CIT GROUP INC
Form 10-Q
August 06, 2014

Table of Contents

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

FORM 10-Q

|X|	Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 *For the quarterly period ended June 30, 2014*	| |	Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 001-31369

CIT GROUP INC.

(Exact name of Registrant as specified in its charter)

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

(212) 461-5200
(Registrant s telephone number)

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

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

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

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

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

As of July 31, 2014 there were 185,651,618 shares of the registrant s common stock outstanding.

Table of Contents

CONTENTS

Table of Contents

Part One Financial Information

ITEM 1. Consolidated Financial Statements

CIT GROUP INC. AND SUBSIDIARIES

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

	June 30, 2014	December 31, 2013
Assets		
Cash and due from banks, including restricted balances of $244.8 and $178.1 at June 30, 2014 and December 31, 2013[1], respectively	$ 1,055.0	$ 680.1

	June 30, 2014	December 31, 2013
Interest bearing deposits, including restricted balances of $557.8 and $785.5 at June 30, 2014 and December 31, 2013[(1)], respectively	5,372.6	5,364.6
Investment securities	823.1	2,630.7
Assets held for sale[(1)]	1,328.9	1,003.4
Loans (see Note 6 for amounts pledged)	18,604.4	18,629.2
Allowance for loan losses	(341.0)	(356.1)
Total loans, net of allowance for loan losses[(1)]	18,263.4	18,273.1
Operating lease equipment, net (see Note 6 for amounts pledged)[(1)]	14,788.3	13,035.4
Unsecured counterparty receivable	565.8	301.6
Goodwill	403.1	334.6
Other assets, including $36.4 and $50.3 at June 30, 2014 and December 31, 2013, respectively, at fair value	1,551.5	1,694.1
Assets of discontinued operation[(1)]	1.0	3,821.4
Total Assets	**$44,152.7**	**$47,139.0**
Liabilities		
Deposits	$ 13,939.0	$ 12,526.5
Credit balances of factoring clients	1,296.5	1,336.1
Other liabilities, including $118.4 and $111.0 at June 30, 2014 and December 31, 2013, respectively, at fair value	2,741.5	2,664.3
Long-term borrowings, including $2,571.1 and $2,510.4 contractually due within twelve months at June 30, 2014 and December 31, 2013, respectively	17,545.5	18,484.5
Liabilities of discontinued operation[(1)]	0.9	3,277.6
Total Liabilities	**35,523.4**	**38,289.0**
Stockholders Equity		
Common stock: $0.01 par value, 600,000,000 authorized		
Issued: 203,092,918 and 202,182,395 at June 30, 2014 and December 31, 2013, respectively	2.0	2.0
Outstanding: 185,645,226 and 197,403,751 at June 30, 2014 and December 31, 2013, respectively		
Paid-in capital	8,582.0	8,555.4
Retained earnings	905.8	581.0
Accumulated other comprehensive loss	(77.5)	(73.6)
Treasury stock: 17,447,692 and 4,778,644 shares at June 30, 2014 and December 31, 2013 at cost, respectively	(794.7)	(226.0)
Total Common Stockholders Equity	8,617.6	8,838.8
Noncontrolling minority interests	11.7	11.2
Total Equity	**8,629.3**	**8,850.0**
Total Liabilities and Equity	**$ 44,152.7**	**$ 47,139.0**

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

Assets		
Cash and interest bearing deposits, restricted	$ 357.1	$ 516.4
Assets held for sale		96.7
Total loans, net of allowance for loan losses	2,802.2	3,109.7
Operating lease equipment, net	3,514.5	4,569.9
Other	9.4	11.9

Assets of discontinued operation		3,438.2
Total Assets	$ 6,683.2	$ 11,742.8
Liabilities		
Beneficial interests issued by consolidated VIEs (classified as long-term borrowings)	$ 4,112.3	$ 5,156.4
Liabilities of discontinued operation		3,265.6
Total Liabilities	**$ 4,112.3**	**$ 8,422.0**

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

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES

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

	Quarters Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Interest income				
Interest and fees on loans	$ 301.4	$ 312.0	$ 594.8	$ 628.1
Interest and dividends on interest bearing deposits and investments	8.4	7.1	17.2	13.5
Interest income	309.8	319.1	612.0	641.6
Interest expense				
Interest on long-term borrowings	(206.1)	(217.8)	(426.1)	(449.6)
Interest on deposits	(56.1)	(44.8)	(108.0)	(87.1)
Interest expense	(262.2)	(262.6)	(534.1)	(536.7)
Net interest revenue	47.6	56.5	77.9	104.9
Provision for credit losses	(10.2)	(14.6)	(46.9)	(34.1)
Net interest revenue, after credit provision	37.4	41.9	31.0	70.8
Non-interest income				
Rental income on operating leases	519.6	484.3	1,011.5	960.7
Other income	93.7	79.2	164.8	149.2
Total non-interest income	613.3	563.5	1,176.3	1,109.9
Total revenue, net of interest expense and credit provision	650.7	605.4	1,207.3	1,180.7
Other expenses				
Depreciation on operating lease equipment	(157.3)	(133.6)	(306.1)	(266.9)
Maintenance and other operating lease expenses	(49.0)	(40.3)	(100.6)	(82.7)
Operating expenses	(225.0)	(226.1)	(458.5)	(457.0)
Loss on debt extinguishment	(0.4)		(0.4)	
Total other expenses	(431.7)	(400.0)	(865.6)	(806.6)
Income from continuing operations before provision for income taxes	219.0	205.4	341.7	374.1
Provision for income taxes	(18.1)	(29.3)	(31.6)	(42.1)

	Quarters Ended June 30,		Six Months Ended June 30,	
Income from continuing operations, before attribution of noncontrolling interests	200.9	176.1	310.1	332.0
Net income attributable to noncontrolling interests, after tax	(5.7)	(0.5)		(3.5)
Income from continuing operations	195.2	175.6	310.1	328.5
Discontinued Operation				
Income (loss) from discontinued operation, net of taxes	(231.1)	8.0	(228.8)	17.7
Gain on sale of discontinued operation	282.8		282.8	
Income from discontinued operation, net of taxes	51.7	8.0	54.0	17.7
Net Income	$ 246.9	$ 183.6	$ 364.1	$ 346.2
Basic income per common share				
Income from continuing operations	$ 1.03	$ 0.87	$ 1.61	$ 1.63
Income from discontinued operation	0.27	0.04	0.28	0.09
Basic income per share	$ 1.30	$ 0.91	$ 1.89	$ 1.72
Diluted income per common share				
Income from continuing operations	$ 1.02	$ 0.87	$ 1.60	$ 1.62
Income from discontinued operation	0.27	0.04	0.28	0.09
Diluted income per share	$ 1.29	$ 0.91	$ 1.88	$ 1.71
Average number of common shares (thousands)				
Basic	190,231	201,313	193,134	201,231
Diluted	191,077	202,313	194,036	202,046
Dividends declared per common share	$ 0.10	$	$ 0.20	$

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

CIT GROUP INC. AND SUBSIDIARIES

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

	Quarters Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Income from continuing operations, before attribution of noncontrolling interests	$200.9	$176.1	$310.1	$332.0
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(3.0)	(2.3)	(7.3)	(7.3)
Changes in fair values of derivatives qualifying as cash flow hedges	(0.1)		(0.1)	
Net unrealized gains (losses) on available for sale securities	0.1	(0.9)	0.3	(1.3)
Changes in benefit plans net gain (loss) and prior service (cost)/credit	1.6	0.9	3.2	0.8
Other comprehensive loss, net of tax	(1.4)	(2.3)	(3.9)	(7.8)

	Quarters Ended June 30,		Six Months Ended June 30,	
Comprehensive income before noncontrolling interests and discontinued operation	199.5	173.8	306.2	324.2
Comprehensive loss (income) attributable to noncontrolling interests	(5.7)	(0.5)		(3.5)
Income from discontinued operation, net of taxes	51.7	8.0	54.0	17.7
Comprehensive income	$245.5	$181.3	$360.2	$338.4

