MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades CIT Group's senior unsecured rating to Ba1 with a positive outlook

17 Oct 2018

New York, October 17, 2018 -- Moody's Investors Service upgraded the ratings of CIT Group Inc. (CIT) and its subsidiary CIT Bank, N.A. (CIT Bank). Affected ratings include CIT Group's senior unsecured, upgraded to Ba1 from Ba2, CIT Bank's baseline credit assessment and adjusted baseline credit assessment, upgraded to baa3 from ba1, long-term deposit rating, upgraded to Baa1 from Baa2, Issuer rating, upgraded to Ba1 from Ba2, and short-term deposit ratings, affirmed at Prime-2. The outlook for the ratings is positive.

Affected ratings include:

Affirmations:

..Issuer: CIT Bank, N.A.

.... ST Deposit Rating, Affirmed P-2

Upgrades:

..Issuer: CIT Bank, N.A.

.... Adjusted Baseline Credit Assessment, Upgraded to baa3 from ba1

.... Baseline Credit Assessment, Upgraded to baa3 from ba1

.... LT Counterparty Risk Assessment, Upgraded to Baa2(cr) from Baa3(cr)

.... ST Counterparty Risk Assessment, Upgraded to P-2(cr) from P-3(cr)

.... LT Counterparty Risk Rating, Upgraded to Baa3 from Ba1

.... ST Counterparty Risk Rating, Upgraded to P-3 from NP

.... Issuer Rating, Upgraded to Ba1 from Ba2, Positive

.... LT Deposit Rating, Upgraded to Baa1 from Baa2, Positive

..Issuer: CIT Group Inc.

.... Pref. Shelf Non-cumulative, Upgraded to (P)Ba3 from (P)B1

.... Pref. Shelf, Upgraded to (P)Ba2 from (P)Ba3

.... Senior Unsecured Shelf, Upgraded to (P)Ba1 from (P)Ba2

.... Subordinate Shelf, Upgraded to (P)Ba1 from (P)Ba2

.... Pref. Stock Non-cumulative, Upgraded to Ba3 (hyb) from B1 (hyb)

.... Subordinate Regular Bond/Debenture, Upgraded to Ba1 from Ba2

.... Senior Unsecured Bank Credit Facility, Upgraded to Ba1 from Ba2, Positive

.... Senior Unsecured Regular Bond/Debenture, Upgraded to Ba1 from Ba2, Positive

..Issuer: CIT Group Inc. (Old)

.... Senior Unsecured Regular Bond/Debenture, Upgraded to Ba1 from Ba2, Positive

Outlook Actions:

..Issuer: CIT Bank, N.A.

....Outlook, Remains Positive

..Issuer: CIT Group Inc.

....Outlook, Remains Positive

RATINGS RATIONALE

Moody's upgraded CIT's ratings based on the company's reduced use of market funds, improved predictability of operating earnings, and increased emphasis on less risky secured lending. The rating upgrade also reflects the bank's continued efforts to refine deposit taking strategy and improve deposit quality. CIT's ratings are supported by the company's well-established competitive positioning in multiple commercial finance businesses, revenue and geographic diversity, well-managed liquidity, and reasonable capital targets given the risk profile of the firm's earning assets. The positive outlook is based on Moody's expectation that CIT's further operating refinements will strengthen its resilience to downside stresses, including actions to further strengthen deposit mix, reduce operating costs, and remix C&I lending, and that the company will transition to a CET1 ratio at the upper end of its 10%-11% target range over the intermediate term.

On October 5, CIT announced that it sold its European railcar leasing operation NACCO for net proceeds of $1.1 billion. The transaction is the latest in a series of sales that have advanced the firm's transition toward a commercial bank operating strategy. Proceeds of the sale will facilitate a repayment of certain holding company debt, including senior unsecured notes, a railcar securitization and a total return swap (TRS) facility. Repayment of the TRS will release railcar collateral pledges, allowing the company to fund more of its North American with lower cost deposits in CIT Bank.

The costs associated with these transactions will weaken CIT's fourth quarter earnings, but the actions will reduce CIT's use of confidence sensitive market funding, lower its cost of funds, and reduce its exposure to lease residual risks. After the transactions, Moody's expects that CIT's reliance on market funds will decline to about 16% from 19% at year-end 2017, narrowing the difference from the 9% median for US regional banks. The transactions will also result in a well-distributed debt maturity profile with minimal near-term debt refinancing risk. Repaying the high cost TRS facility and holding company unsecured debt and increasing deposit funding of railcars is expected to lower funding costs sufficiently over the next few years to more than offset the charges associated with the debt redemptions, benefiting future profitability.

CIT has improved deposit quality by reducing rate-sensitive brokered and time-deposits and has made headway increasing deposit granularity and the percentage of non-maturity deposits. The company has been able to retain and attract new non-maturity savings deposits with deposit betas comparable with other banks, demonstrating reasonable access and stability. Nevertheless, Moody's views the bank's relatively low mix of demand deposits and its less developed retail deposit-taking network as competitive weaknesses compared to regional bank peers.

CIT's asset quality risks have declined as a result of the company's remix of its lending volumes toward collateralized lending. CIT's asset quality performance, like other banks, has been strong in recent years, but its positioning in specialty finance businesses exposes it to elevated earnings volatility during a down cycle. Moody's expects that the firm's efforts to rebalance toward secured lending will reduce earnings volatility.

CIT ended the second quarter with a strong capital position, signified by a common equity common equity Tier 1 (CET1) capital ratio of 13% at the end of the second quarter. CIT aims to reduce this ratio to 11.5% to 12.0% by the end of 2018 and further to 11% by the end of 2019, as the company returns the additional $750 million of capital to shareholders under plans approved by its regulators. Moody's expects that CIT will maintain a CET1 ratio between 10% and 11% thereafter.

Moody's could upgrade CITs ratings if the company: 1) sustains a ratio of net income to tangible assets of 1% (annualized) while demonstrating improved earnings stability based on effective management of credit and cyclical business challenges, and achieving targeted reductions in operating costs; 2) strengthens the stability and quality of deposits; and 3) maintains a CET1 ratio at or above 10.5%, given the anticipated composition of business risks.

Though not likely, Moody's could downgrade CITs ratings if the company's net finance margin weakens materially, asset quality declines materially, and capital position declines to less than 10% TCE/RWA.

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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Mark L. Wasden
VP - Senior Credit Officer
Financial Institutions Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Ana Arsov
MD - Financial Institutions
Financial Institutions Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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