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

Washington, D.C. 20549

FORM 10-K

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

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

CIT GROUP INC.

(Exact name of registrant as specified in its charter)

	65-1051192
Delaware	(IRS Employer Identification No.)
(State or other jurisdiction of incorporation or organization)	
11 West 42nd Street, New York, New York	10036
(Address of Registrant's principal executive offices)	(Zip Code)
(212) 461-5200	
Registrant's telephone number including area code:	

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

Title of each class	Name of each exchange on which
Common Stock, par value $0.01 per share	

registered

New York Stock Exchange

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

None

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

Yes No

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

Yes No

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

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

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

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

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

Exchange Act.

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

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

Yes No

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

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

Yes No

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART ONE

Item 1: Business Overview

BUSINESS DESCRIPTION

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

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

BUSINESS SEGMENTS

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

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

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

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

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

COMMERCIAL BANKING

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

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

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Description of Divisions

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

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

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

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

Key Risks

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

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

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

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

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

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

CONSUMER BANKING

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

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

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

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

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

Key Risks

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

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

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CIT BANK, N.A.

CIT Bank is regulated by the OCC.

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

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

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

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

INFORMATION SECURITY

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

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

DISCONTINUED OPERATIONS

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

EMPLOYEES

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

COMPETITION

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

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

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REGULATION

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

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

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

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

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

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

Banking Supervision and Regulation

Permissible Activities

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

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

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

Capital Requirements

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

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

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

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

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

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

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

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

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

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

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

Regulatory Expectations for Capital Planning

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

Although CIT no longer participates in the FRB’s CCAR process, CIT is still required to maintain a comprehensive and effective capital planning process in accordance with SR Letter 09-4, “Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies” (“SR 09-4”). Under SR 09-4, a BHC is expected to inform and consult with the FRB before (i) declaring and paying a dividend that could raise safety and soundness concerns, (ii) redeeming or repurchasing regulatory capital instruments when the BHC is experiencing financial weakness, or (iii) redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction in the amount of such instrument during the quarter in which the redemption or repurchase occurs. BHCs are expected to advise the FRB sufficiently in advance of such capital action to provide reasonable opportunity for supervisory review and possible objection. The FRB reviews our capital planning process as part of its regular supervisory process. In addition, under the Basel III Rule, any repurchase or redemption of a regulatory capital instrument is subject to approval by the applicable federal bank regulator.

Liquidity Requirements

In line with international liquidity standards established by the Basel Committee to ensure that banking entities address both short-term and long-term funding needs, the federal banking agencies set minimum liquidity requirements for large banking organizations, including minimum levels of unencumbered high-quality liquid assets. In 2014, the federal banking regulators adopted a joint final rule implementing a liquidity coverage ratio (“LCR”), calculated as the ratio of a banking entity’s high-quality liquid assets to its total net cash outflows over 30 consecutive calendar days, for large and internationally active U.S. banking entities. The final rule applied a modified version of the LCR requirements to bank holding companies with total consolidated assets of greater than $50 billion but less than $250 billion. In 2016, the federal banking regulators issued a proposed rule that would implement a net stable funding ratio (“NSFR”), calculated as the ratio of the amount of stable funding available to a banking organization to its required amount of stable funding, for U.S. banking entities with total consolidated assets greater than $50 billion, although the NSFR is not yet effective.

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On July 6, 2018, following approval of the EGRRCPA, the federal banking regulators issued an interagency statement to provide guidance on how they would administer provisions of the EGRRCPA that took effect immediately, until the agencies amend their regulations to incorporate the changes. In addition, the FRB issued a statement to provide guidance on how it would administer certain regulations and reporting requirements that the EGRRCPA immediately affected. Among other actions, the FRB stated that it would not require bank holding companies with less than $100 billion in total consolidated assets to comply with the LCR requirements. Nevertheless, in both the interagency statement and the FRB statement, the banking regulators indicated that the capital planning and risk management practices of financial institutions with assets of less than $100 billion will continue to be reviewed through the regular supervisory process. The Company and CIT Bank intend to maintain a liquidity risk management and monitoring process designed to ensure appropriate liquidity to meet expected and contingent funding needs under both normal and stress environments, subject to the regular supervisory process. See “Management’s Discussion and Analysis – Risk Management – Liquidity Risk”.

Acquisitions

Federal and state laws impose notice and approval requirements for mergers and acquisitions involving depository institutions or BHCs. The BHC Act requires the prior approval of the FRB for (i) the acquisition by a BHC of direct or indirect ownership or control of more than 5% of any class of voting shares of a bank, savings association, or BHC, (ii) the acquisition of all or substantially all of the assets of any bank or savings association by any subsidiary of a BHC other than a bank, or (iii) the merger or consolidation of any BHC with another BHC. Prior regulatory approval is also generally required for mergers, acquisitions and consolidations involving other insured depository institutions. In reviewing acquisition and merger applications, the bank regulatory authorities will consider, among other things, the competitive effect of the transaction, financial and managerial issues, including the capital position of the combined organization, convenience and needs factors, including the applicant's CRA record, the effectiveness of the subject organizations in combating money laundering activities, and the transaction's effect on the stability of the U.S. banking or financial system. In addition, a FHC must obtain prior approval of the FRB before acquiring certain non-bank financial companies with assets exceeding $10 billion.

Dividends

CIT Group Inc. is a legal entity separate and distinct from CIT Bank and CIT’s other subsidiaries. Most of CIT’s cash inflow is comprised of interest on intercompany loans to its subsidiaries and dividends from its subsidiaries.

The ability of CIT to pay dividends on common stock may be affected by various factors, most notably regulatory capital requirements. Capital and non-capital standards established for depository institutions under the Federal Deposit Insurance Corporation Improvement Act of 1991, as amended (“FDICIA”) may limit the ability of CIT Bank to pay dividends to CIT. The right of CIT, its stockholders, and its creditors to participate in any distribution of the assets or earnings of its subsidiaries is further subject to prior claims of creditors of CIT Bank and CIT’s other subsidiaries.

OCC regulations limit CIT Bank’s ability to pay dividends if the total amount of all dividends (common and preferred) declared in any current year, including the proposed dividend, exceeds the total net income for the current year to date plus any retained net income for the prior two years, less the sum of any transfers required by the OCC and any transfers required to fund the retirement of any preferred stock. If the dividend in either of the prior two years exceeded that year’s net income, the excess shall not reduce the net income for the three year period described above, provided the amount of excess dividends for either of the prior two years can be offset by retained net income in the current year minus three years or the current year minus four years.

It is the policy of the FRB that a BHC generally pay dividends on common stock out of net income available to common shareholders over the past year, and only if the prospective rate of earnings retention appears consistent with capital needs, asset quality, and overall financial condition, and the BHC is not in danger of failing to meet its minimum regulatory capital adequacy ratios. A BHC should not maintain a dividend level that places undue pressure on the capital of bank subsidiaries, or that may undermine the BHC's ability to serve as a source of strength to its subsidiary bank.

Volcker Rule

The Dodd-Frank Act limits banks and their affiliates from engaging in proprietary trading and investing in or sponsoring certain unregistered investment companies (e.g., hedge funds and private equity funds). This statutory provision is commonly called the "Volcker Rule". Under the final rules adopted by the federal banking agencies, the SEC, and the Commodity Futures Trading Commission ("CFTC"), banking entities are required to implement an extensive compliance program, including an enhanced compliance program applicable to banking entities with more than $50 billion in total consolidated assets. The FRB extended the conformance period for CIT through July 2022 for investments in and relationships with so-called legacy covered funds. The Volcker Rule has not had a material effect on CIT's business and activities, as we have a limited amount of trading activities and fund investments.

In July 2018, the FRB, OCC, FDIC, CFTC and SEC issued a notice of proposed rulemaking intended to tailor the application of the Volcker Rule based on the size and scope of a banking entity's trading activities and to clarify and amend certain definitions, requirements and exemptions. The ultimate impact of any amendments to the Volcker Rule will depend on, among other things, further rulemaking and implementation guidance from the relevant U.S. federal regulatory agencies and the development of market practices and standards.