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

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES

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

	Common Stock	Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Minority Interests	Total Equity
December 31, 2013	**$2.0**	**$8,555.4**	**$581.0**	**$(73.6)**	**$(226.0)**	**$11.2**	**$8,850.0**
Net income			364.1				364.1
Other comprehensive loss, net of tax				(3.9)			(3.9)
Dividends paid			(39.3)				(39.3)
Amortization of restricted stock, stock option and performance shares expenses and shares withheld to cover taxes upon vesting		25.9			(16.6)		9.3
Repurchase of common stock					(552.1)		(552.1)
Employee stock purchase plan		0.7					0.7
Distribution of earnings and capital						0.5	0.5
June 30, 2014	**$2.0**	**$8,582.0**	**$905.8**	**$(77.5)**	**$(794.7)**	**$11.7**	**$8,629.3**
December 31, 2012	**$2.0**	**$8,501.8**	**$ (74.6)**	**$(77.7)**	**$ (16.7)**	**$ 4.7**	**$8,339.5**
Net income (loss)			346.2			3.5	349.7
Other comprehensive income, net of tax				(7.8)			(7.8)
Amortization of restricted stock and stock option expenses		27.9			(11.9)		16.0
Repurchase of common stock					(12.5)		(12.5)
Employee stock purchase plan		0.5					0.5
Distribution of earnings and capital						0.1	0.1
June 30, 2013	**$2.0**	**$8,530.2**	**$271.6**	**$(85.5)**	**$ (41.1)**	**$ 8.3**	**$8,685.5**

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

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES

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

	Six Months Ended June 30,	
	2014	**2013**
Cash Flows From Operations		
Net income	$ 364.1	$ 346.2
Adjustments to reconcile net income to net cash flows from operations:		
Provision for credit losses	46.9	34.1
Net depreciation, amortization and (accretion)	586.3	331.4
Net gains on equipment, receivable and investment sales	(308.7)	(60.4)
Provision for deferred income taxes	5.6	30.8
Increase in finance receivables held for sale	(64.5)	(22.6)
Decrease in other assets	148.1	31.8
Increase (decrease) in accrued liabilities and payables	27.9	(163.7)
Net cash flows provided by operations	805.7	527.6
Cash Flows From Investing Activities		
Loans originated and purchased	(7,839.8)	(9,170.7)
Principal collections of loans	6,627.2	7,614.7
Purchases of investment securities	(7,188.8)	(8,332.1)
Proceeds from maturities of investment securities	9,007.5	7,837.3
Proceeds from asset and receivable sales	2,120.5	867.5
Purchases of assets to be leased and other equipment	(1,725.7)	(743.3)
Net increase in short-term factoring receivables	(15.8)	(66.4)
Acquisitions, net of cash received	(245.5)	
Change in restricted cash	255.5	221.7
Net cash flows provided by (used in) investing activities	995.1	(1,771.3)
Cash Flows From Financing Activities		
Proceeds from the issuance of term debt	1,356.4	170.5
Repayments of term debt	(3,475.0)	(1,281.9)
Net increase in deposits	1,412.8	1,489.5
Collection of security deposits and maintenance funds	261.3	278.3
Use of security deposits and maintenance funds	(221.0)	(281.6)
Repurchase of common stock	(552.1)	(12.5)
Dividends paid	(39.3)	
Net cash flows (used in) provided by financing activities	(1,256.9)	362.3
Increase (decrease) in unrestricted cash and cash equivalents	543.9	(881.4)
Unrestricted cash and cash equivalents, beginning of period	5,081.1	5,636.2
Unrestricted cash and cash equivalents, end of period	$ 5,625.0	$ 4,754.8

	Six Months Ended June 30,	
Supplementary Cash Flow Disclosure		
Interest paid	$ (524.7)	$ (507.3)
Federal, foreign, state and local income taxes paid, net	$ (16.3)	$ (68.6)
Supplementary Non Cash Flow Disclosure		
Transfer of assets from held for investment to held for sale	$ 1,213.9	$ 950.3
Transfer of assets from held for sale to held for investment	$ 31.0	$ 8.0

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

Table of Contents

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

NOTE 1 BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CIT Group Inc., together with its subsidiaries (collectively CIT or the Company), has provided financial solutions to its clients since its formation in 1908. The Company provides financing, leasing and advisory services principally to middle market companies in a wide variety of industries primarily in North America, and equipment financing and leasing solutions to the transportation industry worldwide. CIT became a bank holding company (BHC) in December 2008 and a financial holding company (FHC) in July 2013. CIT is regulated by the Board of Governors of the Federal Reserve System (FRB) and the Federal Reserve Bank of New York (FRBNY) under the U.S. Bank Holding Company Act of 1956. CIT Bank (the Bank), a wholly-owned subsidiary, is a state-chartered bank located in Salt Lake City, Utah, and is regulated by the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions (UDFI). The Company operates primarily in North America, with locations in Europe and Asia.

BASIS OF PRESENTATION

Principles of Consolidation

The accompanying consolidated financial statements include financial information related to CIT Group Inc., a Delaware corporation, and its majority owned subsidiaries, including the Bank, and those variable interest entities (VIEs) where the Company is the primary beneficiary. Assets held in an agency or fiduciary capacity are not included in the consolidated financial statements.

In preparing the consolidated financial statements, all significant intercompany accounts and transactions have been eliminated. These consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial information and accordingly, do not include all information and note disclosures required by generally accepted accounting principles in the United States of America (GAAP) for complete financial statements. The financial statements in this Form 10-Q have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of CIT s financial position, results of operations and cash flows in accordance with GAAP. These consolidated financial statements should be read in conjunction with our current Form 10-K on file.

The consolidated financial statements include the effects of adopting Fresh Start Accounting (FSA) upon emergence from bankruptcy on December 10, 2009, as required by GAAP, based on a convenience date of December 31, 2009. Accretion and amortization of certain FSA adjustments are included in the Consolidated Statements of Operations and Cash Flows.

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

Discontinued Operation

On April 25, 2014, the Company completed the sale of its student lending business. As a result, the student lending business is reported as a discontinued operation. The business had been included in the Non-Strategic Portfolios segment and consisted of a portfolio of U.S. Government-guaranteed student loans. The portfolio was in run-off and had been transferred to assets held for sale (AHFS) at the end of 2013. See *Note 2 Discontinued Operation*.

Revisions

In preparing the financial statements for the quarter ended March 31, 2014, the Company discovered and corrected in its first quarter report on Form 10-Q an immaterial error impacting the classification of Interest Bearing Deposits and Cash and due from Banks in the amount of $300 million as of December 31, 2013.

The Company also discovered and corrected an immaterial error impacting the classification of railcar maintenance expenses. Management determined that railcar maintenance expenses, which reduced Rental income on operating leases , should be reflected as a separate line item in the Other expenses section of the Company s Consolidated Statement of Operations (i.e., gross presentation). These classification errors had no impact on the Company s Consolidated Balance Sheet or Consolidated Statement of Cash Flows in any period.

NEW ACCOUNTING PRONOUNCEMENTS

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

On April 10, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,* which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The final guidance raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The ASU is aimed at

reducing the frequency of disposals reported as discontinued operations by focusing on strategic shifts that have or will have a major effect on an entity s operations and financial results. In another change from current US GAAP, the guidance permits companies to have continuing cash flows and significant continuing involvement with the disposed component.

The ASU eliminates most of the scope exceptions in current US GAAP. Under the revised standard, a discontinued operation is (1) a component of an entity or group of components that has been disposed of by sale, disposed of other than by sale or is classified as held for sale that represents a strategic shift that has or will have a major effect on an entity s operations and financial results or (2) an acquired business or nonprofit activity that is classified as held for sale on the date of the acquisition. The guidance does not change the presentation requirements for discontinued operations in the statement where net income is presented. Although it permits significant continuing involvement, the standard does not address how companies should present continuing involvement with a discontinued operation prior to the disposal. Also, the ASU requires the reclassification of assets and liabilities of a discontinued operation in the statement of financial position for all prior periods presented.

The standard expands the disclosures for discontinued operations and requires new disclosures related to individually material disposals that do not meet the definition of a discontinued operation, an entity s continuing involvement with a discontinued operation following the disposal date, and retained equity method investments in a discontinued operation.

For public entities, the guidance is effective for annual periods beginning on or after December 15, 2014 and interim periods within that year. The ASU is applied prospectively. However, all entities may early adopt the guidance for new disposals (or new classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. CIT did not early adopt the ASU as it pertains to the student lending business, which was classified as held for sale since December 2013 and reported as a discontinued operation as of June 30, 2014. CIT will evaluate any future dispositions under this ASU.

Revenue Recognition

The FASB issued ASU No. 2014-09, *Revenue from Contracts with Customer, which will supersede virtually all of the revenue recognition guidance in US GAAP*.

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

1. Identify the contract with the customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations.
5. Recognize revenue when or as each performance obligation is satisfied.

Companies can choose to apply the standard using either the full retrospective approach or a modified retrospective approach. Under the modified approach, financial statements will be prepared for the year of adoption using the new standard, but prior periods won t be adjusted. Instead, companies will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the company and disclose all line items in the year of adoption as if they were prepared under today s revenue guidance.

