.
- Finance receivables ended 2010 down 20% from the prior year level due to terminations, growth in deferred purchase activity from existing clients with those type contracts, planned reduction in lending to non-factored clients and repayments of loans by clients who drew down excess funds during the second half of 2009.

2009 and 2008 Summary

- Total net revenues were down 27% from 2008 levels, as net interest income declined due to higher cost of funds and commissions declined due to lower volume. These negative factors were partially offset by increases in rates on loans and improved commission rates.
- Net charge-offs increased to $109 million. The increase is principally related to the acceleration of charge-off recognition, as a significant portion of these charge-offs were reserved in 2008. Prior to the FSA adjustments, non-accrual loans as a percentage of finance receivables remained at higher levels over prior years primarily, reflecting the weak retail environment.
- The FSA adjustment reflects the reduction of finance receivables to fair value, offset by the reversal of previously established specific reserves.
- Receivables were down 50%, reflecting reductions in factoring volume and certain migration to deferred purchase contracts, both due to concerns about CIT s weakened financial condition in 2009 and a weak retail environment.

Vendor Finance

Vendor Finance has relationships with leading manufacturers and distributors of information technology, office products and telecommunications equipment to deliver financing and leasing solutions to end-user customers, predominantly small and medium sized businesses, globally. We also offer financing for diversified asset types in certain international markets. Vendor Finance earns revenues from interest on loans, rents on leases, and fees and other revenue from leasing activities.

	CIT	Predecessor CIT	
	2010	2009	2008
For the year ended December 31, (dollars in millions)			
Earnings Summary			
Interest income	$ 1,226.1	$ 850.5	$ 1,049.3
Interest expense	(666.1)	(555.9)	(633.1)
Provision for credit losses	(203.9)	(492.9)	(131.2)
Rental income on operating leases	372.2	486.8	566.4
Other income, excluding rental income	161.8	81.9	72.7
Depreciation on operating lease equipment	(328.1)	(441.3)	(516.1)
Other expenses, excluding depreciation	(311.7)	(343.9)	(433.7)
Goodwill and intangible assets impairment charges		(11.8)	(467.8)
FSA adjustments		(899.4)	
(Provision) benefit for income taxes and noncontrolling interest	(123.8)	671.8	143.7
Net income (loss)	$ 126.5	$ (654.2)	$ (349.8)
Select Average Balances			
Average finance receivables	$ 6,230.4	$ 10,799.4	$ 10,666.9
Average operating leases	570.2	852.6	1,062.5
Average earning assets	6,946.0	11,652.0	11,865.5
Statistical Data			
Net finance revenue as a % of AEA	8.70%	2.92%	3.93%

Operating lease margin as a % of AOL	7.73%	5.34%	4.73%
Funded new business volume	$ 2,190.9	$ 4,593.1	$ 8,183.2

2010 Summary

Vendor Finance results reflect the challenging global economic conditions that caused lower volumes, diminished margins and elevated credit costs. To mitigate these factors, we increased our pricing, realigned our business, exited from less profitable programs, and continued to focus on core markets. We continued to realign our business to maximize efficiencies and optimize our portfolio, as demonstrated by the sales of our Australian and New Zealand business and non-strategic portfolios. We had significant U.S. receivable sales, including a $564 million liquidating consumer portfolio. Continued progress was made on increasing our funding capabilities as we closed three secured financings in the U.S. and U.K. which aggregate in excess of $1.8 billion and established a local deposit-taking program in Brazil. Throughout the year, we increased business with existing relationships and added new vendor partners.

- Net interest income was impacted by portfolio runoff and asset sales, partially offset by FSA accretion of $199 million. Net finance revenue as a percentage of AEA was pressured as higher yielding assets were sold during 2010. However, new business volume is being booked at double-digit rates.
- Other income primarily consists of gains on receivable and equipment sales of $108 million, and recoveries of loans charged-off pre-FSA of $46 million.
- Net charge-offs and non-accrual loans remained at elevated levels. The provision reflects the rebuilding of the allowance for loan losses plus reserves for new originations, partially offset by the significant asset sales, which lowered the non-specific allowance amount.
- Other expenses decreased as continued progress was made to reduce operating expenses.
- New business volume decreased, reflecting strategic asset sales and joint ventures that ended last year. Volumes, however, were sequentially higher each quarter throughout the year.
- Total financing and leasing assets decreased by $3.5 billion, reflecting collections and sales. At December 31, 2010, there were approximately $750 million of non-core and consumer oriented assets classified as held for sale.
- We closed a $1 billion U.S. committed securitization facility, a £100 million committed securitization facility for U.K. assets and completed a $667 million securitization.

2009 and 2008 Summary

- 2009 total net revenues were down due to asset run-off and reduced revenue from the termination of the Snap-on vendor program. 2008 total net revenues reflect lower joint venture fees.
- 2008 results reflect goodwill and intangible asset impairment charges, impairment on securitized retained interests, and charges incurred in connection with the remediation of reconciliation matters in the European business.
- Net charge-offs increased in 2009, reflecting global economic conditions with sector specific weakness experienced in print, industrial and franchise. Net charge-offs as a percentage of finance receivables trended up during the past two years. Nonaccrual loans (pre-FSA) also increased.
- The FSA adjustment reflects the reduction of finance receivables to fair value. See *Note 25 Fresh Start Accounting* for additional information.
- 2009 new business volume decreased 44% as we managed originations to preserve liquidity and limited new volume to long-standing partners.
- Total financing and leasing assets were down 19% at the end of 2009, reflecting lower volume, continued focus on liquidity, and FSA. During 2008, we brought approximately $2.4 billion on-balance sheet of certain previously securitized receivables.