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Orderly Liquidation Authority

The Dodd-Frank Act created the Orderly Liquidation Authority ("OLA"), a resolution regime for systemically important non-bank financial companies, including BHCs and their non-bank affiliates, under which the FDIC may be appointed receiver to liquidate such a company upon a determination by the Secretary of the Treasury (Treasury), after consultation with the President of the United States, with support by a supermajority recommendation from the FRB and, depending on the type of entity, the approval of the director of the Federal Insurance Office, a supermajority vote of the SEC, or a supermajority vote of the FDIC, that the company is in danger of default, that such default presents a systemic risk to U.S. financial stability, and that the company should be subject to the OLA process. This resolution authority is similar to the FDIC resolution model for depository institutions, with certain modifications to reflect differences between depository institutions and non-bank financial companies and to reduce disparities between the treatment of creditors' claims under the U.S. Bankruptcy Code and in an OLA proceeding compared to those that would exist under the resolution model for insured depository institutions.

An Orderly Liquidation Fund will fund OLA liquidation proceedings through borrowings from the Treasury and risk-based assessments made, first, on entities that received more in the resolution than they would have received in liquidation to the extent of such excess, and second, if necessary, on BHCs with total consolidated assets of $50 billion or more, any non-bank financial company supervised by the FRB, and certain other financial companies with total consolidated assets of $50 billion or more. If an orderly liquidation is triggered, CIT could face assessments for the Orderly Liquidation Fund. We do not yet have an indication of the level of such assessments. Furthermore, were CIT to become subject to the OLA, the regime may also require changes to CIT's structure, organization and funding pursuant to the guidelines described above.

Prompt Corrective Action

FDICIA, among other things, establishes five capital categories for FDIC-insured banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. When they adopted the Basel III Rule, the OCC and the other agencies also revised their prompt corrective action regulations by adding a CET1 ratio at each capital category (except critically undercapitalized) and increasing the minimum Tier 1 capital ratio for each capital category. The following table sets forth the required capital ratios to be deemed “well capitalized” or “adequately capitalized” under regulations in effect at December 31, 2018.

	Prompt Corrective Action Ratios — December 31, 2018	
	Well Capitalized[1]	Adequately Capitalized
CET 1	6.5 %	4.5 %
Tier 1 Capital	8.0 %	6.0 %
Total Capital	10.0 %	8.0 %
Tier 1 Leverage[2]	5.0 %	4.0 %

[1] A "well capitalized" institution also must not be subject to any written agreement, order or directive to meet and maintain a specific capital level for any capital measure.

(2) As a standardized approach banking organization, CIT Bank is not subject to the 3% supplemental leverage ratio requirement, which became effective on January 1, 2018.

CIT Bank's capital ratios were all in excess of minimum guidelines for well capitalized at December 31, 2018.

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

Regulators take into consideration both risk-based capital ratios and other factors that can affect a bank's financial condition, including (i) concentrations of credit risk, (ii) interest rate risk, and (iii) risks from non-traditional activities, along with an institution's ability to manage those risks, when determining capital adequacy. This evaluation is made during the institution's safety and soundness examination. An institution may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters.

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Source of Strength Doctrine and Support for Subsidiary Banks

FRB policy and, after the Dodd-Frank Act, the BHC Act requires BHCs such as CIT to serve as a source of strength and to commit capital and other financial resources to subsidiary banks. This support may be required at times when CIT may not be able to provide such support without adversely affecting its ability to meet other obligations. If CIT is unable to provide such support, the FRB could instead require the divestiture of CIT Bank and impose operating restrictions pending the divestiture. Any capital loans by a BHC to any of its subsidiary banks are subordinate in right of payment to depositors and to certain other indebtedness of the subsidiary bank. If a BHC commits to a federal bank regulator that it will maintain the capital of its bank subsidiary, whether in response to the FRB's invoking its source of strength authority or in response to other regulatory measures, that commitment will be assumed by the bankruptcy trustee and the bank will be entitled to priority payment in respect of that commitment.

Enforcement Powers of Federal Banking Agencies

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

FDIC Deposit Insurance

Deposits of CIT Bank are insured by the DIF up to $250,000 for each depositor. The DIF is funded by fees assessed on insured depository institutions, including CIT Bank.

The FDIC uses a two scorecard system, one scorecard for most large institutions with more than $10 billion in assets, such as CIT Bank, and another scorecard for "highly complex" institutions with over $50 billion in assets that are directly or indirectly controlled by a U.S. parent with over $500 billion in assets. Each scorecard has a performance score and a loss-severity score that is combined to produce a total score, which is translated into an initial assessment rate. In calculating these scores, the FDIC utilizes a bank's capital level and CAMELS ratings (a composite regulatory rating based on Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk) and certain financial measures designed to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score, up or down based upon significant risk factors that are not adequately captured in the scorecard. The total score translates to an initial base assessment rate on a non-linear, sharply increasing scale. As of July 1, 2016, for large institutions, the initial base assessment rate ranges from three to thirty basis points (0.03% – 0.30%) on an annualized basis. After the effect of potential base rate adjustments, the total base assessment rate could range from one and a half to forty basis points (0.015% – 0.40%) on an annualized basis.

In March 2016, the FDIC adopted a final rule increasing the reserve ratio for the DIF to 1.35% of total insured deposits, and imposing a surcharge of four and a half basis points (0.045%) on the quarterly assessments of insured depository institutions with total consolidated assets of $10 billion or more, such as CIT Bank. The surcharge continued through September 30, 2018, when the reserve ratio reached 1.36% of insured deposits, exceeding the statutorily required minimum reserve ratio. The FDIC will, at least semi-annually, update its income and loss projections for the DIF and, if necessary, propose rules to further increase assessment rates.

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

Transactions with Affiliates

Transactions between CIT Bank and its subsidiaries, and CIT and its other subsidiaries and affiliates, are regulated pursuant to Sections 23A and 23B of the Federal Reserve Act and the FRB's Regulation W. These laws and regulations limit the types and amounts of transactions (including loans due and credit extensions from CIT Bank or its subsidiaries to CIT and its other subsidiaries and affiliates) as well as restrict certain other transactions (such as the purchase of existing loans or other assets by CIT Bank or its subsidiaries from CIT and its other subsidiaries and affiliates) that may otherwise take place and generally require those transactions to be on an arms-length basis and, in the case of extensions of credit, be secured by specified amounts and types of collateral. These regulations generally do not apply to transactions between CIT Bank and its subsidiaries.

During 2015 and 2016, CIT Bank purchased railcars from two non-bank subsidiaries of CIT for an aggregate purchase price of approximately $540 million. During November 2018, CIT Bank purchased additional railcars from another non-bank subsidiary of CIT for an aggregate purchase price of approximately $350 million. The aggregate covered value of the railcar transfers to CIT Bank was approximately $845 million at December 31, 2018. In addition, several other non-bank subsidiaries of CIT have entered into transactions to sell assets to CIT Bank from time to time. Each of these transactions by CIT Bank with non-bank subsidiaries of CIT constitute transactions with affiliates and are subject to the volume, asset quality, deal terms and other limits set forth in Sections 23A and 23B of the Federal Reserve Act and Regulation W. CIT does not anticipate significant additional transactions between CIT Bank and its non-bank affiliates in the foreseeable future.

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The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization and changed the procedure for seeking exemptions from these restrictions. For example, the Dodd-Frank Act expanded the definition of a “covered transaction” to include derivatives transactions and securities lending transactions with a non-bank affiliate under which a bank (or its subsidiary) has credit exposure. Collateral requirements will apply to such transactions as well as to certain repurchase and reverse repurchase agreements.