The FASB has set an effective date of fiscal years beginning after December 15, 2016 for public entities. However, public companies that choose full retrospective application will need to apply the standard to amounts they report for 2015 and 2016 on the face of their 2017 financial statements. They also will have to apply the standard to earlier periods to produce the five-year selected financial data table unless SEC staff provides relief from this requirement. CIT is currently evaluating the impact of adopting this ASU.

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

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

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

The ASU does not require additional disclosures. Entities may apply the amendments in this Update either (a) prospectively to all awards granted or modified after the

effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this ASU as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost.

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

NOTE 2 DISCONTINUED OPERATION

On April 25, 2014 the Company completed the sale of its student lending business, along with certain secured debt and servicing rights. As a result, the student lending business is reported as a discontinued operation for all periods presented. The business was in run-off and $3.4 billion in portfolio assets were classified as assets held for sale as of December 31, 2013.

The operating results and the assets and liabilities of the discontinued operation, which was formerly included in the Non-Strategic Portfolios segment, are presented separately in the Company s Consolidated Financial Statements. Summarized financial information for the discontinued business is shown below. Prior period balances have been adjusted to present the operations of the student lending business as a discontinued operation.

In connection with the classification of the student lending business as a discontinued operation, certain indirect operating expenses that previously had been allocated to the business, have instead been allocated to Corporate and Other as part of continuing operations and are not included in the summary of discontinued operation presented in the table below. The total incremental pretax amounts of indirect overhead expense that were previously allocated to the student lending business and remain in continuing operations were approximately $0.8 million and $2.2 million for the quarters ended June 30, 2014 and 2013 and $1.7 million and $4.4 million for the six months ended June 30, 2014 and 2013, respectively.

Interest expense allocated to discontinued operation corresponds to debt of approximately $3.2 billion, net of $224 million of FSA, including $0.8 billion that was repaid using a portion of the cash proceeds. Salaries and general operating expenses included in discontinued operation consists of direct expenses of the student lending business that are separate from ongoing CIT operations and will not continue post disposal.

Income from the discontinued operation was $51.7 million for the quarter ended June 30, 2014, reflecting the benefit of proceeds received in excess of the net carrying value of assets and liabilities sold. The interest expense primarily reflects the acceleration of FSA accretion of $224 million on the extinguishment of the debt, while the gain on sale mostly reflects the excess of purchase price over net assets, and amounts received for the sale of servicing rights.

Assets and Liabilities of Discontinued Operation (dollars in millions)

	June 30, 2014	December 31, 2013
Assets:		
Assets held for sale	$	$3,374.5
Cash	0.9	94.5
Other assets	0.1	352.4
Total assets	$1.0	$3,821.4
Liabilities:		
Long-term borrowings (secured)	$	$3,265.6
Other liabilities	0.9	12.0
Total Liabilities	$0.9	$3,277.6

Table of Contents

Operating Results of Discontinued Operation (dollars in millions)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Total interest income	$ 5.8	$ 33.3	$ 27.0	$ 67.4
Total interest expense	(229.2)	(18.9)	(248.2)	(36.7)
Other income	(5.1)	0.2	(2.1)	0.3
Operating expenses	(1.3)	(3.7)	(3.5)	(8.0)
Income (loss) from discontinued operation before provision for income taxes	(229.8)	10.9	(226.8)	23.0
Provision for income taxes	(1.3)	(2.9)	(2.0)	(5.3)
Income (loss) from discontinued operation, net of taxes	(231.1)	8.0	(228.8)	17.7
Gain on sale of discontinued operation	282.8		282.8	
Income from discontinued operation, net of taxes	$ 51.7	$ 8.0	$ 54.0	$ 17.7

The individual assets and liabilities of the discontinued Student Lending operation are combined in the captions Assets of discontinued operation and Liabilities of discontinued operation in the consolidated Balance Sheet.

NOTE 3 LOANS

Finance receivables consist of the following:

Finance Receivables by Product (dollars in millions)

	June 30, 2014	December 31, 2013
Loans	$13,895.6	$13,814.3
Direct financing leases and leveraged leases	4,708.8	4,814.9
Finance receivables	**18,604.4**	**18,629.2**
Finance receivables held for sale	1,102.4	794.3
Finance and held for sale receivables[1]	$19,706.8	$19,423.5

[1] *Assets held for sale on the Balance Sheet includes finance receivables and operating lease equipment. As discussed in subsequent tables, since the Company manages the credit risk and collections of finance receivables held for sale consistently with its finance receivables held for investment, the aggregate amount is presented in this table.*

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

Finance Receivables (dollars in millions)

	June 30, 2014			December 31, 2013		
	Domestic	Foreign	Total	Domestic	Foreign	Total
	$ 765.8	$2,462.5	$ 3,228.3	$ 666.6	$2,827.8	$ 3,494.4

	June 30, 2014			December 31, 2013		
Transportation & International Finance						
North American Commercial Finance	13,893.2	1,482.9	15,376.1	13,196.7	1,496.4	14,693.1
Non-Strategic Portfolios				117.9	323.8	441.7
Total	$14,659.0	$3,945.4	$18,604.4	$13,981.2	$4,648.0	$18,629.2

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

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

	June 30, 2014	December 31, 2013
Unearned income	$(935.3)	$(942.0)
Unamortized (discounts)	(27.1)	(47.9)
Net unamortized deferred costs and (fees)	58.9	49.7

Table of Contents

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

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

Credit Quality Information

The following table summarizes finance receivables by the risk ratings that bank regulatory agencies utilize to classify credit exposure and which are consistent with indicators the Company monitors. Customer risk ratings are reviewed on a regular basis by Credit Risk Management and are adjusted as necessary for updated information affecting the borrowers ability to fulfill their obligations.

The definitions of these ratings are as follows:

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

Finance and Held for Sale Receivables by Risk Rating (dollars in millions)

	Transportation & International Finance		North American Commercial Finance						
Grade:	Transportation Finance	International Finance	Corporate Finance	Equipment Finance	Real Estate Finance	Commercial Services	Subtotal	Non-Strategic Portfolios	Total
June 30, 2014									
Pass	$2,065.6	$1,382.4	$6,403.3	$3,547.6	$1,661.0	$1,798.3	$16,858.2	$ 478.5	$17,336.7
Special mention	11.8	98.9	677.8	258.3	76.6	273.6	1,397.0	68.4	1,465.4
Classified accruing	48.7	59.3	189.0	215.4		176.6	689.0	25.3	714.3
Classified non-accrual	15.1	25.7	58.9	73.4			173.1	17.3	190.4
Total	$2,141.2	$1,566.3	$7,329.0	$4,094.7	$1,737.6	$2,248.5	$19,117.3	$ 589.5	$19,706.8
December 31, 2013									
Pass	$1,627.4	$1,530.3	$5,783.1	$3,355.2	$1,554.8	$1,804.6	$15,655.4	$ 685.5	$16,340.9
Special mention	28.6	145.8	769.5	363.5		314.7	1,622.1	350.1	1,972.2
Classified accruing	97.2	36.2	233.6	266.0		138.9	771.9	97.8	869.7
Classified non-accrual	14.3	21.0	83.8	59.4		4.2	182.7	58.0	240.7
Total	$1,767.5	$1,733.3	$6,870.0	$4,044.1	$1,554.8	$2,262.4	$18,232.1	$1,191.4	$19,423.5

Table of Contents

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

Past Due and Non-accrual Loans

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

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

	30 59 Days Past Due	60 89 Days Past Due	90 Days or Greater	Total Past Due 30 Days or Greater	Current	Total Finance Receivables
June 30, 2014						
Transportation Finance	$	$ 0.6	$16.4	$ 17.0	$ 2,124.2	$ 2,141.2
International Finance	45.5	25.2	16.7	87.4	1,478.9	1,566.3
Corporate Finance			6.6	6.6	7,322.4	7,329.0
Equipment Finance	101.7	28.0	20.5	150.2	3,944.5	4,094.7
Real Estate Finance					1,737.6	1,737.6
Commercial Services	30.2	2.2	1.3	33.7	2,214.8	2,248.5
Sub-total	177.4	56.0	61.5	294.9	18,822.4	19,117.3

	30 59 Days Past Due	60 89 Days Past Due	90 Days or Greater	Total Past Due 30 Days or Greater	Current	Total Finance Receivables
Non-Strategic Portfolios	19.0	5.8	5.6	30.4	559.1	589.5
Total	$196.4	$61.8	$67.1	$325.3	$19,381.5	$19,706.8
December 31, 2013						
Transportation Finance	$ 18.3	$ 0.9	$ 0.5	$ 19.7	$ 1,747.8	$ 1,767.5
International Finance	30.6	11.6	12.6	54.8	1,678.5	1,733.3
Corporate Finance			17.8	17.8	6,852.2	6,870.0
Equipment Finance	116.6	30.0	18.6	165.2	3,878.9	4,044.1
Real Estate Finance					1,554.8	1,554.8
Commercial Services	47.9	2.4	1.0	51.3	2,211.1	2,262.4
Sub-total	213.4	44.9	50.5	308.8	17,923.3	18,232.1
Non-Strategic Portfolios	29.7	7.9	16.2	53.8	1,137.6	1,191.4
Total	$243.1	$52.8	$66.7	$362.6	$19,060.9	$19,423.5

The following table sets forth non-accrual loans and assets received in satisfaction of loans (repossessed assets). Non-accrual loans include loans that are individually evaluated and determined to be impaired (generally loans with balances greater than $500,000), as well as other, smaller balance loans placed on non-accrual due to delinquency (generally 90 days or more).