Consumer

Consumer assets and results include government-guaranteed student loans and other principally unsecured consumer loans, all of which are running off. During 2009, we transferred $5.7 billion of U.S. government-guaranteed student loans to the Bank.

	CIT	Predecessor CIT	
	2010	2009	2008
For the year ended December 31, (dollars in millions)			
Earnings Summary			
Interest income	$ 359.6	$ 257.7	$ 580.2
Interest expense	(245.0)	(286.7)	(462.5)
Provision for credit losses	(25.3)	(149.3)	(348.2)
Other income	10.0	(8.8)	3.0
Other expenses	(79.4)	(65.7)	(72.0)
FSA adjustments		(929.8)	
Benefit for income taxes and noncontrolling interest	0.5	507.5	115.0
Net income (loss)	$ 20.4	$ (675.1)	$ (184.5)
Select Average Balances			
Average finance receivables	$ 8,791.4	$ 11,876.2	$ 12,771.9
Average earning assets	8,968.2	11,939.9	12,864.1
Statistical Data			
Net finance revenue as a % of AEA	1.28%	(0.24)%	0.91%
New business volume		$ 1.3	$ 1,377.1

2010 Summary

During 2010 the Consumer portfolio declined 14% as we sold approximately $700 million in assets, including the sale of substantially all the private student loan portfolio. In January 2011 we announced the outsourcing of servicing of the remaining portfolio of government-guaranteed loans and completed the sale of approximately $250 million of government-guaranteed loans that were in assets held for sale at year end.

- Net finance revenue benefitted from net FSA accretion of $94 million.
- Other income reflects a slight gain on sale, and also includes $8 million of FSA accretion on a counterparty receivable and $5 million of recoveries of pre-FSA charge-offs.
- The 2010 provision for credit losses of $25 million essentially covered the net charge-offs.
- The Consumer portfolio decreased 14% during 2010 due to sales and normal liquidations.
- Delinquencies increased due to changes in consumer servicing laws, which have temporarily delayed customer communications and the collection process.

2009 and 2008 Summary

- 2009 negative net revenue is due to lower interest income as the yield on FFELP government guaranteed loans, which is determined by the U.S. government, fell and our funding costs did not decline at the same pace. Interest expense includes a charge related to the termination of a secured financing conduit.
- Other income primarily reflects fair value charges on interest rate swaps that do not qualify for hedge

accounting.

- In 2008, we ceased offering student loans and cash collections decreased and non-accrual loans increased. In addition, sales of receivables declined as the market for loan sales became disrupted.
- Net charge-offs were up in 2009 and 2008 as private loan in-school loans seasoned and moved to repayment.
- Reserves significantly increased in 2008, resulting in an increase in the provision for credit losses, primarily due to the private student portfolio, including a pilot training school which declared bankruptcy. A settlement resolution was reached in 2010. See *Item 3. Legal Proceedings* *Pilot Training School Bankruptcy* for details.

- The FSA adjustment reflects the reduction of finance receivables to fair value, partially offset by the discount on securitized debt. See *Note 25 Fresh Start Accounting* for additional information.
- The student loan portfolio decreased 9% pre-FSA, principally due to liquidations. See *Concentrations* section for detail on student lending.

Corporate and Other

Certain items are not allocated to operating segments and are included in Corporate and Other. For 2010, these consist primarily of the following: (1) some mark-to-market on non-qualifying derivatives; (2) restructuring charges for severance and facilities exit activities; and (3) certain tax provisions and benefits.

Prior to 2010, Corporate and Other also included: (1) certain funding and liquidity costs, as segment results reflected debt transfer pricing that matched assets (as of the origination date) with liabilities from an interest rate and maturity perspective; (2) a portion of credit loss provisioning in excess of amounts recorded in the segments, primarily reflecting our qualitative determination of estimation risk; (3) dividends that were paid on preferred securities (now cancelled), as segment risk adjusted returns were based on the allocation of common equity; and (4) reorganization adjustments largely related to debt relief in bankruptcy.

	CIT	Predecessor CIT	
For the year ended December 31, (dollars in millions)	2010	2009	2008
Earnings Summary			
Interest income	$ 20.7	$ 39.9	$ 133.3
Interest expense	(10.2)	(711.4)	(502.3)
Provision for credit losses		(43.0)	(0.3)
Rental income on operating leases	(1.1)	(2.1)	(2.0)
Other income, excluding rental income	(43.6)	(248.4)	30.7
Depreciation on operating lease equipment	0.5	0.9	0.5
Other expenses, excluding provision for severance and facilities exit activities and gain (loss) on debt and debt related derivative extinguishments	(6.8)	(83.5)	(85.7)
Other expenses provision for severance and facilities exit activities	(52.2)	(42.9)	(166.5)
Other expenses gain (loss) on debt and debt related derivative extinguishments		207.2	73.5
Reorganization items		11,162.9	
FSA adjustments		1,301.0	
(Provision) benefit for income taxes, and noncontrolling interest	5.6	(4,590.3)	160.3
Net (loss) income before preferred stock dividends	$ (87.1)	$ 6,990.3	$ (358.5)

- Interest income consists of interest and dividend income primarily from deposits held at other depository institutions and U.S. Treasury Securities.
- Interest expense reflects amounts not allocated to the business segments. During 2010, management allocated interest on high cost debt to each segment, which had previously been reflected in Corporate and Other.