Safety and Soundness Standards

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

Insolvency of an Insured Depository Institution

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

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

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

Consumer Protection Regulation

Retail banking activities are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by national banks are subject to federal laws concerning interest rates. Loan operations are also subject to numerous laws applicable to credit transactions, such as:

- the federal Truth-In-Lending Act and Regulation Z, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act and Regulation C, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act and Regulation B, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the Fair Credit Reporting Act and Regulation V, governing the use and provision of information to consumer reporting agencies;
- the Fair Debt Collections Practices Act, governing the manner in which consumer debts may be collected by debt collectors;
- the Servicemembers Civil Relief Act, applying to all debts incurred prior to commencement of active military service (including credit card and other open-end debt) and limiting the amount of interest, including service and renewal charges and any other fees or charges (other than bona fide insurance) that is related to the obligation or liability, as well as affording other protections, including with respect to foreclosures;
- the Real Estate Settlement Procedures Act and Regulation X, requiring disclosures regarding the nature and costs of the real estate settlement process and governing transfers of servicing, escrow accounts, force-placed insurance, and general servicing policies; and
- the guidance of the various federal agencies charged with the responsibility of implementing such laws.

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Deposit operations also are subject to consumer protection laws and regulation, such as:

- the Truth in Savings Act and Regulation DD, which require disclosure of deposit terms to consumers;
- Regulation CC, which relates to the availability of deposit funds to consumers;
- the Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- the Electronic Funds Transfer Act and Regulation E, which governs electronic deposits to and withdrawals from deposit accounts and customer' rights and liabilities arising from the use of automated teller machines and other electronic banking services, including remittance transfers.

CIT and CIT Bank are also subject to certain other non-preempted state laws and regulations designed to protect consumers. Additionally, CIT Bank is subject to a variety of regulatory and contractual obligations imposed by credit owners, insurers and guarantors of the mortgages we originate and service. This includes, but is not limited to, Fannie Mae, Freddie Mac, Ginnie Mae, the Federal Housing Finance Agency ("FHFA"), and the Federal Housing Administration ("FHA"). We are also subject to the requirements of the Home Affordable Modification Program ("HAMP"), Home Affordable Refinance Program ("HARP") and other government programs in which we participate.

Consumer Financial Protection Bureau Supervision ("CFPB")

The CFPB is authorized to interpret and administer, and to issue orders or guidelines pursuant to, any federal consumer financial laws, as well as to directly examine and enforce compliance with those laws by depository institutions with assets of $10 billion or more, such as CIT Bank. The CFPB has jurisdiction over CIT, CIT Bank, and other subsidiaries with respect to matters that relate to these laws and consumer financial services and products and periodically conducts examinations.

The CFPB has adopted a number of significant rules that require banks to, among other things: (a) develop and implement procedures to ensure compliance with a new “ability to repay” requirement and identify whether a loan meets a new definition for a “qualified mortgage”; (b) implement new or revised disclosures, policies and procedures for servicing mortgages including, but not limited to, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower’s principal residence; and (c) comply with additional rules and restrictions regarding mortgage loan originator compensation and the qualification and registration or licensing of loan originators.

The CFPB and other federal agencies have also jointly finalized rules imposing credit risk retention requirements on lenders originating certain mortgage loans, which require sponsors of a securitization to retain at least 5 percent of the credit risk of assets collateralizing asset-backed securities. Residential mortgage-backed securities qualifying as "qualified residential mortgages" will be exempt from the risk retention requirements. The final rule maintains revisions to the proposed rules that cover degrees of flexibility for meeting risk retention requirements and the relationship between "qualified mortgages" and "qualified residential mortgages." These rules and any other new regulatory requirements promulgated by the CFPB could require changes to the Company's mortgage origination business, result in increased compliance costs and affect the streams of revenue of such business.

Community Reinvestment Act

The CRA requires depository institutions like CIT Bank to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice by, among other things, providing credit to LMI individuals and communities within its assessment area. The CRA does not establish specific lending requirements or programs for depository institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings, which are made available to the public. In order for a FHC to commence any new activity permitted by the BHC Act, or to acquire any company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the FHC must have received a rating of at least "satisfactory" in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering approval of applications to acquire, merge, or consolidate with another banking institution or its holding company, to establish a new branch office that will accept deposits or to relocate an office, and such record may be the basis for denying the application. CIT Bank received a rating of "Satisfactory" on its most recent published CRA examination by the OCC.

Incentive Compensation

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

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During the second quarter of 2016, the federal banking agencies and the SEC proposed rules on incentive-based payment arrangements at specified regulated entities having at least $1 billion in total assets (including CIT and CIT Bank). The proposed rules would establish general qualitative requirements applicable to all covered entities, additional specific requirements for entities with total consolidated assets of at least $50 billion, and further, more stringent requirements for those with total consolidated assets of at least $250 billion. The general qualitative requirements include (i) prohibiting incentive arrangements that encourage inappropriate risks by providing excessive compensation; (ii) prohibiting incentive arrangements that encourage inappropriate risks that could lead to a material financial loss; (iii) establishing requirements for performance measures to appropriately balance risk and reward; (iv) requiring board of director oversight of incentive arrangements; and (v) mandating appropriate record-keeping. For larger financial institutions, including CIT, the proposed rules would also introduce additional requirements applicable only to “senior executive officers” and “significant risk-takers” (as defined in the proposed rules), including (i) limits on performance measures and leverage relating to performance targets; (ii) minimum deferral periods; and (iii) subjecting incentive compensation to possible downward adjustment, forfeiture and clawback. If the rules are adopted in the form proposed, they may restrict CIT’s flexibility with respect to the manner in which it structures compensation for its executives.

Anti-Money Laundering ("AML") and Economic Sanctions

In the U.S., the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001, as amended, imposes significant obligations on financial institutions, including banks, to detect and deter money laundering and terrorist financing, including requirements to implement AML programs, verify the identity of customers that maintain accounts, file currency transaction reports, and monitor and report suspicious activity to appropriate law enforcement or regulatory authorities. In May 2018, the Customer Due Diligence requirements for financial institutions, issued by the Financial Crimes Enforcement Network (“FinCEN”), took effect, clarifying and strengthening customer due diligence requirements for financial institutions, including banks, to identify and verify the identity of natural persons, known as beneficial owners, who own, control, and profit from legal entity customers when those customers open accounts. The Company has implemented policies, procedures, and internal controls that are designed to comply with all applicable AML laws and regulations. The Company has also implemented policies, procedures, and internal controls that are designed to comply with the regulations and economic sanctions programs administered by the U.S. Treasury's Office of Foreign Assets Control ("OFAC"), which administers and enforces economic and trade sanctions against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy, or economy of the U.S., as well as sanctions based on United Nations and other international mandates.

Anti-corruption

The Company is subject to the Foreign Corrupt Practices Act (“FCPA”), which prohibits offering, promising, giving, or authorizing others to give anything of value, either directly or indirectly, to a non-U.S. government official in order to influence official action or otherwise gain an unfair business advantage, such as to obtain or retain business. The Company is also subject to applicable anti-corruption laws in other jurisdictions in which it may do business, which often prohibit commercial bribery, the receipt of a bribe, and the failure to prevent bribery by an associated person, in addition to prohibiting improper payments to foreign government officials. The Company has implemented policies, procedures, and internal controls that are designed to comply with such laws, rules, and regulations.

Privacy Provisions and Customer and Client Information

Certain aspects of the Company's business are subject to legal requirements concerning the use and protection of customer information, including those adopted pursuant to Gramm-Leach-Bliley Act ("GLBA") and the Fair and Accurate Credit Transactions Act of 2003 in the U.S., and various laws in other jurisdictions in which it may do business. Federal banking regulators, as required under the GLBA, have adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties, requiring disclosure of privacy policies to consumers and, in some circumstances, allowing consumers to prevent disclosure of certain personal information to nonaffiliated third parties. Federal financial regulators have issued regulations under the Fair and Accurate Credit Transactions Act that have the effect of increasing the length of the waiting period, after privacy disclosures are provided to new customers, before information can be shared among different affiliated companies for the purpose of cross-selling products and services between those affiliated companies.