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

	June 30, 2014			December 31, 2013		
	Held for Investment	Held for Sale	Total	Held for Investment	Held for Sale	Total
Transportation Finance	$ 15.1	$	$ 15.1	$ 14.3	$	$ 14.3
International Finance	25.7		25.7	21.0		21.0
Corporate Finance	58.9		58.9	83.5	0.3	83.8
Equipment Finance	73.4		73.4	59.4		59.4
Commercial Services				4.2		4.2
Sub-total	173.1		173.1	182.4	0.3	182.7
Non-Strategic Portfolios		17.3	17.3	17.6	40.4	58.0
Total	$173.1	$17.3	$190.4	$200.0	$40.7	$240.7
Repossessed assets			1.2			7.0
Total non-performing assets			$191.6			$247.7
Total Accruing loans past due 90 days or more			$ 10.6			$ 9.9

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

Impaired Loans

The Company s policy is to review for impairment finance receivables greater than $500,000 that are on non-accrual status. Consumer loans and small-ticket loan and lease receivables that have not been modified in a troubled debt restructuring, as well as short-term factoring receivables, are included (if appropriate) in the reported non-accrual balances above, but are excluded from the impaired finance receivables disclosure below as charge-offs are typically determined and recorded for such loans when they are more than 120 150 days past due.

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

Impaired Loans (dollars in millions)

	Six Months Ended June 30,

Impaired Loans (dollars in millions) continued

	December 31, 2013			Year Ended December 31, 2013
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Transportation Finance	$	$	$	$ 2.2
International Finance	6.9	24.5		6.9
Corporate Finance	136.1	150.1		152.8
Equipment Finance	5.8	7.9		7.0
Commercial Services	9.1	9.1		10.0
Non-Strategic Portfolios	10.2	12.5		24.0
With an allowance recorded:				
Transportation Finance	14.3	14.3	0.6	12.4
Corporate Finance	50.6	51.7	28.8	79.7
Commercial Services	4.2	4.2	1.0	4.6
Non-Strategic Portfolios				1.0
Total Impaired Loans(1)	237.2	274.3	30.4	300.6
Total Loans Impaired at Convenience date(2)	54.1	95.8	1.0	77.9

				Year Ended
Total	$ 291.3	$ 370.1	$ 31.4	$ 378.5

[(1)] *Interest income recorded for the six months ended June 30, 2014 and 2013 while the loans were impaired was $6.2 million and $8.8 million, respectively, of which $0.8 million was interest recognized using the cash-basis method of accounting in both years. Interest income recorded for the year ended December 31, 2013 while the loans were impaired was $17.7 million, of which $3.5 million was interest recognized using the cash-basis method of accounting.*

[(2)] *Details of finance receivables that were identified as impaired at the Convenience Date are presented under Loans and Debt Securities Acquired with Deteriorated Credit Quality.*

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

n Instances where the primary source of payment is no longer sufficient to repay the loan in accordance with terms of the loan document;

n Lack of current financial data related to the borrower or guarantor;

n Delinquency status of the loan;

n Borrowers experiencing problems, such as operating losses, marginal working capital, inadequate cash flow, excessive financial leverage or business interruptions;

n Loans secured by collateral that is not readily marketable or that has experienced or is susceptible to deterioration in realizable value; and

n Loans to borrowers in industries or countries experiencing severe economic instability.

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

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

n Orderly liquidation value is the basis for collateral valuation;

n Appraisals are updated annually or more often as market conditions warrant; and

Table of Contents

- Appraisal values are discounted in the determination of impairment if the:
  - appraisal does not reflect current market conditions; or
  - collateral consists of inventory, accounts receivable, or other forms of collateral that may become difficult to locate, collect or subject to pilferage in a liquidation.

Loans and Debt Securities Acquired with Deteriorated Credit Quality

For purposes of this presentation, finance receivables that were identified as impaired at the Convenience Date are discussed below. The Company is applying the income recognition and disclosure guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*) to loans considered impaired under FSA at the time of emergence.

At June 30, 2014 and December 31, 2013, the carrying amounts approximated $20 million and $55 million, respectively, and the outstanding balance approximated $50 million and $95 million, respectively. The outstanding balance represents the sum of contractual principal, interest and fees earned at the reporting date, calculated as pre-FSA net investment plus inception to date charge-offs. The allowance for loan losses on these loans was $0.6 million and $1.0 million at June 30, 2014 and December 31, 2013.

Troubled Debt Restructurings

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

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

- Borrower is in default with CIT or other material creditor
- Borrower has declared bankruptcy
- Growing doubt about the borrower s ability to continue as a going concern
- Borrower has (or is expected to have) insufficient cash flow to service debt
- Borrower is de-listing securities
- Borrower s inability to obtain funds from other sources
- Breach of financial covenants by the borrower.

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

- Assets used to satisfy debt are less than CIT s recorded investment in the receivable
- Modification of terms interest rate changed to below market rate
- Maturity date extension at an interest rate less than market rate

- The borrower does not otherwise have access to funding for debt with similar risk characteristics in the market at the restructured rate and terms
- Capitalization of interest
- Increase in interest reserves
- Conversion of credit to Payment-In-Kind (PIK)
- Delaying principal and/or interest for a period of three months or more
- Partial forgiveness of the balance.

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

The recorded investment of TDRs at June 30, 2014 and December 31, 2013 was $162.8 million and $220.9 million, of which 22% and 33%, respectively were on non-accrual. North American Commercial Finance receivables accounted for 98% of the total TDRs at June 30, 2014 and 80% at December 31, 2013, and there were $6.1 million and $7.1 million, respectively, of commitments to lend additional funds to borrowers whose loan terms have been modified in TDRs.

Recorded investment related to modifications qualifying as TDRs that occurred during the quarters ended June 30, 2014 and 2013 were $2.1 million and $19.9 million, respectively, and $10.7 million and $22.3 million for the six month periods. The recorded investment of TDRs that experience a payment default (payment default is one missed payment) at the time of default, during the quarters ended June 30, 2014 and 2013, and for which the payment default occurred within one year of the modification totaled $0.2 million and $0.1 million, respectively, and $0.5 million and $3.3 million for the six month periods. The June 30, 2014 defaults related to Equipment Financing and Non-Strategic Portfolios and essentially all of the June 30, 2013 defaults related to Corporate Finance.

The financial impact of the various modification strategies that the Company employs in response to borrower difficulties is described below. While the discussion focuses on the second quarter of 2014 amounts, the overall nature and impact of modification programs were comparable in the prior year.