- Other income reflects losses on non-qualifying derivatives and foreign currency exchange. 2009 includes a $285 million charge for a change in the fair value of derivative financial instruments associated with a secured lending facility that we downsized, charges from derivatives that no longer qualified for hedge accounting treatment and a positive mark of $71 million to estimated fair value of the TARP warrant.
- Other expenses reflects salary and general and administrative expenses unallocated to the business segments. 2009 and 2008 included incremental costs associated with becoming a bank holding company.
- Other expenses provision for severance and facilities exiting activities reflects facility consolidation charges, principally in the New York region, and severance costs.
- In 2009, gain (loss) on debt and debt-related derivative extinguishments includes a pretax $67.8 million gain recognized on our August 2009 note tender and a pretax gain of $139.4 million (net of costs to unwind related hedges) from the repurchase of $471 million of senior unsecured notes.

- In 2009, reorganization items primarily consist of a $10.4 billion gain recognized on the extinguishment of unsecured debt in connection with the Plan of Reorganization and $0.5 billion of accrued interest that was reversed. The FSA adjustments primarily reflect the fair value adjustment to debt. See *Note 25 Fresh Start Accounting* for additional information.
- The 2008 gain on debt and debt related derivative extinguishments includes gains of approximately $216 million primarily relating to the early extinguishment of debt, convertible bonds related to our equity units exchange offer and Euro and Sterling denominated unsecured notes, offset by losses of $148 million due to the discontinuation of hedge accounting for interest rate swaps in our commercial paper program.

FINANCING AND LEASING ASSETS

The following table presents our financing and leasing assets by segment. The balances in 2009 after FSA reflect finance receivables and operating lease equipment at fair value. See *Emergence from Bankruptcy* section for further discussion.

Financing and Leasing Asset Composition (dollars in millions)

	At December 31			
	CIT		Predecessor CIT	% Change
	2010	2009	2008	2010 vs. 2009
Corporate Finance				
Loans	$ 8,482.2	$ 12,165.8	$ 20,768.8	(30.3)%
Operating lease equipment, net	83.2	137.3	263.4	(39.4)%
Assets held for sale	219.2	292.6	21.3	(25.1)%
Total financing and leasing assets	8,784.6	12,595.7	21,053.5	(30.3)%
Transportation Finance				
Loans	1,388.9	1,808.1	2,647.6	(23.2)%
Operating lease equipment, net	10,618.8	10,089.2	11,484.5	5.2%
Assets held for sale	2.8	17.2	69.7	(83.7)%
Total financing and leasing assets	12,010.5	11,914.5	14,201.8	0.8%
Trade Finance				
Loans	2,387.4	2,991.0	6,038.0	(20.2)%
Vendor Finance				
Loans	4,166.1	8,189.0	11,199.6	(49.1)%
Operating lease equipment, net	434.7	685.4	958.5	(36.6)%
Assets held for sale	749.8			NM
Total financing and leasing assets	5,350.6	8,874.4	12,158.1	(39.7)%
Consumer				

Loans student lending	8,035.5	9,584.2	12,173.3	(16.2)%
Loans other	40.4	99.5	299.3	(59.4)%
Assets held for sale	246.7	34.0	65.1	625.6%
Total financing and leasing assets	8,322.6	9,717.7	12,537.7	(14.4)%
Total loans	$ 24,500.5	$ 34,837.6	$ 53,126.6	(29.7)%
Total operating lease equipment, net	11,136.7	10,911.9	12,706.4	2.1%
Total assets held for sale	1,218.5	343.8	156.1	254.4%
Total Financing and Leasing Assets	$ 36,855.7	$ 46,093.3	$ 65,989.1	(20.0)%

During 2010, we have been optimizing our portfolio of financing and leasing assets through strategic asset and portfolio sales. This activity, as well as collections and prepayments, offset sequential quarterly increases in new business volume and receivables brought on balance sheet in conjunction with the adoption of new accounting consolidation guidance in 2010.

Trends in 2009 reflected lower assets due to our management of liquidity and limiting of funding to key customers and relationships. Origination volume in our commercial businesses, excluding factoring, was $7.0 billion, down from $17.2 billion in 2008. This decline in volume lowered assets in Corporate Finance and Vendor Finance. Vendor Finance asset declines were partially offset by assets purchased from previously off-balance sheet joint ventures and securitizations, including approximately $2.4 billion brought on-balance sheet in 2008, which was more beneficial under bank holding company capital guidelines. Transportation Finance assets increased in 2009 from prior years due to scheduled commercial aircraft deliveries, all of which were leased. Trade Finance asset levels declined; volume was $31.0 billion, well below volume levels of $42.2 billion in 2008. The consumer segment ceased originating new student loans in 2008. See *Results by Business Segment* for further commentary.

Assets held for sale in 2010 include certain vendor loans, some guaranteed student loans and corporate finance loans. Assets held for sale in 2009 was comprised largely of asset based loans in Canada.