Other Regulations

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

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

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Our Aerospace, Rail, Maritime, and other equipment financing operations are subject to various laws, rules, and regulations administered by authorities in jurisdictions where we do business. In the U.S., our equipment financing and leasing operations, including for aircraft, railcars, ships, and other equipment, are subject to rules and regulations relating to safety, operations, maintenance, and mechanical standards promulgated by various federal and state agencies and industry organizations, including the U.S. Department of Transportation, the Federal Aviation Administration, the Federal Railroad Administration, the Association of American Railroads, the Maritime Administration, the U.S. Coast Guard, and the U.S. Environmental Protection Agency. In addition, state agencies regulate some aspects of rail and maritime operations with respect to health and safety matters not otherwise preempted by federal law.

Each of CIT's insurance subsidiaries is licensed and regulated in the states in which it conducts insurance business. The extent of such regulation varies, but most jurisdictions have laws and regulations governing the financial aspects and business conduct of insurers. State laws in the U.S. grant insurance regulatory authorities broad administrative powers with respect to, among other things: licensing companies and agents to transact business; establishing statutory capital and reserve requirements and the solvency standards that must be met and maintained; regulating certain premium rates; reviewing and approving policy forms; regulating unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements; approving changes in control of insurance companies; restricting the payment of dividends and other transactions between affiliates; and regulating the types, amounts and valuation of investments. Each insurance subsidiary is required to file reports, generally including detailed annual financial statements, with insurance regulatory authorities in each of the jurisdictions in which it does business, and its operations and accounts are subject to periodic examination by such authorities.

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

WHERE YOU CAN FIND MORE INFORMATION

The SEC maintains an Internet site at www.sec.gov, on which interested parties can electronically access our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as our Proxy Statements.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as our annual Proxy Statements, are available free of charge on the Company's Internet site at www.cit.com as soon as reasonably practicable after such materials are electronically filed or furnished with the SEC. Copies of our Corporate Governance Guidelines, the Charters of the Audit Committee, the Compensation Committee, the Nominating and Governance Committee, and the Risk Management Committee, and our Code of Business Conduct are available, free of charge, on our internet site at www.cit.com/about/us/governance, and printed copies are available by contacting Investor Relations, 1 CIT Drive, Livingston, NJ 07039 or by telephone at (973) 740-5000. Information contained on our website or that can be accessed through our website is not incorporated by reference into this Form 10-K, unless we have specifically incorporated it by reference.

GLOSSARY OF TERMS

Accretable Yield reflects the excess of cash flows expected to be collected (estimated fair value at acquisition date) over the recorded investment of Purchase Credit Impaired ("PCI") Loans and Investments and is recognized in interest income using an effective yield method over the expected remaining life. The accretable yield is affected by changes in interest rate indices for variable rate PCI loans, changes in prepayment assumptions and changes in expected principal and interest payments and collateral values.

Assets Held for Sale ("AHFS") include loans and operating lease equipment that we no longer have the intent or ability to hold until maturity. As applicable, AHFS also includes a component of goodwill associated with portfolios or businesses held for sale.

Available-for-sale ("AFS") is a classification that pertains to debt securities. We classify these securities as AFS when they are not considered trading securities, securities carried at fair value, or held-to-maturity securities. AFS securities are included in investment securities in the balance sheet.

Average Earning Assets ("AEA"), is a non-GAAP measure, and is computed using month end balances of Earning Assets. We use this average for certain key profitability ratios, including return on AEA, and Net Finance Revenue as a percentage of AEA (Net Finance Margin) for the respective period.

Average Loans is computed using month end balances and is used to measure the rate of return on the loans and the rate of net charge-offs, for the respective period.

Average Operating Leases ("AOL") is computed using month end balances and is used to measure the rate of return on our operating lease portfolio for the respective period.

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Common Equity Tier 1 ("CET1"), Additional Tier 1 Capital, Tier 1 Capital, Tier 2 Capital, and Total Capital are regulatory capital measures as defined in the capital adequacy guidelines issued by the Federal Reserve. CET1 is common stockholders' equity reduced by capital deductions such as goodwill, intangible assets and DTAs that arise from net operating loss and tax credit carryforwards, and adjusted by elements of other comprehensive income and other items. Tier 1 Capital is Common Tier 1 Capital plus other Additional Tier 1 Capital instruments including, among other things, non-cumulative preferred stock. Total Capital consists of Tier 1 Capital and Tier 2 Capital, which includes for CIT subordinated debt, and qualifying allowance for credit losses and other reserves.

Covered Loans are loans that CIT may be reimbursed for a portion of future losses under the terms of Loss Sharing Agreements with the FDIC. See Indemnification Assets.

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

Derivative Contract is a contract whose value is derived from a specified asset or an index, such as an interest rate or a foreign currency exchange rate. As the value of that asset or index changes, so does the value of the derivative contract.

Earning Assets is the sum of loans (defined below) (less the credit balances of factoring clients), operating lease equipment, net, AHFS, interest-bearing cash, investment securities, securities purchased under agreements to resell, and indemnification asset, all as of a specific date.

Economic Value of Equity ("EVE") measures the net impact of hypothetical changes in the value of equity by assessing the economic value of assets, liabilities and derivatives.

FICO Score is a credit bureau-based industry standard score developed by the Fair Isaac Corporation (currently named FICO) that predicts the likelihood of borrower default. We use FICO scores in underwriting and assessing risk in our consumer lending portfolio.

Gross Yield is calculated as finance revenue divided by AEA and derives the revenue yield generated over the respective period.

Impaired Loan is a loan that based on current information and events, it is probable that CIT will be unable to collect all amounts due according to the contractual terms of the agreement.

Indemnification Assets relate to certain asset purchases in which the FDIC indemnified OneWest Bank, prior to its acquisition by CIT, against certain future losses in accordance with the Loss Sharing Agreements, as defined below.

Interest income includes interest earned on loans, interest-bearing cash balances, debt investments and dividends on investments.

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

Lease — operating is a lease in which CIT retains ownership of the asset (operating lease equipment, net), collects rental payments, recognizes depreciation on the asset, and retains the risks of ownership, including obsolescence.

Loans include loans, capital lease receivables, factoring receivables and rent receivable on operating lease equipment, and does not include amounts contained within AHFS.

Loans and Leases include Loans, operating lease equipment, net, and AHFS, all measured as of a specific date.

Loan-to-Value Ratio ("LTV") is a calculation of a loan's collateral coverage that is used in underwriting and assessing risk in our lending portfolio. LTV at any point in time is the result of the total loan obligations secured by collateral divided by the fair value of the collateral.

Loss Sharing Agreements are agreements in which the FDIC indemnifies OneWest Bank against certain future losses on assets purchased from the FDIC. See Indemnification Assets defined above. The loss sharing agreements generally require CIT to obtain FDIC approval prior to transferring or selling loans and related indemnification assets. Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., charge-off of loan balance or liquidation of collateral). Reimbursements approved by the FDIC usually are received within 60 days of submission. Receivables related to these indemnification assets are referred to as Covered Loans.

Lower of Cost or Fair Value relates to the carrying value of an asset. The cost refers to the current book balance of certain assets, such as held for sale assets.

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Net Efficiency Ratio is a non-GAAP measure that measures the level of operating expenses to our revenue generation over a period of time. It is calculated by dividing operating expenses, excluding intangible assets amortization, goodwill impairment, and restructuring charges, by Total Net Revenue. This calculation may differ from other financial institutions' ratio due to the inclusion of operating lease revenue and associated expenses, and the exclusion of the noted items.