Table of Contents

- The nature of modifications qualifying as TDR's based upon recorded investment at June 30, 2014 was comprised of payment deferrals for 92% and covenant relief and/or other for 8%. December 31, 2013 TDR recorded investment was comprised of payment deferrals for 88%, covenant relief and/or other for 11%, and interest rate reductions and debt forgiveness for 1%;
- Payment deferrals, the Company s most common type of modification program, result in lower net present value of cash flows and increased provision for credit losses to the extent applicable. The financial impact of these modifications is not significant given the moderate length of deferral periods;
- Interest rate reductions result in lower amounts of interest being charged to the customer, but are a relatively small part of the Company s restructuring programs. Additionally, in some instances, modifications improve the Company s economic return through increased interest rates and fees, but are reported as TDRs due to assessments regarding the borrowers ability to independently obtain similar funding in the market and assessments of the relationship between modified rates and terms and comparable market rates and terms. The weighted average change in interest rates for all TDRs occurring during the quarter ended June 30, 2014 was immaterial;

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

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

Table of Contents

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

NOTE 4 ALLOWANCE FOR LOAN LOSSES

The following table presents changes in the allowance for loan losses:

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

	Quarter Ended June 30, 2014					Quarter Ended June 30, 2013				
	Transportation & International Finance	North American Commercial Finance	Non-Strategic Portfolios	Corporate and Other	Total	Transportation & International Finance	North American Commercial Finance	Non-Strategic Portfolios	Corporate and Other	Total
Beginning balance	$45.7	$306.9	$	$	$352.6	$37.1	$310.0	$38.9	$	$386.0
Provision for credit losses	8.3	2.6	(0.7)		10.2	3.7	4.8	6.1		14.6
Other[1]	(1.2)	0.6			(0.6)	(0.1)	(3.0)	(1.2)		(4.3)
Gross charge-offs[2]	(15.9)	(13.2)			(29.1)	(1.3)	(17.3)	(29.5)		(48.1)
Recoveries	2.8	4.4	0.7		7.9	2.2	13.0	3.8		19.0
Allowance balance end of period	$39.7	$301.3	$	$	$341.0	$41.6	$307.5	$18.1	$	$367.2
	Six Months Ended June 30, 2014					Six Months Ended June 30, 2013				
Beginning balance	$46.7	$303.8	$5.6	$	$356.1	$44.3	$293.7	$41.3	$	$379.3
Provision for credit losses	20.7	25.8	0.3	0.1	46.9	(1.9)	29.7	6.4	(0.1)	34.1
Other[1]	(1.6)	(3.5)		(0.1)	(5.2)	(0.6)	(5.8)	(1.3)	0.1	(7.6)
Gross charge-offs[2]	(30.2)	(35.8)	(7.5)		(73.5)	(5.5)	(31.5)	(35.4)		(72.4)
Recoveries	4.1	11.0	1.6		16.7	5.3	21.4	7.1		33.8
Allowance balance end of period	$39.7	$301.3	$	$	$341.0	$41.6	$307.5	$18.1	$	$367.2
	June 30, 2014					June 30, 2013				
Allowance balance:										
Loans individually	$2.7	$19.5	$	$	$22.2	$2.7	$38.8	$	$	$41.5

	Quarter Ended June 30, 2014					Quarter Ended June 30, 2013				
evaluated for impairment										
Loans collectively evaluated for impairment	37.0	281.2			318.2	38.9	267.8	18.1		324.8
Loans acquired with deteriorated credit quality(3)		0.6			0.6		0.9			0.9
Allowance balance end of period	$39.7	$301.3	$	$	$341.0	$41.6	$307.5	$18.1	$	$367.2
Other reserves(1)	$0.5	$30.9	$	$	$31.4	$	$26.7	$0.1	$0.1	$26.9
Finance receivables:										
Loans individually evaluated for impairment	$31.1	$192.2	$	$	$223.3	$19.9	$241.4	$12.8	$	$274.1
Loans collectively evaluated for impairment	3,197.1	15,163.2			18,360.3	3,094.5	13,737.8	976.6		17,808.9
Loans acquired with deteriorated credit quality(3)	0.1	20.7			20.8	0.2	69.9	2.2		72.3
Ending balance	$3,228.3	$15,376.1	$	$	$18,604.4	$3,114.6	$14,049.1	$991.6	$	$18,155.3
Percent of loans to total loans	17.4%	82.6%			100.0%	17.2%	77.4%	5.5%		100.0%

(1) *Other reserves represents additional credit loss reserves for unfunded lending commitments, letters of credit and for deferred purchase agreements, all of which is recorded in Other liabilities. Other also includes changes relating to sales and foreign currency translations.*

(2) *Gross charge-offs include $3 million and $9 million charged directly to the Allowance for loan losses for the quarter and six months ended June 30, 2014, respectively, related to North American Commercial Finance. Gross charge-offs include $9 million and $10 million charged directly to the Allowance for the loan losses for the quarter and six months ended June 30, 2013, respectively, of which $8 million related to North American Commercial Finance and $2 million related to Non-Strategic Portfolios.*

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

NOTE 5 INVESTMENT SECURITIES

Investments include debt and equity securities. The Company s debt securities primarily include U.S. Treasury securities, U.S. Government Agency securities, supranational and foreign government securities that typically mature in 91 days or less, and the carrying value approximates fair value. Equity securities include common stock and warrants.

Investment Securities (dollars in millions)

	June 30, 2014	June 30, 2013
Debt securities available-for-sale	$380.7	$1,487.8
Equity securities available-for-sale	14.2	13.7
Debt securities held-to-maturity[(1)]	337.4	1,042.3
Non-marketable equity investments[(2)]	90.8	86.9
Total investment securities	$823.1	$2,630.7

[(1)] *Recorded at amortized cost less impairment on securities that have credit-related impairment.*

[(2)] *Non-marketable equity investments include $26.4 million and $23.6 million in limited partnerships at June 30, 2014 and December 31, 2013, respectively, accounted for under the equity method. The remaining investments are carried at cost and include qualified Community Reinvestment Act (CRA) investments, equity fund holdings and shares issued by customers during loan work out situations or as part of an original loan investment.*

Debt securities and equity securities classified as available-for-sale (AFS) are carried at fair value with changes in fair value reported in other comprehensive income (OCI), net of applicable income taxes.

Debt securities classified as held-to-maturity (HTM) represent securities that the Company has both the ability and intent to hold until maturity, and are carried at amortized cost.

Non-marketable equity investments include ownership interests greater than 3% in limited partnership investments that are accounted for under the equity method. Equity method investments are recorded at cost, adjusted to reflect the Company s portion of income, loss or dividends of the investee. All other non-marketable equity investments are carried at cost and periodically assessed for other-than-temporary impairment (OTTI).

The Company conducts and documents periodic reviews of all securities with unrealized losses to evaluate whether the impairment is OTTI. For debt securities classified as HTM that are considered to have OTTI that the Company does not intend to sell and it is more likely than not that the Company will not be required to sell before recovery, the OTTI is separated into an amount representing the credit loss, which is recognized in other income in the Consolidated Statement of Operations, and the amount related to all other factors, which is recognized in OCI. OTTI on debt securities and equity securities classified as AFS and non-marketable equity investments are recognized in the Consolidated Statement of Operations in the period determined.

Realized investment gains totaled $5.6 million and $1.4 million for the quarters and $9.1 million and $3.9 million for the six month periods ended June 30, 2014 and 2013, respectively, and exclude losses from OTTI. OTTI impairments on equity securities recognized in earnings were not material for the quarters and six month periods ended June 30, 2014 and 2013. Impairment amounts in accumulated other comprehensive income (AOCI) were not material at June 30, 2014 or December 31, 2013.

In addition, the Company maintained $5.4 billion of interest bearing deposits at June 30, 2014 and December 31, 2013, that are cash equivalents and are classified separately on the balance sheet.

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

Interest and Dividend Income (dollars in millions)

	Quarters Ended June 30,	Six Months Ended June 30,

	Quarters Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income interest bearing deposits	$4.5	$4.3	$ 9.1	$ 7.8
Interest income investments	3.1	1.8	6.4	3.7
Dividends investments	0.8	1.0	1.7	2.0
Total interest and dividends	$8.4	$7.1	$17.2	$13.5

Table of Contents

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

Securities Available-for-Sale

The following table presents amortized cost and fair value of securities AFS at June 30, 2014 and December 31, 2013.