The following table sets forth the contractual maturities of finance receivables on a pre-FSA basis:

	December 31, 2010			
(dollars in millions)	Domestic Commercial	Domestic Consumer	Foreign	Total
Fixed-rate				
1 year or less	$ 3,086.8	$ 9.1	$ 1,367.0	$ 4,462.9
Year 2	968.1	22.5	857.4	1,848.0
Year 3	779.3	2.2	690.8	1,472.3
Year 4	418.5	3.4	376.6	798.5
Year 5	217.0	1.6	152.2	370.8
2-5 years	2,382.9	29.7	2,077.0	4,489.6
After 5 years	283.5	7.9	131.6	423.0
Total fixed-rate	5,753.2	46.7	3,575.6	9,375.5
Adjustable-rate				
1 year or less	$ 1,054.3	$ 218.9	$ 221.4	$ 1,494.6
Year 2	1,107.1	282.5	113.5	1,503.1
Year 3	1,689.2	304.0	132.4	2,125.6
Year 4	1,574.0	319.8	29.8	1,923.6
Year 5	1,033.7	336.4	55.9	1,426.0
2-5 years	5,404.0	1,242.7	331.6	6,978.3
After 5 years	1,424.4	7,058.0	97.3	8,579.7
Total adjustable-rate	7,882.7	8,519.6	650.3	17,052.6
Total before FSA	$ 13,635.9	$ 8,566.3	$ 4,225.9	$ 26,428.1

	December 31, 2009			
	Domestic Commercial	Domestic Consumer	Foreign	Total[(1)]
Fixed-rate				
1 year or less	$ 3,857.4	$ 9.5	$ 2,689.2	$ 6,556.1
Year 2	1,432.6	41.0	1,569.5	3,043.1
Year 3	1,109.5	53.5	1,021.0	2,184.0

Year 4	883.8	3.3	586.1	1,473.2
Year 5	410.8	4.5	315.5	730.8
2-5 years	3,836.7	102.3	3,492.1	7,431.1
After 5 years	1,098.5	10.0	188.8	1,297.3
Total fixed-rate	$ 8,792.6	$ 121.8	$ 6,370.1	$ 15,284.5
Adjustable-rate				
1 year or less	$ 1,781.3	$ 393.1	$ 305.3	$ 2,479.7
Year 2	1,441.4	448.0	190.6	2,080.0
Year 3	2,073.3	486.2	272.2	2,831.7
Year 4	2,296.2	495.4	491.1	3,282.7
Year 5	1,881.9	509.8	302.7	2,694.4
2-5 years	7,692.8	1,939.4	1,256.6	10,888.8
After 5 years	2,463.6	9,902.2	167.0	12,532.8
Total adjustable-rate	$ 11,937.7	$ 12,234.7	$ 1,728.9	$ 25,901.3
Total before FSA[1]	$ 20,730.3	$ 12,356.5	$ 8,099.0	$ 41,185.8

[1] Includes initial direct costs and issuance premiums and discounts which were written off as part of FSA.

Financing and Leasing Assets Rollforward (dollars in millions)

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Commercial Segments	Consumer	Total
Balance at December 31, 2009	**$ 12,595.7**	**$ 11,914.5**	**$ 2,991.0**	**$ 8,874.4**	**$ 36,375.6**	**$ 9,717.7**	**$ 46,093.3**
New business volume	1,203.7	1,116.1		2,190.9	4,510.7		4,510.7
Loan sales (pre-FSA)	(2,315.5)	(150.6)		(1,604.9)	(4,071.0)	(1,023.0)	(5,094.0)
Equipment sales (pre-FSA)	(245.4)	(371.2)		(428.0)	(1,044.6)		(1,044.6)
Depreciation (pre-FSA)	(25.2)	(546.2)		(358.8)	(930.2)		(930.2)
Gross charge-offs (pre-FSA)	(612.7)	(5.0)	(31.8)	(302.1)	(951.6)	(76.1)	(1,027.7)
Collections and other	(3,883.5)	(239.7)	(589.2)	(3,547.0)	(8,259.4)	(968.6)	(9,228.0)
Change in finance receivable FSA discounts	2,055.8	125.7	17.4	488.8	2,687.7	672.6	3,360.3
Change in operating lease FSA discounts	11.7	166.9		37.3	215.9		215.9
Balance at December 31, 2010	**$ 8,784.6**	**$ 12,010.5**	**$ 2,387.4**	**$ 5,350.6**	**$ 28,533.1**	**$ 8,322.6**	**$ 36,855.7**

Total Business Volumes (excluding factoring, dollars in millions)

	Years ended December 31		
	CIT	Predecessor CIT	
	2010	2009	2008
Corporate Finance	$ 1,203.7	$ 1,182.5	$ 6,269.6
Transportation Finance	1,116.1	1,246.1	2,755.1
Vendor Finance	2,190.9	4,593.1	8,183.2

Commercial Segments	4,510.7	7,021.7	17,207.9
Consumer		1.3	1,377.1
Total	$ 4,510.7	$ 7,023.0	$ 18,585.0
Factoring	$ 26,675	$ 31,088	$ 42,204

Although volume was below prior years, there were sequential quarterly increases during 2010. Transportation Finance volume reflects aircraft purchases, primarily from its order book. Vendor Finance declines reflects lower volume from joint ventures. The decrease in factoring volume in 2009 reflects the client s concerns about CIT liquidity issues and bankruptcy. The further decline in 2010 reflects the residual impact of client terminations in late 2009 and further client departures in early 2010 prior to the stabilization of the business.

Receivables Sales (Pre-FSA excluding factoring, dollars in millions)

	Years ended December 31		
	CIT	Predecessor CIT	
	2010	2009	2008
Corporate Finance	$ 2,315.5	$ 1,604.3	$ 3,502.6
Transportation Finance	150.6		
Vendor Finance	1,604.9	399.5	1,220.4
Commercial Segments	4,071.0	2,003.8	4,723.0
Consumer	1,023.0	79.7	79.1
Total	$ 5,094.0	$ 2,083.5	$ 4,802.1

Sales activity in 2010 includes loans in Europe, Canada and the U.S., including certain energy-related assets within Corporate Finance, certain non-strategic portfolios, including our Vendor Finance business in Australia and New Zealand, and a liquidating consumer portfolio in Vendor Finance, as well as student loans in Consumer. In 2009, due to market illiquidity and our focus on limiting new business, sales and syndication activities were sharply reduced from 2008 levels, except for sales of Corporate Finance loans done for liquidity purposes. Sales activity in 2008 included a sale of $1.4 billion of asset-based lending receivables sold in Corporate Finance.