Net Finance Revenue ("NFR") is a non-GAAP measurement reflecting Net Interest Revenue (defined below) plus net operating lease revenue (rental income on operating lease equipment less depreciation on operating lease equipment and maintenance and other operating lease expenses). When divided by AEA, the product is defined as Net Finance Margin ("NFM"). NFM is a non-GAAP measurement. These are key measures used by management in the evaluation of the financial performance of our business.

Net Interest Income Sensitivity ("NII Sensitivity") measures the net impact of hypothetical changes in interest rates on forecasted NFR, for our interest rate sensitive assets, liabilities and off-balance sheet instruments, assuming a static balance sheet over a twelve-month period.

Net Interest Revenue reflects interest and fees on loans, interest on interest-bearing cash, and interest/dividends on investments less interest expense on deposits and borrowings.

Net Operating Loss Carryforward / Carryback ("NOLs") is a tax concept, whereby tax losses in one year can be used to offset taxable income in other years. For example, U.S. Federal NOLs generated in tax years beginning before January 1, 2018, can first be carried-back and applied against taxable income recorded in the two preceding years with any remaining amount being carried-forward for the next twenty years to offset future taxable income. For U.S. Federal NOLs generated in tax years beginning January 1, 2018, the utilization of these NOLs is limited to 80% of taxable income. Further, these NOLs may not be carried-back but may be carried forward indefinitely. The rules pertaining to the number of years allowed for the carryback or carryforward of an NOL varies by jurisdiction.

New business volume represents the initial cash outlay related to new loan or lease equipment transactions entered into during the period. The amount includes CIT's portion of a syndicated transaction, whether it acts as the agent or a participant, and in certain instances, it includes asset purchases from third parties.

Non-accrual Loans include loans greater than or equal to $500,000 that are individually evaluated and determined to be impaired, as well as loans less than $500,000 that are delinquent (generally for 90 days or more), unless it is both well secured and in the process of collection. Non-accrual loans also include loans with revenue recognition on a cash basis because of deterioration in the financial position of the borrower.

Non-performing Assets include Non-accrual Loans, OREO (defined below) and repossessed assets.

Other Non-Interest Income includes (1) fee revenues, including fees on lines of credit, letters of credit, capital market related fees, agent and advisory fees and servicing fees, (2) factoring commissions (3) gains and losses on leasing equipment, net of impairments, (4) BOLI income, (5) gains and losses on investment securities, net of impairments, and (6) other revenues.

Other Real Estate Owned ("OREO") is a term applied to real estate property owned by a financial institution. OREO are considered non-performing assets.

Purchase Accounting Adjustments (“PAA”) reflect accretable and non-accretable components of the fair value adjustments to acquired assets and liabilities assumed in a business combination. Accretable adjustments reflect discounts and premiums to the acquired assets and liabilities.

Purchase Credit Impaired ("PCI") Loans and PCI Investments are loans and investments that at the time of an acquisition were considered impaired, because there was evidence of credit deterioration since origination of the loan and investment and it was probable that all contractually due amounts (principal and interest) would not be collected.

Regulatory Credit Classifications used by CIT are as follows:

- Pass — These assets do not meet the criteria for classification in one of the following categories;
- Special Mention — These assets exhibit potential weaknesses that deserve management's close attention and if left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects;
- Substandard — These assets 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;
- Doubtful — These assets have weaknesses that make collection in full unlikely, based on current facts, conditions, and values; and
- Loss — These assets are considered uncollectible and of little or no value and are generally charged off.

Classified assets are rated as substandard, doubtful or loss based on the criteria outlined above. Classified assets can be accruing or on non-accrual depending on the evaluation of the relevant factors. Classified loans plus special mention loans are considered criticized loans.

Residual Values represent the estimated value of equipment at the end of its lease term. For operating lease equipment, it is the value to which the asset is depreciated at the end of its estimated useful life.

Risk Weighted Assets ("RWA") is the denominator to which CET1, Tier 1 Capital and Total Capital is compared to derive the respective risk based regulatory ratios. RWA is comprised of both on-balance sheet assets and certain off-balance sheet items (for example loan commitments, purchase commitments or derivative contracts). RWA items are adjusted by certain risk-weightings as defined by the regulators, which are based upon, among other things, the relative credit risk of the counterparty.

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

Tangible Book Value ("TBV") excludes goodwill and intangible assets from common stockholders' equity. We use TBV in measuring tangible book value per common share as of a specific date.

Total Net Revenue is a non-GAAP measurement and is the sum of NFR and other non-interest income and used for an efficiency ratio.

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

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

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

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Acronyms

The following is a list of certain acronyms we use throughout this document:

Acronym	Definition	Acronym	Definition
AEA	Average Earnings Assets	GSEs	Government-Sponsored Enterprises
AFS	Available for Sale	HAMP	Home Affordable Modification Program
AHFS	Assets Held for Sale	HARP	Home Affordable Refinance Program
ALCO	Asset Liability Committee	HECM	Home Equity Conversion Mortgage
ALLL	Allowance for Loan and Lease Losses	HELOC	Home Equity Lines of Credit
ALM	Asset and Liability Management	HFI	Held for Investment
AML	Anti-money Laundering	HTM	Held to Maturity
AOCI	Accumulated Other Comprehensive Income	HUD	U.S. Department of Housing and Urban Development
AOL	Average Operating Leases	IT	Information Technology
ASC	Accounting Standards Codification	LCM	Legacy Consumer Mortgages
ASR	Accelerated Share Repurchase Program	LCR	Liquidity Coverage Ratio
ASU	Accounting Standards Update	LGD	Loss Given Default
BHC	Bank Holding Company	LIHTC	Low Income Housing Tax Credit
BOLI	Bank Owned Life Insurance	LMI	Low and Middle Income
BPS	Basis point(s); 1bp=0.01%	LOCOM	Lower of the Cost or Market Value
CCAR	Comprehensive Capital Analysis and Review	LTV	Loan-to-Value
CCC	Corporate Credit Committee	MBS	Mortgage-Backed Securities
CCO	Chief Credit Officer	MSR	Mortgage Servicing Rights
CDI	Core Deposit Intangibles	NFM	Net Finance Margin
CECL	Current Expected Credit Losses	NFR	Net Finance Revenue
CET1	Common Equity Tier 1 Capital	NII Sensitivity	Net Interest Income Sensitivity
CFP	Contingency Funding Plan	NIM	Net Interest Margin
CFTC	Commodities Futures Trading Commission	NOLs	Net Operating Loss Carryforwards
CFPB	Consumer Financial Protection Bureau	NSP	Non-Strategic Portfolios
CRA	Community Reinvestment Act	OCC	Office of the Comptroller of the Currency
CRO	Chief Risk Officer	OCI	Other Comprehensive Income
CTA	Currency Translation Adjustment	OFAC	Office of Foreign Asset Control
DCF	Discounted Cash Flows	OLA	Orderly Liquidation Authority
DFAST	Dodd-Frank Act Stress Test	OMR	Open Market Repurchases (of common stock)
DIF	Deposit Insurance Fund	OREO	Other Real Estate Owned
DPA	Deferred Purchase Agreement	OTTI	Other than Temporary Impairment
DTAs	Deferred Tax Assets	PAA	Purchase Accounting Adjustments
DTLs	Deferred Tax Liabilities	PB	Primary Beneficiary
ECAP	Enterprise Stress Testing and Economic Capital	PCI	Purchased Credit-Impaired
EMC	Executive Management Committee	PD	Probability of Obligor Default
EPS	Earnings Per Share	PHMSA	U.S. Pipeline and Hazardous Materials Safety Administration
ERC	Enterprise Risk Committee	PLM	Problem Loan Management