Securities Available for Sale Amortized Cost and Fair Value (dollars in millions)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2014				
Debt securities AFS				
U.S. government agency obligations	$ 344.3	$	$	$ 344.3
Supranational and foreign government securities	36.4			36.4
Total debt securities AFS	380.7			380.7
Equity securities AFS	13.6	0.6		14.2
Total securities AFS	$ 394.3	$ 0.6	$	$ 394.9
December 31, 2013				
Debt securities AFS				
U.S. Treasury securities	$ 649.1	$	$	$ 649.1
U.S. government agency obligations	711.9			711.9
Supranational and foreign government securities	126.8			126.8
Total debt securities AFS	1,487.8			1,487.8
Equity securities AFS	13.5	0.4	(0.2)	13.7
Total securities AFS	**$1,501.3**	**$ 0.4**	**$ (0.2)**	**$1,501.5**

Debt Securities Held-to-Maturity

The carrying value and fair value of debt securities HTM at June 30, 2014 and December 31, 2013 were as follows:

Debt Securities Held-to-Maturity Carrying Value and Fair Value (dollars in millions)

	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
June 30, 2014				
Mortgage-backed securities U.S. government owned and sponsored agencies	$ 136.1	$ 2.2	$ (3.2)	$ 135.1
State and municipal	51.6		(2.1)	49.5
Foreign government	35.5			35.5
Corporate foreign	114.2	13.4		127.6
Total debt securities held-to-maturity	$ 337.4	$15.6	$ (5.3)	$ 347.7
December 31, 2013				
U.S. government agency obligations	$ 735.5	$ 0.1	$	$ 735.6
Mortgage-backed securities U.S. government owned and sponsored agencies	96.3	1.7	(5.8)	92.2
State and municipal	57.4		(6.5)	50.9
Foreign government	38.3			38.3
Corporate foreign	114.8	9.0		123.8
Total debt securities held-to-maturity	$1,042.3	$10.8	$(12.3)	$1,040.8

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

The following table presents the carrying value and fair value of debt securities HTM by contractual maturity dates:

Debt Securities Held-to-Maturity Carrying Value and Fair Value Maturities (dollars in millions)

	June 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
U.S. government agency obligations				
Total Due within 1 year	$	$	$ 735.5	$ 735.6
Mortgage-backed securities U.S. government owned and sponsored agencies				
Due after 5 but within 10 years	1.3	1.3		
Due after 10 years[(1)]	134.8	133.8	96.3	92.2
Total	136.1	135.1	96.3	92.2
State and municipal				
Due within 1 year	0.6	0.6	0.7	0.7
Due after 1 but within 5 years	3.9	3.9	4.4	4.4
Due after 5 but within 10 years	0.6	0.6	0.7	0.7
Due after 10 years[(1)]	46.5	44.4	51.6	45.1
Total	51.6	49.5	57.4	50.9
Foreign government				
Due within 1 year	29.9	29.9	29.8	29.8
Due after 1 but within 5 years	5.6	5.6	8.5	8.5

	June 30, 2014		December 31, 2013	
Total	35.5	35.5	38.3	38.3
Corporate Foreign				
Due within 1 year	0.8	0.9	0.8	0.8
Due after 1 but within 5 years	48.1	55.6	48.6	56.1
After 5 but within 10 years	65.3	71.1	65.4	66.9
Total	114.2	127.6	114.8	123.8
Total debt securities held-to-maturity	$ 337.4	$ 347.7	$ 1,042.3	$ 1,040.8

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

NOTE 6 LONG-TERM BORROWINGS

The following table presents outstanding long-term borrowings:

Long-term Borrowings (dollars in millions)

	June 30, 2014			December 31, 2013
	CIT Group Inc.	Subsidiaries	Total	Total
Senior Unsecured Notes(1)	$ 12,232.0	$ 0.4	$ 12,232.4	$ 12,531.6
Secured Borrowings		5,313.1	5,313.1	5,952.9
Total Long-term Borrowings	$ 12,232.0	$ 5,313.5	$ 17,545.5	$ 18,484.5

(1) *Senior Unsecured Notes at June 30, 2014 were comprised of $8,243.2 million of Unsecured Notes, $3,950.0 million of Series C Notes and $39.2 million of other unsecured debt.*

Table of Contents

Revolving Credit Facility

There were no outstanding borrowings under the Revolving Credit Facility at June 30, 2014 and December 31, 2013. The amount available to draw upon at June 30, 2014 was approximately $1.4 billion, with the remaining amount of approximately $0.1 billion being utilized for issuance of letters of credit.

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

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

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

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

Senior Unsecured Notes

Senior unsecured notes include notes issued under the shelf registration filed in March 2012, and Series C Unsecured Notes. The notes filed under the shelf registration rank equal in right of payment with the Series C Unsecured Notes and the Revolving Credit Facility.

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

Senior Unsecured Notes (dollars in millions)

Maturity Date	Rate (%)	Date of Issuance	Par Value
February 2015*	4.750%	February 2012	$ 1,500.0
May 2017	5.000%	May 2012	1,250.0
August 2017	4.250%	August 2012	1,750.0
March 2018	5.250%	March 2012	1,500.0
April 2018*	6.625%	March 2011	700.0
February 2019*	5.500%	February 2012	1,750.0
February 2019	3.875%	February 2014	1,000.0
May 2020	5.375%	May 2012	750.0
August 2022	5.000%	August 2012	1,250.0
August 2023	5.000%	August 2013	750.0
Weighted average and total	4.99%		$ 12,200.0

* *Series C Unsecured Notes*

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

Other debt of $39.2 million includes senior unsecured notes issued prior to CIT s reorganization.

Secured Borrowings

Set forth below are borrowings and pledged assets primarily owned by consolidated variable interest entities (VIE). Creditors of these entities received ownership and/or security interests in the assets. The assets of the consolidated VIEs will be used to settle the liabilities of those entities and, except for the Company s interest in the VIEs, are not available to the creditors or any affiliates of CIT.

Secured Borrowings and Pledged Assets Summary[(1)(2)] (dollars in millions)

	June 30, 2014		December 31, 2013	
	Secured Borrowing	Pledged Assets	Secured Borrowing	Pledged Assets
Rail[(3)]	$1,269.1	$1,815.3	$ 931.0	$1,163.1
Aerospace	1,894.3	2,929.9	2,366.1	4,126.7
International Finance	601.2	751.6	583.5	748.1
Subtotal Transportation & International Finance	3,764.6	5,496.8	3,880.6	6,037.9
Corporate Finance	199.6	292.5	320.2	447.4
Real Estate Finance	125.0	179.7		
Commercial Services	334.7	1,661.0	334.7	1,453.2
Equipment Finance	889.2	1,164.2	1,227.2	1,499.7
Subtotal North American Commercial Finance	1,548.5	3,297.4	1,882.1	3,400.3
Small Business Loans Non-Strategic Portfolios			190.1	220.1
Total	$5,313.1	$8,794.2	$5,952.8	$9,658.3

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

(2) *At June 30, 2014 we had pledged assets (including collateral for the FRB discount window not in the table above) of $10.1 billion, which included $4.9 billion of loans (including amounts held for sale), $4.3 billion of operating lease equipment, $0.7 billion of cash and $0.2 billion of investment securities.*

(3) *At June 30, 2014 the GSI TRS related borrowings and pledged assets, respectively, of $613.7 million and $874.5 million were included in Transportation & International Finance. The GSI TRS is described in Note 7 Derivative Financial Instruments.*

The Bank is a member of the FHLB of Seattle and may borrow under a line of credit that is secured by collateral pledged to FHLB Seattle. During the second quarter, CIT Bank made a draw of $125 million and approximately $180 million of commercial real estate assets were pledged as collateral. A subsidiary of the Bank is a member of FHLB Des Moines and may borrow under lines of credit that are secured by a blanket lien on the subsidiary s assets and collateral pledged to FHLB Des Moines. At June 30, 2014, $136 million of collateral was pledged and $69 million of advances were outstanding with FHLB Des Moines. These secured borrowings are included in the table above.

Variable Interest Entities

The Company utilizes VIEs in the ordinary course of business to support its own and its customers financing needs.

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

The main risks inherent in these secured borrowing structures are deterioration in the credit performance of the vehicle s underlying asset portfolio and risk associated with the servicing of the underlying assets.

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

With respect to events or circumstances that could expose CIT to a loss, as these are accounted for as on balance sheet, the Company records an allowance for loan losses for

Table of Contents

the credit risks associated with the underlying leases and loans. The VIE has an obligation to pay the debt in accordance with the terms of the underlying agreements.

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

NOTE 7 DERIVATIVE FINANCIAL INSTRUMENTS

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) includes measures to broaden the scope of derivative instruments subject to regulation by requiring clearing and exchange trading of certain derivatives, and imposing margin, reporting and registration requirements for certain market participants. Since the Company does not meet the definition of a Swap Dealer or Major Swap Participant under the Act, the new reporting and clearing obligations, which became effective April 10, 2013, apply to a limited number of derivative transactions executed with its lending customers in order to manage their interest rate risk.

See *Note 1 Business and Summary of Significant Accounting Policies* in our December 31, 2013 Form 10-K for further description of the Company s derivative transaction policies.