CONCENTRATIONS

Ten Largest Accounts

Our ten largest financing and leasing asset accounts in the aggregate represented 7.6% of our total financing and leasing assets at December 31, 2010 (the largest account was less than 2.0%). Excluding student loans, the top ten accounts in aggregate represented 9.7% of total owned assets (the largest account totaled 2.4%).

The largest accounts were in Transportation Finance (airlines and rail), Trade Finance (retail) and Corporate Finance (healthcare).

The top ten accounts were 5.9% and 7.4% (excluding student loans) at December 31, 2009, and 5.2% and 6.3% (excluding student loans) at December 31, 2008.

Operating Lease Equipment by Segment

(dollars in millions)		At December 31		
		CIT		Predecessor CIT
		2010	2009	2008
Transportation Finance	Aerospace(1)	$ 7,125.5	$ 6,506.3	$ 7,236.0

Transportation Finance	Rail and Other	3,493.3	3,582.9	4,248.5
Vendor Finance		434.7	685.4	958.5
Corporate Finance		83.2	137.3	263.4
Total		$ 11,136.7	$ 10,911.9	$ 12,706.4

(1) Aerospace includes commercial, regional and corporate aircraft and equipment.

At December 31, 2010, Transportation Finance had 238 commercial aircraft, and approximately 101,000 railcars and 450 locomotives on operating lease.

Geographic Concentrations

The following table represents the financing and leasing assets by obligor geography:

(dollars in millions)

	CIT				Predecessor CIT	
	December 31, 2010		December 31, 2009		December 31, 2008	
Midwest	$ 6,094.9	16.5%	$ 7,544.7	16.4%	$ 11,295.9	17.0%
Northeast	5,970.6	16.2%	7,770.9	16.9%	12,477.3	18.8%
West	5,120.6	13.9%	6,444.9	14.0%	10,043.8	15.2%
Southeast	4,030.2	10.9%	5,385.7	11.7%	8,076.6	12.2%
Southwest	3,205.5	8.7%	4,253.2	9.2%	6,435.9	9.7%
Total U.S.	24,421.8	66.2%	31,399.4	68.2%	48,329.5	72.9%
Canada	3,572.1	9.7%	3,896.8	8.4%	4,519.3	6.8%
Other international	8,861.8	24.1%	10,797.1	23.4%	13,406.1	20.3%
Total	$ 36,855.7	100.0%	$ 46,093.3	100.0%	$ 66,254.9	100.0%

The following table summarizes both state concentrations greater than 5.0% and international country concentrations in excess of 1.0% of our financing and leasing assets:

	CIT		Predecessor CIT
	December 31, 2010	December 31, 2009	December 31, 2008
State			
California	6.9%	7.0%	7.7%
Texas	6.6%	7.1%	7.3%
New York	6.2%	6.3%	7.0%
All other states	46.5%	47.8%	50.9%
Total U.S.	66.2%	68.2%	72.9%
Country			
Canada	9.7%	8.5%	6.8%
Australia	2.5%	2.2%	1.3%
England	2.4%	3.5%	3.8%
Mexico	2.3%	2.1%	1.9%
China	1.8%	1.6%	1.7%
Germany	1.4%	1.9%	2.1%
Brazil	1.3%	1.1%	1.4%
Spain	1.1%	1.1%	1.0%
All other countries	11.3%	9.8%	7.1%

Total International	33.8%	31.8%	27.1%

Industry Concentrations

The following table represents financing and leasing assets by industry of obligor:

(dollars in millions)

	CIT				Predecessor CIT	
	December 31, 2010		December 31, 2009		December 31, 2008	
Industry						
Student lending[1]	$ 8,280.9	22.5%	$ 9,584.2	20.8%	$ 12,173.3	18.4%
Commercial and regional airlines	7,743.3	21.0%	7,486.1	16.2%	8,631.9	13.0%
Manufacturing[2]	4,761.1	12.9%	6,246.7	13.6%	9,452.4	14.3%
Retail[3]	3,588.4	9.7%	4,386.9	9.5%	5,833.6	8.8%
Service industries	3,076.6	8.4%	4,158.2	9.0%	4,726.8	7.1%
Transportation[4]	2,151.1	5.9%	2,272.1	4.9%	2,953.7	4.5%
Healthcare	1,996.8	5.4%	2,272.6	4.9%	4,333.5	6.5%
Finance and insurance	839.8	2.3%	1,334.1	2.9%	1,629.3	2.5%
Communications	745.8	2.0%	1,312.7	2.8%	1,658.6	2.5%
Energy and utilities	638.8	1.7%	1,103.5	2.4%	1,678.0	2.5%
Wholesaling	456.9	1.2%	826.2	1.8%	1,303.2	2.0%
Consumer based lending non-real estate	211.8	0.6%	1,222.9	2.7%	2,248.6	3.4%
Other (no industry greater than 2%) [5]	2,364.4	6.4%	3,887.0	8.4%	9,632.0	14.5%
Total	$ 36,855.7	100.0%	$ 46,093.2	100.0%	$ 66,254.9	100.0%

(1) See Student Lending section for further information

(2) At December 31, 2010, includes manufacturers of chemicals, including Pharmaceuticals (1.9%), food and kindred products (1.8%), followed by apparel (1.5%), and printing and publishing (1.3%).