ERM	Enterprise Risk Management	RCC	Risk Control Committee
EVE	Economic Value of Equity	RMC	Risk Management Committee
FASB	Financial Accounting Standards Board	RMG	Risk Management Group
FCPA	Foreign Corrupt Practices Act	ROAEA	Return on Average Earning Assets
FDIA	Federal Deposit Insurance Act	ROTCE	Return on Tangible Common Stockholders' Equity
FDIC	Federal Deposit Insurance Corporation	ROU	Right of Use
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991	RWA	Risk Weighted Assets
FHA	Federal Housing Administration	SBA	Small Business Administration
FHC	Financial Holding Company	SEC	Securities and Exchange Commission
FHLB	Federal Home Loan Bank	SFR	Single Family Residential
FICO	Fair, Isaac Corporation	SIFI	Systemically Important Financial Institution
FINRA	Financial Industry Regulatory Authority	SOFR	Secured Overnight Financing Rate
FNMA	Federal National Mortgage Association	TBV	Tangible Book Value
FRB	Board of Governors of the Federal Reserve System	TCE	Tangible Common Stockholders' Equity
FRBNY	Federal Reserve Bank of New York	TDR	Troubled Debt Restructuring
FV	Fair Value	TRS	Total Return Swaps
GAAP	Accounting Principles Generally Accepted in the U.S.	UPB	Unpaid Principal Balance
GLBA	Gramm-Leach-Bliley Act	VIE	Variable Interest Entity

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Item 1A. Risk Factors

The operation of our business, and the economic and regulatory climate in the U.S. and other regions of the world involve various elements of risk and uncertainty. You should carefully consider the risks and uncertainties described below before making a decision whether to invest in the Company. This is a discussion of the risks that we believe are material to our business and does not include all risks, material or immaterial, that may possibly affect our business. Any of the following risks, and additional risks that are presently unknown to us or that we currently deem immaterial, could have a material adverse effect on our business, financial condition, and results of operations.

Strategic Risks

If the assumptions and analyses underlying our strategy and business plan, including with respect to market conditions, capital and liquidity, business strategy, and operations are incorrect, we may be unsuccessful in executing our strategy and business plan.

A number of strategic issues affect our business, including how we allocate our capital and liquidity, our business strategy, our funding models, and the quality and efficiency of operations. We developed our strategy and business plan based upon certain assumptions, analyses, and financial forecasts, including with respect to our capital levels, funding model, credit ratings, revenue growth, earnings, interest margins, expense levels, cash flow, credit losses, liquidity and financing sources, lines of business and geographic scope, acquisitions and divestitures, equipment residual values, capital expenditures, retention of key employees, and the overall strength and stability of general economic conditions. Financial forecasts are inherently subject to many uncertainties and are necessarily speculative, and it is likely that one or more of the assumptions and estimates that are the basis of these financial forecasts will not be accurate. Accordingly, our actual financial condition and results of operations may differ materially from what we have forecast and we may not be able to reach our goals and targets. If we are unable to implement our strategic initiatives effectively, we may need to refine, supplement, or modify our business plan and strategy in significant ways. If we are unable to fully implement our business plan and strategy, it may have a material adverse effect on our business, results of operations and financial condition.

We may not be able to achieve the expected benefits from buying or selling a business or assets, or entering into a new business initiative, which may have an adverse effect on our business or results of operations.

As part of our strategy and business plan, we may consider buying or selling a business or assets in order to manage our business, the products and services we offer, our asset levels, credit exposures, or liquidity position. There are a number of risks inherent in purchase and sale transactions, including the risk that we fail to identify or acquire key businesses or assets, that we fail to complete a pending transaction, that we fail to sell a business or assets that are considered non-strategic or high risk, that we overpay for an acquisition or receive inadequate consideration for a disposition, or that we fail to properly integrate an acquired company or to realize the anticipated benefits from the transaction. We acquired IMB HoldCo LLC and its subsidiary, OneWest Bank N.A., in 2015 and two businesses, NACCO SAS and Capital Direct Group, in 2014. We sold (i) our Commercial Air business in April 2017, (ii) the majority of our international financing and leasing businesses and our student lending and small business lending portfolios from 2014 to 2016, (iii) NACCO SAS, our European rail car leasing business in 2018, and (iv) our Financial Freedom servicing business, including our reverse mortgage portfolio, in 2018.

In engaging in business acquisitions, CIT may decide to pay a premium over book and market values to complete the transaction, which may result in dilution of our tangible book value and net income per common share. If CIT uses substantial cash or other liquid assets or incurs substantial debt to acquire a business or assets, we could become more susceptible to economic downturns and competitive pressures.

Integrating the operations of an acquired entity can be difficult. As a result, CIT may not be able to fully achieve its strategic objectives and planned operating efficiencies in an acquisition. CIT and any target company typically will have different policies, procedures, and processes, including accounting, credit and other risk and reporting policies, and will utilize different information technology systems, which will required significant time, cost, and effort to integrate. CIT may also be exposed to other risks inherent in an acquisition, including the risk of unknown or contingent liabilities, changes in our credit, liquidity, interest rate or other risk profiles, potential asset quality issues, potential disruption of our existing business and diversion of management’s time and attention, possible loss of key employees or customers of the acquired business, and the risk that certain items were not accounted for properly by the seller in accordance with financial accounting and reporting standards. If we fail to realize the expected revenue increases, cost savings, increases in geographic or product scope, and/or other projected benefits from an acquisition, or if we are unable to adequately integrate the acquired business, or experience unexpected costs, changes in our risk profile, or disruption to our business, it could have an adverse effect on our business, financial condition, and results of operations.

When we sell a business or assets, the agreement between the Company and the buyer typically contains representations and warranties, including with regard to the conduct of the business, the servicing practices, and compliance with laws and regulations, among others, and the agreement typically contains certain indemnifications to allocate risks among the parties and may be subject to certain caps and limitations. CIT may also retain certain pre-closing liabilities, including the cost of legacy and future litigation matters related to pre-closing actions. The terms of any agreement, including any representations and warranties, indemnifications or retained liabilities, may subject us to ongoing risks after the sale is completed and could have an adverse effect on our business, financial condition, and results of operations.

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In addition, as part of its ongoing business, CIT from time to time enters into new business initiatives, and from time to time has targeted certain expense reductions in its business. The new business initiatives may not be successful in increasing revenue, whether due to significant levels of competition, lack of demand for services, lack of name recognition or a record of prior performance, or otherwise, or may require higher expenditures than anticipated to generate new business volume. The expense initiatives may not reduce expenses as much as anticipated, whether due to delays in implementation, higher than expected or unanticipated costs of implementation, increased costs for new regulatory obligations, or for other reasons. If CIT is unable to achieve the anticipated revenue growth from its new business initiatives or the projected expense reductions from efficiency improvements, its results of operations and profitability may be adversely affected.

We may incur losses on loans, securities and other acquired assets that are materially greater than reflected in our fair value adjustments.

When we account for acquisitions under the purchase method of accounting, we record the acquired assets and liabilities at fair value. All PCI loans are initially recorded at fair value based on the present value of their expected cash flows. We estimate cash flows using internal credit, interest rate and prepayment risk models using assumptions about matters that are inherently uncertain. We may not realize the estimated cash flows or fair value of these loans. In addition, although the difference between the pre-acquisition carrying value of the credit-impaired loans and their expected cash flows (the “non-accretable difference”) is available to absorb future charge-offs, we may be required to increase our allowance for loan losses and related provision expense because of subsequent additional deterioration in these loans.

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

Our markets are highly competitive and are characterized by competitive factors that vary based upon product and geographic region. We have a wide variety of competitors that include captive and independent finance companies, commercial banks and thrift institutions, industrial banks, community banks, internet banks, leasing companies, hedge funds, business development companies, insurance companies, mortgage companies, manufacturers and vendors. Some of our non-bank competitors are not subject to the same extensive regulation we are and, therefore, may have greater flexibility in competing for business. In particular, the activity and prominence of so-called marketplace lenders and other technological financial service companies have grown significantly over recent years and are expected to continue growing.