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

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

	June 30, 2014			December 31, 2013		
	Notional Amount	**Asset Fair Value**	**Liability Fair Value**	**Notional Amount**	**Asset Fair Value**	**Liability Fair Value**
Qualifying Hedges						
Cross currency swaps net investment hedges	$	$	$	$ 47.1	$ 1.1	$
Foreign currency forward contracts cash flow hedges	3.9		(0.4)	3.8		(0.3)
Foreign currency forward contracts net investment hedges	1,525.7	2.3	(37.7)	1,436.8	11.8	(23.8)
Total Qualifying Hedges	1,529.6	2.3	(38.1)	1,487.7	12.9	(24.1)
Non-Qualifying Hedges						
Cross currency swaps				131.8	6.3	

	June 30, 2014			December 31, 2013		
Interest rate swaps	1,364.3	9.7	(20.6)	1,386.0	5.7	(25.4)
Written options	629.5		(0.5)	566.0		(1.0)
Purchased options	830.9	0.6		816.8	1.2	
Foreign currency forward contracts	2,243.8	23.5	(59.2)	1,979.9	23.4	(50.8)
TRS	1,576.6			485.2		(9.7)
Equity Warrants	1.0	0.3		1.0	0.8	
Total Non-qualifying Hedges	6,646.1	34.1	(80.3)	5,366.7	37.4	(86.9)
Total Hedges	$8,175.7	$36.4	$(118.4)	$6,854.4	$50.3	$(111.0)

(1) *Presented on a gross basis*

Total Return Swaps

Two financing facilities between two wholly-owned subsidiaries of CIT and Goldman Sachs International (GSI) are structured as total return swaps (TRS), under which amounts available for advances are accounted for as derivatives. Pursuant to applicable accounting guidance, only the unutilized portion of the TRS is accounted for as a derivative and recorded at its estimated fair value. The size of the CIT Financial Ltd. (CFL) facility is $1.5 billion and the CIT TRS Funding B.V. (BV) facility is $625 million.

The aggregate notional amounts of the TRS of $1,576.6 million at June 30, 2014 and $485.2 million at December 31, 2013 represent the aggregate unused portions under the CFL and BV facilities and constitute derivative financial instruments. These notional amounts are calculated as the maximum aggregate facility commitment amounts, currently $2,125.0 million, less the aggregate actual adjusted qualifying borrowing base outstanding of $548.4 million at June 30, 2014 and $1,639.8 million at December 31, 2013. The notional amounts of the derivatives will increase as the adjusted qualifying borrowing base decreases due to repayment of the underlying asset-backed securities (ABS) to investors. If CIT funds additional ABS under the CFL or BV facilities, the aggregate adjusted qualifying borrowing base of the total return swaps will increase and the notional amount of the derivatives will decrease accordingly.

In April 2014, the Company sold its student loan assets and extinguished the debt of $787 million, which was secured

by these loans. This debt served as reference obligations under the TRS. In addition, two aircraft securitizations financed through the TRS with $300 million of debt as reference obligations were extinguished during the second quarter, which accelerated FSA accretion. The extinguishment of the debt resulted in an increase of the notional amount related to the TRS to $1.6 billion.

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

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

Based on the Company s valuation, the liability related to the GSI facilities was reduced to zero at June 30, 2014 from $11.4 million at March 31, 2014 and $9.7 million at December 31, 2013. The change in value of $11.4 million was recognized as a benefit in Other Income in the second quarter, while the six month amount was a benefit of $9.7 million.

Impact of Collateral and Netting Arrangements on the Total Derivative Portfolio

The following tables present a summary, at June 30, 2014 and December 31, 2013, of the gross amounts of recognized financial assets and liabilities; the amounts offset in the consolidated balance sheet; the net amounts presented in the consolidated balance sheet; the amounts subject to an enforceable master netting arrangement or similar agreement that were not included in the offset amount above, and the amount of cash collateral received or pledged. Substantially all of the derivative transactions are under an International Swaps and Derivatives Association (ISDA) agreement.

Offsetting of Derivative Assets and Liabilities (dollars in millions)

				Gross Amounts not offset in the Consolidated Balance Sheet		
	Gross Amount of Recognized Assets (Liabilities)	Gross Amount Offset in the Consolidated Balance Sheet	Net Amount Presented in the Consolidated Balance Sheet	Derivative Financial Instruments[1]	Cash Collateral Pledged/(Received)[1][2]	Net Amount
June 30, 2014						
Derivative assets	$ 36.4	$	$ 36.4	$(25.3)	$ (1.8)	$ 9.3
Derivative liabilities	(118.4)		(118.4)	25.3	71.2	(21.9)
December 31, 2013						
Derivative assets	$ 50.3	$	$ 50.3	$(33.4)	$ (5.0)	$ 11.9
Derivative liabilities	(111.0)		(111.0)	33.4	41.0	(36.6)

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

[2] *Collateral pledged or received is included in Other assets or Other liabilities, respectively.*

Table of Contents

The following table presents the impact of derivatives on the statements of operations:

Derivative Instrument Gains and Losses (dollars in millions)

Derivative Instruments	Gain / (Loss) Recognized	Quarters Ended June 30, 2014	Quarters Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Qualifying Hedges					
Foreign currency forward contracts cash flow hedges	Other income	$	$1.0	$	$0.7
Total Qualifying Hedges			1.0		0.7
Non Qualifying Hedges					
Cross currency swaps	Other income	(1.0)	3.2	4.1	10.0
Interest rate swaps	Other income		8.0	3.8	11.7
Interest rate options	Other income	(0.1)	0.1	(0.2)	0.2
Foreign currency forward contracts	Other income	(42.6)	20.7	(13.5)	45.4
Equity warrants	Other income	(0.3)		(0.5)	0.2
TRS	Other income	11.4	(4.9)	9.7	(2.2)
Total Non-qualifying Hedges		(32.6)	27.1	3.4	65.3
Total derivatives-income statement impact		$(32.6)	$28.1	$ 3.4	$ 66.0

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

Changes in AOCI Relating to Derivatives (dollars in millions)

Contract Type	Derivatives effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income	Total income statement impact	Derivatives effective portion recorded in OCI	Total change in OCI for period
Quarter Ended June 30, 2014					
Foreign currency forward contracts cash flow hedges	$	$	$	$	$
Foreign currency forward contracts net investment hedges	(3.0)		(3.0)	(23.0)	(20.0)
Cross currency swaps net investment hedges				(0.7)	(0.7)
Total	(3.0)		(3.0)	(23.7)	(20.7)
Quarter Ended June 30, 2013					
Foreign currency forward contracts cash flow hedges	$ 1.0	$	$ 1.0	$ 1.0	$
Foreign currency forward contracts net investment hedges	(4.6)		(4.6)	24.7	29.3
Cross currency swaps net investment hedges	(0.1)		(0.1)	4.9	5.0
Total	(3.7)		(3.7)	30.6	34.3
Six Months Ended June 30, 2014					
Foreign currency forward contracts cash flow hedges	$	$	$	$ (0.1)	$ (0.1)
Foreign currency forward contracts net investment hedges	(6.1)		(6.1)	(18.5)	(12.4)
Cross currency swaps net investment hedges				1.1	1.1
Total	(6.1)		(6.1)	(17.5)	(11.4)
Six Months Ended June 30, 2013					
Foreign currency forward contracts cash flow hedges	$ 0.7	$	$ 0.7	$ 0.6	$ (0.1)
Foreign currency forward contracts net investment hedges	(7.8)		(7.8)	44.0	51.8

Contract Type	Derivatives effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income	Total income statement impact	Derivatives effective portion recorded in OCI	Total change in OCI for period
Cross currency swaps net investment hedges	(0.1)		(0.1)	8.7	8.8
Total	(7.2)		(7.2)	53.3	60.5

Table of Contents

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

The estimated amount of net losses on cash flow hedges recorded in AOCI at June 30, 2014 expected to be recognized in income over the next 12 months is $0.2 million.

NOTE 8 FAIR VALUE

Fair Value Hierarchy

The Company is required to report fair value measurements for specified classes of assets and liabilities. See *Note 1 Business and Summary of Significant Accounting Policies* in our December 31, 2013 Form 10-K for further description of the Company s fair value measurement policy.