(3) At December 31, 2010, includes retailers of apparel (3.4%), other (2.8%) and general merchandise (1.4%).

(4) Includes rail, bus, over-the-road trucking industries, business aircraft and shipping.

(5) Includes commercial real estate of $117 million, $223 million and $850 million at December 31, 2010, 2009 and 2008, respectively.

Aerospace

Commercial Aerospace Portfolio (dollars in millions)

	CIT				Predecessor CIT	
	December 31, 2010		December 31, 2009		December 31, 2008	
	Net Investment	Number	Net Investment	Number	Net Investment	Number
By Region:						
Asia Pacific	$ 2,569.2	95	$ 2,272.9	91	$ 2,299.6	81
Europe	2,151.0	79	1,977.3	78	2,715.7	88
U.S. and Canada	1,212.1	68	955.4	68	1,188.7	70
Latin America	902.0	36	1,065.2	39	1,343.3	41
Africa / Middle East	731.8	20	692.7	20	552.4	14
Total	$ 7,566.1	298	$ 6,963.5	296	$ 8,099.7	294
By Manufacturer:						
Airbus	$ 4,845.8	163	$ 4,305.5	150	$ 4,685.9	137
Boeing	2,702.0	135	2,650.7	146	3,387.2	156
Other	18.3		7.3		26.6	1
Total	$ 7,566.1	298	$ 6,963.5	296	$ 8,099.7	294
By Body Type (1)**:**						
Narrow body	$ 5,536.4	235	$ 5,268.2	238	$ 6,268.7	237
Intermediate	1,895.6	53	1,552.4	48	1,598.8	44
Wide body	115.8	10	135.7	10	205.6	12
Other	18.3		7.3		26.6	1
Total	$ 7,566.1	298	$ 6,963.5	296	$ 8,099.7	294
By Product:						
Operating lease	$ 7,064.9	238	$ 6,418.2	232	$ 7,156.6	216
Loan	447.5	56	432.4	58	711.6	70
Capital lease	53.7	4	112.9	6	231.5	8
Total	$ 7,566.1	298	$ 6,963.5	296	$ 8,099.7	294
Number of accounts	100		103		108	
Weighted average age of fleet (years)	5		6		5	
Largest customer net investment	$ 692.4		$ 367.5		$ 376.8	

(1) Narrow body are single aisle design and consist primarily of Boeing 737 and 757 series and Airbus A320 series aircraft. Intermediate body are smaller twin aisle design and consist primarily of Boeing 767 series and Airbus A330 series aircraft. Wide body are large twin aisle design and consist primarily of Boeing 747 and 777 series and McDonnell Douglas DC10 series aircraft.

Our top five commercial aerospace outstandings totaled $1,563 million at December 31, 2010, all of which were to carriers outside the U.S. The largest individual outstanding exposure to a U.S. carrier at December 31, 2010 was $152.1 million.

Aerospace assets include operating and capital leases and secured loans. Management considers current lease rentals as well as relevant available market information (including third-party sales of similar equipment, published appraisal data and other marketplace information) in determining undiscounted future cash flows when testing for impairment and in determining estimated fair value in measuring such impairment. We adjust depreciation schedules of commercial aerospace equipment on operating leases or residual values underlying capital leases when projected fair value is less than the projected book value at end of lease term. We review aerospace assets for impairment annually, or more often when circumstances warrant. Aerospace equipment is impaired when the expected undiscounted cash flows over the expected remaining life is less than book value.

We factor historical information, current economic trends and independent appraisal data into assumptions and analyses we use when determining the expected cash flow. These assumptions include lease terms, remaining life, lease rates, remarketing prospects and maintenance costs.

See *Note 18 Commitments* for additional information regarding commitments to purchase additional aircraft.

Student Lending (Student Loan Xpress or SLX)

Consumer includes our liquidating student loan portfolio. During 2010, we sold over $700 million in loans or approximately 8% of the portfolio, including the sale of substantially the entire private student loan portfolio. On January 4, 2011, CIT announced it had entered into an agreement to outsource the servicing of the student loan portfolio. The servicing is expected to be transferred by March 31, 2011. As a result, CIT will close its Xpress Loan Servicing offices in Cleveland and Cincinnati, Ohio.

See Note 7 *Long-Term Borrowings* for description of related financings.

Finance receivables by product type are presented in the following table.

Student Lending Receivables by Product Type (dollars in millions)

	CIT		**Predecessor CIT**
	December 31, 2010	**December 31, 2009**	**December 31, 2008**
Consolidation loans	$ 7,119.0	$ 7,559.3	$ 9,101.4
Other U.S. Government guaranteed loans	1,159.2	1,888.4	2,332.0
Private (non-guaranteed) loans and other	2.7	136.5	739.9
Total	$ 8,280.9	$ 9,584.2	$ 12,173.3
Delinquencies (sixty days or more)	$ 608.9	$ 658.8	$ 689.2
Top state concentrations (%)	35%	36%	36%
Top state concentrations	California, New York, Texas, Ohio, Pennsylvania		

RISK MANAGEMENT

We are subject to a variety of risks that can manifest themselves in the course of the business that we operate in. We consider the following to be the principal forms of risk:

- Credit and asset risk (including lending, leasing, counterparty, equipment valuation and residual risk)
- Market risk (including interest rate and foreign currency)
- Liquidity risk
- Legal, regulatory and compliance risks (including compliance with laws and regulations)
- Operational risks (including process failures, data and systems, human resource risks and risks arising from external events)

Managing risk is essential to conducting our businesses and to our profitability. This includes establishing and enforcing policies, processes, procedures and limits to manage risk, as well as developing appropriate management information systems to identify, monitor and report on risks. We continue to enhance our risk management practices, including governance, measurement and monitoring.