We compete on the basis of pricing (including the interest rates charged on loans or paid on deposits and the pricing for equipment leases), product terms and structure, the range of products and services offered, and the quality of customer service (including convenience and responsiveness to customer needs and concerns). The ability to access and use technology in the delivery of products and services to our customers is an increasingly important competitive factor in the financial services industry, and it is a critically important component to customer satisfaction.

If we are unable to address the competitive pressures that we face, we could lose market share, which could result in reduced net finance revenue and profitability and lower returns. On the other hand, if we meet those competitive pressures, it is possible that we could incur significant additional expense, experience lower returns due to compressed net finance revenue, or incur increased losses due to less rigorous risk standards.

Capital and Liquidity Risks

If we fail to maintain sufficient capital or adequate liquidity to meet regulatory capital requirements, there could be an adverse effect on our business, results of operations, and financial condition.

The Basel III Rule issued by the federal banking agencies requires BHCs and insured depository institutions to maintain more and higher quality capital than in the past. In addition, the federal banking agencies set minimum liquidity requirements for large banking organizations, including minimum levels of unencumbered high-quality liquid assets. See “Item 1. Business Overview - Regulation - Banking Supervision and Regulation - Liquidity Requirements.” Although the enhanced prudential supervision requirements imposed on large BHCs pursuant to Section 165 of the Dodd-Frank Act no longer apply to CIT, the banking regulators, pursuant to their regular supervisory process, could require CIT to maintain more and higher quality capital than previously expected and could limit our business activities (including lending) and our ability to expand organically or through acquisitions, diversify our capital structure, or pay dividends or otherwise return capital to shareholders. The banking regulators could also require CIT to hold higher levels of short-term investments, thereby limiting our ability to invest in longer-term or less liquid assets at higher yields. If we fail to maintain the appropriate capital levels or adequate liquidity, we could become subject to a variety of formal or informal enforcement actions, which may include restrictions on our business activities, including limiting lending and leasing activities, limiting the expansion of our business, either organically or through acquisitions, or requiring the raising of additional capital, which may be dilutive to shareholders. If we are unable to meet any of these capital or liquidity standards, it may have a material adverse effect on our business, results of operations and financial condition.

Our Revolving Credit Facility also includes terms that require us to comply with regulatory capital requirements and maintain a Tier 1 regulatory capital ratio of at least 9.0%. If we are unable to satisfy these or any of the other relevant terms of the Revolving Credit Facility, the lenders could elect to terminate the Revolving Credit Facility and require us to repay outstanding borrowings. In such event, unless we are able to refinance the indebtedness coming due and replace the Revolving Credit Facility, we may not have adequate liquidity for our business needs, which may have a material adverse effect on our business, results of operations and financial condition.

If we fail to maintain adequate liquidity or to generate sufficient cash flow to satisfy our obligations as they come due, whether due to a downgrade in our credit ratings or for any other reasons, it could adversely affect our future business operations.

CIT's liquidity is essential for the operation of our business. Our liquidity, and our ability to fund our activities through bank deposits or wholesale funding markets, could be affected by a number of factors, including market conditions, our capital structure and capital levels, our credit ratings, and the performance of our business. An adverse change in any of those factors, and particularly a downgrade in our credit ratings, could negatively affect CIT's liquidity and competitive position, increase our funding costs, or limit our access to the deposit markets or wholesale funding markets. Further, an adverse change in the performance of our business could have a negative impact on our operating cash flow. CIT's credit ratings are subject to ongoing review by the rating agencies, which consider a number of factors, including CIT's own financial strength, performance, prospects, and operations, as well as factors not within our control, including conditions affecting the financial services industry generally. See the "Funding and Liquidity — Debt Ratings" section of the MD&A for additional discussion of CIT's credit ratings. There can be no assurance that we will maintain or improve our current ratings, which are below investment grade at the holding company level. If we experience a substantial, unexpected, or prolonged change in the level or cost of liquidity, or fail to generate sufficient cash flow to satisfy our obligations, either as a result of a downgrade in our credit ratings or for any other reason, it could materially adversely affect our business, financial condition, or results of operations.

Our business may be adversely affected if we fail to successfully expand our deposits at CIT Bank or if our aggregate amount of deposits decreases.

CIT Bank currently has a branch network with over 60 branches, which offer a variety of deposit products. However, CIT also must rely on its online bank to raise additional deposits. Our ability to raise deposits and offer competitive interest rates on deposits is dependent on CIT Bank's capital levels, the size of its branch network, the quality and scope of its online banking platform, and its ability to attract lower cost demand deposits. Federal banking law generally prohibits a bank from accepting, renewing or rolling over brokered deposits, unless the bank is well-capitalized or it is adequately capitalized and obtains a waiver from the FDIC. There are also restrictions on interest rates that may be paid by banks that are less than well capitalized, under which such a bank generally may not pay an interest rate on any deposit of more than 75 basis points over the national rate published by the FDIC, unless the FDIC determines that the bank is operating in a high-rate area. Continued expansion of CIT Bank's retail online banking platform to diversify the types of deposits that it accepts may require significant time, effort, and expense to implement. We are likely to face significant competition for deposits from larger BHCs who are similarly seeking larger and more stable pools of funding and from new entrants to online banking. If CIT Bank fails to expand and diversify its deposit-taking capability, or if CIT Bank's aggregate amount of deposits decreases due to economic uncertainty, a migration of deposits to the largest banks, or for other reasons, it could have an adverse effect on our business, results of operations, and financial condition.

We may be restricted from paying dividends or repurchasing our common stock.

CIT is a legal entity separate and distinct from its subsidiaries, including CIT Bank, and relies on dividends from its subsidiaries for a significant portion of its cash flow. Federal banking laws and regulations limit the amount of dividends that CIT Bank can pay to CIT. At CIT, routine payment of dividends from earnings that can be sustained on a recurring basis would not typically require consultation with the regulators. However, regulatory guidance states that a BHC should consult with regulators in circumstances where the declaration and payment of a dividend could raise concerns about the safe and sound operation of the BHC and its depository institution subsidiaries, where the dividend declared for a period is not supported by earnings for that period, and where a BHC plans to declare a material increase in its common stock dividend. The regulatory framework also requires that CIT seek approval from the Federal Reserve prior to repurchasing common stock.

Credit and Market Risks

Our allowance for loan losses may prove inadequate.

The quality of our loans and leases depends on the creditworthiness of our customers, their ability to fulfill their obligations to us, and the value of the underlying collateral. We maintain a consolidated allowance for loan losses on our loans to provide for loan defaults and non-performance. The amount of our allowance reflects management's judgment of losses inherent in the portfolio. However, the economic environment is dynamic, and our portfolio credit quality could decline in the future.

Our allowance for loan losses may not keep pace with changes in the credit-worthiness of our customers or in collateral values. If the credit quality of our customer base declines, if the risk profile of a market, industry, or group of customers changes significantly, if we are unable to collect the full amount on accounts receivable taken as collateral, or if the value of equipment, real estate, or other collateral deteriorates significantly, our allowance for loan losses may prove inadequate, which could have a material adverse effect on our business, results of operations, and financial condition.

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

We could be adversely affected by the actions and commercial soundness of other financial institutions.

CIT's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of syndications, trading, clearing, counterparty, or other relationships. CIT has exposure to many different industries and counterparties, and it routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, private equity funds, hedge funds, and other institutional clients. Defaults by, or even rumors or questions about, one or more financial institutions, or the financial services industry generally, could affect market liquidity and could lead to losses or defaults by us or by other institutions. Many of these transactions could expose CIT to credit risk in the event of default by its counterparty or client. In addition, CIT's credit risk may be impacted if the collateral held by it cannot be realized or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to CIT. There is no assurance that any such losses would not adversely affect CIT, possibly materially.

Our Rail business is concentrated by industry and our retail banking business is concentrated geographically, and any downturn in the rail industry or in the geographic area of our retail banking business may have a material adverse effect on our business.