The Company characterizes inputs in the determination of fair value according to the fair value hierarchy. The fair value of the Company s assets and liabilities where the measurement objective specifically requires the use of fair value are set forth in the tables below:

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

	Total	Level 1	Level 2	Level 3
June 30, 2014				
Assets				
Debt Securities AFS	$ 380.7	$ 36.4	$ 344.3	$
Equity Securities AFS	14.2	14.2		
Trading assets at fair value derivatives	34.1		34.1	
Derivative counterparty assets at fair value	2.3		2.3	
Total Assets	$ 431.3	$ 50.6	$ 380.7	$
Liabilities				
Trading liabilities at fair value derivatives	$ (80.3)	$	$ (80.3)	$
Derivative counterparty liabilities at fair value	(38.1)		(38.1)	
Total Liabilities	$ (118.4)	$	$ (118.4)	$
December 31, 2013				
Assets				
Debt Securities AFS	$ 1,487.8	$ 675.9	$ 811.9	$
Equity Securities AFS	13.7	13.7		
Trading assets at fair value derivatives	37.4		37.4	
Derivative counterparty assets at fair value	12.9		12.9	
Total	$ 1,551.8	$ 689.6	$ 862.2	$
Liabilities				

	Total	Level 1	Level 2	Level 3
June 30, 2014				
Trading liabilities at fair value derivatives	$ (86.9)	$	$ (77.2)	$ (9.7)
Derivative counterparty liabilities at fair value	(24.1)		(24.1)	
Total	$ (111.0)	$	$ (101.3)	$ (9.7)

The following table presents financial instruments for which a non-recurring change in fair value has been recorded:

Assets Measured at Fair Value on a Non-recurring Basis with a Change in Fair Value Recorded (dollars in millions)

		Fair Value Measurements at Reporting Date Using:			
	Total	Level 1	Level 2	Level 3	Total Gains and (Losses)
Assets					
June 30, 2014					
Assets held for sale	$249.5	$	$	$249.5	$(13.6)
Impaired loans	28.7			28.7	(1.6)
Total	$278.2	$	$	$278.2	$(15.2)
December 31, 2013					
Assets held for sale	$731.1	$	$	$731.1	$(59.4)
Impaired loans	18.5			18.5	(1.6)
Total	$749.6	$	$	$749.6	$(61.0)

Table of Contents

Loans are transferred from held for investment (HFI) to Assets held for sale (HFS) at the lower of cost or fair value. At the time of transfer, a write-down of the loan is recorded as a charge-off, if applicable. Once classified as HFS, the amount by which the carrying value exceeds fair value is recorded as a valuation allowance.

Impaired finance receivables of $500,000 or greater that are placed on non-accrual status are subject to periodic individual review in conjunction with the Company s ongoing problem loan management (PLM) function. Impairment occurs when, based on current information and events, it is probable that CIT will be unable to collect all amounts due according to contractual terms of the agreement. Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable, with the estimated value determined using fair value of collateral and other cash flows if the finance receivable is collateralized, or the present value of expected future cash flows discounted at the contract s effective interest rate.

Level 3 Gains and Losses

The tables below set forth a summary of changes in the estimated fair value of the Company s Level 3 financial assets and liabilities measured on a recurring basis:

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

	Total	Derivatives
December 31, 2013	$(9.7)	$(9.7)
Gains or losses realized/unrealized		
Included in Other Income	9.7	9.7
June 30, 2014	$	$
December 31, 2012	$(5.8)	$(5.8)
Gains or losses realized/unrealized		
Included in Other Income	(2.2)	(2.2)
June 30, 2013	$(8.0)	$(8.0)

Level 3 liabilities at June 30, 2014 and 2013 represent the valuation of the derivatives related to the GSI facilities.

Fair Values of Financial Instruments

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

Estimated Fair Value of Assets and Liabilities (dollars in millions)

	June 30, 2014		December 31, 2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets				
Trading assets at fair value derivatives	$ 34.1	$ 34.1	$ 37.4	$ 37.4
Derivative counterparty assets at fair value	2.3	2.3	12.9	12.9
Assets held for sale (excluding leases)	538.8	550.2	415.2	416.4
Loans (excluding leases)	13,317.0	13,452.0	12,619.4	12,681.6
Investment securities	823.1	833.4	2,630.7	2,629.2
Other assets subject to fair value disclosure and unsecured counterparty receivables(1)	942.3	942.3	606.9	606.9
Liabilities				
Deposits(2)	(13,982.8)	(14,171.5)	(12,565.0)	(12,751.9)
Trading liabilities at fair value derivatives	(80.3)	(80.3)	(86.9)	(86.9)
Derivative counterparty liabilities at fair value	(38.1)	(38.1)	(24.1)	(24.1)
Long-term borrowings(2)	(17,751.5)	(18,634.8)	(18,693.1)	(19,340.8)
Other liabilities subject to fair value disclosure(3)	(1,856.0)	(1,856.0)	(1,919.1)	(1,919.1)

(1) *Other assets subject to fair value disclosure primarily include accrued interest receivable and miscellaneous receivables. These assets have carrying values that approximate fair value generally due to the short-term nature and are classified as level 3. The unsecured counterparty receivables primarily consist of amounts owed to CIT from GSI for debt discount, return of collateral posted to GSI and settlements resulting from market value changes to asset-backed securities underlying the GSI Facilities*

(2) *Deposits and long-term borrowings include accrued interest, which is included in Other liabilities in the Balance Sheet.*

(3) *Other liabilities subject to fair value disclosure include accounts payable, accrued liabilities, customer security and maintenance deposits and miscellaneous liabilities. The fair value of these approximate carrying value and are classified as level 3.*

Table of Contents

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

Assumptions Used to Value Financial Instruments

Derivatives   The estimated fair values of derivatives were calculated internally using observable market data and represent the net amount receivable or payable to terminate, taking into account current market rates, which represent Level 2 inputs, except for the TRS derivative that utilized Level 3 inputs. See *Note 7   Derivative Financial Instruments* for notional principal amounts and fair values.

Investment Securities   Debt and equity securities classified as AFS are carried at fair value, as determined either by Level 1 or Level 2 inputs. Debt securities classified as AFS included investments in U.S. Treasury and federal government agency securities and were valued using Level 2 inputs, primarily quoted prices for similar securities. Certain equity securities classified as AFS were valued using Level 1 inputs, primarily quoted prices in active markets, while other equity securities used Level 2 inputs, due to being less frequently traded or having limited quoted market prices. Debt securities classified as HTM are securities that the Company has both the ability and the intent to hold until maturity and are carried at amortized cost and periodically assessed for OTTI, with the cost basis reduced when impairment is deemed to be other-than-temporary. Non-marketable equity investments are generally recorded under the cost or equity method of accounting and are periodically assessed for OTTI, with the net asset values reduced when impairment is deemed to be other-than-temporary. For investments in limited equity partnership interests, we use the net asset value provided by the fund manager as an appropriate measure of fair value.

Assets held for sale   Assets held for sale are recorded at lower of cost or fair value on the balance sheet. Most of the assets are subject to a binding contract, current letter of intent or other third-party valuation, which are Level 3 inputs. For the remaining assets, the fair value is generally determined using internally generated valuations or discounted cash flow analysis, which are considered Level 3 inputs. Commercial loans are generally valued individually, while small-ticket commercial loans are valued on an aggregate portfolio basis.

Loans   Since there is no liquid secondary market for most loans in the Company s portfolio, the fair value is estimated based on discounted cash flow analyses which use Level 3 inputs. In addition to the characteristics of the underlying contracts, key inputs to the analysis include interest rates, prepayment rates, and credit spreads. For the commercial loan portfolio, the market based credit spread inputs are derived from instruments with comparable credit risk characteristics obtained from independent third party vendors. As these Level 3 unobservable inputs are specific to individual loans / collateral types, management does not believe that sensitivity analysis of individual inputs is meaningful, but rather that sensitivity is more meaningfully assessed through the evaluation of aggregate carrying values of the loans. The fair value of loans at June 30, 2014 was $13.5 billion, which is 101.0% of carrying value.

Impaired Loans   The value of impaired loans is estimated using the fair value of collateral (on an orderly liquidation basis) if the loan is collateralized, or the present value of expected cash flows utilizing the current market rate for such loan. As these Level 3 unobservable inputs are specific to individual loans / collateral types, management does not believe that sensitivity analysis of individual inputs is meaningful, but rather that sensitivity is more meaningfully assessed through the evaluation of aggregate carrying values of impaired loans relative to contractual amounts owed (unpaid principal balance or UPB) from customers. As of June 30, 2014, the UPB related to impaired loans, including loans for which the Company is applying the income recognition and disclosure guidance in ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality), totaled $290.1 million. Including related allowances, these loans are carried at $221.3 million, or 76% of UPB. Of these amounts, $174.3 million and $158.7 million of UPB and carrying value, respectively, relate to loans with no specific allowance. The difference between UPB and carrying value reflects cumulative charge-offs on accounts remaining in process of collection, FSA discounts and allowances. See *Note 3   Loans* for more information.

Deposits   The fair value of deposits was estimated based upon a present value discounted cash flow analysis. Discount rates used in the present value calculation are based on the Company s average current deposit rates for similar terms, which are Level 3 inputs.