SUPERVISION AND OVERSIGHT

Managing risk is essential to conducting our businesses and to our profitability. We continue to enhance our risk management practices, including governance, measurement and monitoring. We have hired a new Chief Financial Officer, Chief Risk Officer, Chief Credit Officer, Chief Auditor, a Head of Market, Asset & Liquidity Risk, and a Chief Compliance Officer. The Chief Risk Officer oversees credit risk, market risk, liquidity risk, asset risk, compliance risk and operations risk. The Company maintains a variety of management committees responsible for risk monitoring and supervision. The Enterprise Risk Committee (ERC) provides guidance, supervision and oversight for the corporate-wide risk management process. The ERC approves and oversees the Company s risk management policies, procedures and overall risk profile. The Asset Liability Committee (ALCO) oversees the management of balance sheet risks, including liquidity, interest rate and foreign currency risk. The ALCO also approves market risk policies as well as overall funding strategies. The Risk Management Committee of our Board of Directors oversees credit, market, liquidity, asset and operations risk management practices. The Audit Committee of the Board of Directors oversees financial, legal, and compliance risk management practices.

The Credit Risk Management (CRM) group, which reports to the Chief Risk Officer (CRO), oversees and manages credit risk throughout CIT. This group is run by the Chief Credit Officer (CCO), and includes the heads of credit for each business unit, the head of Problem Loan Management, as well as credit policy. The Corporate Credit Committee, Credit Policy Committee and Criticized Asset Committees report into the CCO.

The risk management function includes an independent loan risk review function, which reports to the CRO. The loan risk review group reviews credit management processes at each business and monitors compliance with corporate policies. The loan risk review group tests for adherence with credit policies and procedures and for inappropriate credit practices, including problem account identification and reporting. They also review credit grading, non-accruals and charge-off practices.

CREDIT AND ASSET RISK

Lending

The extension of credit, through our lending and leasing activities, is the fundamental purpose of our businesses. As such, the credit management process, for CIT Bank and other holding company entities, is centralized under Firm Risk Management and is focused on the maintenance of comprehensive credit risk management practices, ranging from underwriting, on-going monitoring and collections. We review and monitor credit exposures on an ongoing basis to identify, as early as possible, customers that are experiencing declining creditworthiness or financial difficulty. We evaluate reserves through our Allowance for Loan Losses (ALLL) process for performing loans, non-accrual loans, as well as establishing non-specific reserves from time to time to cover portfolio concerns. We monitor concentrations by borrower, industry, geography and equipment type. We set or modify credit authorities, including Risk Acceptance Criteria as conditions warrant, based on borrower risk, collateral, industry risk portfolio size and concentrations, credit concentrations and risk of substantial credit loss. We evaluate our collateral and test for asset impairment based upon projected cash flows and relevant market data with any impairment in value charged to earnings.

Our underwriting policies, procedures and practices, combined with credit judgment and quantitative tools, evaluate financing and leasing assets for credit and collateral risk during the credit granting process and periodically after the advancement of funds. These set forth our underwriting parameters based on: (1) Target Market Definitions, which delineate risk by market, industry, geography and product, and (2) Risk Acceptance Criteria, which detail acceptable structures, credit profiles and risk-adjusted returns. Our policies and procedures consider restrictions on banking activities and are appropriately tailored for CIT Bank and other similarly-regulated entities. CIT Bank management independently approves loans originated in the Bank.

We capture and analyze credit risk based on probability of obligor default (PD) and loss given default (LGD). Probability of default is determined by evaluating borrower creditworthiness, including analyzing credit history, financial condition, cash flow adequacy, financial performance and management quality. Loss given default ratings, which estimate loss if an account goes into default, are predicated on transaction structure, collateral valuation and related guarantees (including recourse to manufacturers, dealers or governments).

We have executed offsetting derivative transactions with our customers as a service to our customers in order to mitigate their interest rate and currency risks. The counterparty credit exposure related to these transactions is monitored and evaluated as part of our credit risk management process.

Commercial Lending and Leasing. Commercial credit management begins with the initial evaluation of credit risk and underlying collateral at the time of origination and continues over the life of the finance receivable or operating lease, including normal collection, recovery of past due balances and liquidating underlying collateral.

Credit personnel review potential borrowers financial condition, results of operations, management, industry, customer base, operations, collateral and other data, such as third party credit reports, to evaluate the customer s borrowing and repayment ability. Transactions are graded by PD and LGD, as described above. Credit facilities are subject to our overall credit approval and underwriting guidelines and are issued commensurate with credit evaluation performed on each borrower, as well as portfolio concentrations.

Small Ticket Lending and Leasing. For certain small-ticket lending and leasing transactions, we employ automated credit scoring models (scorecards). The models evaluate, among other things, financial performance metrics, length of time in business, industry category and geography, and are used to assess a potential borrower s credit standing and repayment ability, including the value of collateral. We utilize external credit bureau scoring, when available, behavioral models, as well as judgment in the credit adjudication and collection processes.

We evaluate the small ticket leasing portfolio using delinquency vintage curves and other tools to analyze trends and credit performance by transaction type, including analysis of specific credit characteristics and selected subsets of the portfolios. Adjustments to credit scorecards and lending programs are made periodically based on these evaluations. Individual underwriters are assigned credit authority based upon experience, performance and understanding of underwriting policies of small-ticket leasing operations. A credit approval hierarchy exists to ensure that an underwriter with the appropriate level of authority reviews applications.

Derivative Counterparty Risk

We enter into interest rate and currency swaps and foreign exchange forward contracts as part of our overall risk management practices. We assess and manage the external and internal risks associated with these derivative instruments in accordance with the overall operating policies established by our ERC and its credit sub-committees, the ALCO and the Risk Management Committee of our Board of Directors. External risk is defined as those risks outside of our direct control, including counterparty credit risk, liquidity risk, systemic risk, legal risk and market risk. Internal risk relates to those operational risks within the management oversight structure and includes actions taken in contravention of CIT policy.

The primary external risk of derivative instruments is counterparty credit exposure, which is defined as the ability of a counterparty to perform financial obligations under the derivative contract. We control credit risk of derivative agreements through counterparty credit approvals, pre-established exposure limits and monitoring procedures.

The Corporate Credit Committee, in conjunction with Firm Risk Management, approves each counterparty, and establishes exposure limits based on credit analysis of each counterparty. Derivative agreements are generally entered into with major money center financial institutions rated investment grade by nationally recognized rating agencies.

Equipment and Residual Risk

Asset risk in our leasing business is evaluated and managed in the business units and overseen by Firm Risk Management. Our business process consists of: 1) setting residual values at transaction inception; 2) systematic residual value reviews; and 3) monitoring of actual levels of residual realizations. Residual realizations, by business and product, are reviewed as part of our quarterly financial and asset quality review. Reviews for impairment are performed at least annually.

MARKET RISK

We monitor exposure to market risk by analyzing the impact of potential interest rate and foreign exchange rate changes on financial performance. We consider factors such as the economy, customer prepayment trends and repricing characteristics of assets and liabilities. During 2010, CIT implemented a vendor-supplied asset/liability management system to replace the previously used, internally developed system. The system provides greater analytical capabilities to assess and measure the effects of various market rate scenarios upon the Company s financial performance.

Interest Rate Risk

At December 31, 2010, the Company s loan, lease, and investment portfolio was split evenly, in principal amount, between fixed and floating rate transactions, while our interest-bearing liabilities were predominately fixed rate based. As a result, our portfolio is in an asset sensitive position, as our assets will re-price faster than our liabilities. Therefore, our net interest margin may increase if interest rates rise, or decrease should interest rates decline. The following table summarizes the composition of interest rate sensitive assets and liabilities.

	Fixed Rate	Floating Rate
Assets	48%	52%
Liabilities	80%	20%

We evaluate and monitor interest rate risk through two primary metrics.

- Net Interest Income (NII), which measures the impact of hypothetical changes in interest rates on net interest income.
- Economic Value of Equity (EVE), which measures the net economic value of equity by assessing market value of assets, liabilities and derivatives.

A wide variety of potential interest rates scenarios are simulated within our asset/liability management system. Rates are shocked up and down by up to 400 basis points via a set of scenarios that include both parallel and non-parallel interest rate movements. Scenarios are also run to capture our sensitivity to changes in the shape of the yield curve (such as yield curve twists, ramps, and steepeners). In addition, we evaluate the sensitivity of these results to a number of key assumptions such as credit quality and prepayments. NII and EVE limits have been set and are monitored for certain of the key scenarios.

The table below summarizes the results of simulation modeling produced by our recently implemented asset/liability management system. The results reflect the percentage change in net interest income and economic value of equity over the next twelve months assuming an immediate 100 basis point parallel increase and decrease in interest rates.

Percentage Change	+100bps	-100bps
Net Interest Income	18.0%	(6.5)%
Economic Value of Equity	3.1%	(0.5)%

The simulation modeling assumes we take no action in response to the assumed changes in interest rates. Our net interest income is asset sensitive to a parallel shift in interest rates at December 31, 2010.

Although we believe that these measurements provide an estimate of our interest rate sensitivity, they do not account for potential changes in credit quality, size, competition and prepayment characteristics of our balance sheet. They also do not account for other business developments that could affect net income, or for management actions that could affect net income, or for management actions that could be taken to change our risk profile. Accordingly, we can give no assurance that actual results would not differ materially from the estimated outcomes of our simulations. Further, such simulations do not represent our current view of expected future interest rate movements.

Foreign Currency Risk

We have historically sought to hedge the transactional exposure of our non-dollar denominated activities, comprised of foreign currency loans to foreign subsidiaries, through local currency borrowings. To the extent such borrowings were unavailable, we have utilized derivative instruments (foreign currency exchange forward contracts and cross currency swaps) to hedge our non-dollar denominated activities. Additionally, we have utilized derivative instruments to hedge the translation exposure of our net investments in foreign operations.

The Plan of Reorganization resulted in non-dollar denominated debt being exchanged for U.S. dollar debt. Most of the Company s outstanding derivative instruments that hedged interest rate and foreign exchange rate risk were terminated. This resulted in the re-opening of foreign exchange exposures that had previously been hedged through former debt and derivative instruments. Our non-dollar denominated loans are now largely funded with U.S. dollar denominated debt and equity, which, if unhedged, would cause foreign currency transactional and translational exposures. We target to hedge these exposures through derivative instruments. Approved limits are monitored to facilitate the active management of our foreign currency position. Included among the limits are guidelines, which measure both Transactional and Translational exposure based on potential currency rate scenarios. Unh