Most of our business is diversified by customer, industry, and geography. However, although our Rail business is diversified by customer and geography, it is concentrated in one industry. If there is a significant downturn in shipping by railcar, it could have a material adverse effect on our business and results of operations.

Our retail banking business is primarily concentrated within our retail branch network, which is located in Southern California. Although our other businesses are national in scope, these other businesses also have a presence within the Southern California geographic market. Adverse conditions in the Southern California geographic market, such as inflation, unemployment, recession, natural disasters, or other factors beyond our control, could impact the ability of borrowers in Southern California to repay their loans, decrease the value of the collateral securing loans in Southern California, or affect the ability of our customers in Southern California to continue conducting business with us, any of which could have a material adverse effect on our business and results of operations.

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

Our loans and leases include a significant portion of leased equipment, including but not limited to railcars and locomotives, technology and office equipment, and medical equipment. The realization of equipment values (residual values) during the life and at the end of the term of a lease is an important element in the profitability of our leasing business. At the inception of each lease, we record a residual value for the leased equipment based on our estimate of the future value of the equipment at the end of the lease term or end of the equipment's estimated useful life.

If the market value of leased equipment decreases at a rate greater than we projected, whether due to rapid technological or economic obsolescence, unusual wear and tear on the equipment, excessive use of the equipment, recession or other adverse economic conditions, or other factors, it could adversely affect the current values or the residual values of such equipment. For example, as the price of or demand for crude oil, coal, or other commodities goes up or down, it may affect the demand for railcars used to ship such commodities and the lease rates for such railcars, which could affect the residual values of such railcars. Further, if certain commodities cause more wear and tear on railcars, such as increased corrosion, it may increase maintenance and repair costs, which could affect the residual values of such railcars.

Certain equipment residual values, including railcar residuals, are dependent on the manufacturers' or vendors' warranties, reputation, and other factors, including demand and market conditions and liquidity. Residual values for certain equipment, including rail and medical equipment, may also be affected by changes in laws or regulations that mandate design changes or additional safety features. For example, regulations issued by the PHMSA in the U.S. and TC in Canada in 2015, and supplemented by the FAST Act in the U.S., require us to retrofit a significant portion of our tank cars over the next several years in order to continue leasing those tank cars for the transport of crude oil. In addition, we may not realize the full market value of equipment if we are required to sell it to meet liquidity needs or for other reasons outside of the ordinary course of business. Consequently, there can be no assurance that we will realize our estimated residual values for equipment.

The degree of residual realization risk varies by transaction type. Capital leases bear the least risk because contractual payments usually cover approximately 90% of the equipment's cost at the inception of the lease. Operating leases have a higher degree of risk because a smaller percentage of the equipment's value is covered by contractual cash flows over the term of the lease. A significant portion of our leasing portfolios are comprised of operating leases, which increase our residual realization risk.

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

We conduct limited business operations in certain foreign jurisdictions and we engage in certain cross border lending and leasing transactions. An economic recession or downturn, increased competition, or business disruption associated with the political or regulatory environments in the international markets in which we do business could adversely affect us.

In addition, our limited foreign lending and leasing transactions are sometimes denominated in foreign currencies, which subject us to foreign currency exchange rate fluctuations. These exposures, if not effectively hedged could have a material adverse effect on our investment in international loan and lease transactions and the level of international revenues that we generate from such transactions. Reported results from our foreign loan and lease transactions may fluctuate from period to period due to exchange rate movements in relation to the U.S. dollar.

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

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

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

We rely on borrowed money from deposits, secured debt, and unsecured debt to fund our business. We derive the bulk of our income from net finance revenue, which is the difference between interest and rental income on our loans and leases and interest expense on deposits and other borrowings, depreciation on our operating lease equipment and maintenance and other operating lease expenses. Prevailing economic conditions, the trade, fiscal, and monetary policies of the federal government and the policies of various regulatory agencies all affect market rates of interest and the availability and cost of credit, which in turn significantly affects our net finance revenue. Volatility in interest rates can also result in the flow of funds away from financial institutions into direct investments, such as federal government and corporate securities and other investment vehicles, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than financial institutions.

Any significant change in market interest rates may result in a change in net finance margin and net finance revenue. A substantial portion of our loans and other financing products, and a portion of our deposits and other borrowings, bear interest at floating interest rates. As interest rates increase, monthly interest obligations owed by our customers to us will also increase, as will our own interest expense. Demand for our loans or other financing products may decrease as interest rates rise or if interest rates are expected to rise in the future. In addition, if prevailing interest rates increase, some of our customers may not be able to make the increased interest payments or refinance their balloon and bullet payment transactions, resulting in payment defaults and loan impairments. Conversely, if interest rates remain low, our interest expense may decrease, but our customers may refinance the loans they have with us at lower interest rates, or with others, leading to lower revenues. As interest rates rise and fall over time, any significant change in market rates may result in a decrease in net finance revenue, particularly if the interest rates we pay on our deposits and other borrowings and the interest rates we charge our customers do not change in unison, which may have a material adverse effect on our business, operating results, and financial condition.

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

Weak economic conditions are likely to have a negative impact on our business and results of operations. Prolonged economic weakness or other adverse economic or financial developments in the U.S. or global economies in general, or affecting specific industries, geographic locations and/or products, would likely adversely impact credit quality as borrowers may fail to meet their debt payment obligations, particularly customers with highly leveraged loans. The uncertainty surrounding the terms of the U.K.'s exit from the European Union ("EU"), or Brexit, could negatively impact markets and cause weaker macroeconomic conditions that extend beyond the U.K. and the EU that could continue for the foreseeable future. Adverse economic conditions have in the past and could in the future result in declines in collateral values, which also decreases our ability to fund and collect against collateral. This would result in higher levels of nonperforming loans, net charge-offs, provision for credit losses, and valuation adjustments on loans held for sale. The value to us of other assets such as investment securities, most of which are debt securities or other financial instruments supported by loans, similarly would be negatively impacted by widespread decreases in credit quality resulting from a weakening of the economy. Accordingly, higher credit and collateral related losses and decreases in the value of financial instruments could impact our financial position or operating results.

Aside from a general economic downturn, a downturn in certain industries may result in reduced demand for products that we finance in that industry or negatively impact collection and asset recovery efforts. Decreased demand for the products of various manufacturing customers due to recession may adversely affect their ability to repay their loans and leases with us. Similarly, a decline in railroad shipping volumes may adversely affect our rail business, the value of our rail assets, and the ability of our lessees to make lease payments. Further, a decrease in prices or reduced demand for certain raw materials or bulk products, such as oil, coal, or steel, may result in a significant decrease in gross revenues and profits of our borrowers and lessees or a decrease in demand for certain types of equipment for the production, processing and transport of such raw materials or bulk products, including certain specialized railcars, which may adversely affect the ability of our customers to make payments on their loans and leases and the value of our rail assets and other leased equipment.

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

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There are risks associated with CIT's common stock that may affect its market price or make it difficult to resell.

The market price of our common stock may be volatile, and can fluctuate significantly in response to a number of factors, including, among others:

- Our operating results and financial condition, including whether our operating results vary from expectations of management, securities analysts or investors;
- Operating results and stock price performance of our peers;
- Our creditworthiness;
- Developments in our business or the financial services industry;
- Marketplace perceptions of us and/or our competitors;
- Technological developments;
- Regulatory changes;
- Whether we declare or fail to declare dividends on our common stock;
- Changes in executive management;
- Changes in the financial markets or economy; and
- Geopolitical conditions such acts or threats of terrorism or military conflicts.

The market price of our common stock may be subject to fluctuations unrelated to our operating performance. Increased volatility as a result of these or other causes could result in a decline in the market price of our common stock.

In addition, federal banking law, including regulatory approval requirements, impose significant restrictions on the acquisition of direct or indirect control over a BHC or an insured depository institution, such as CIT and CIT Bank. These laws may be perceived by the market as having an anti-takeover effect, and may prevent a non-negotiated takeover or change in control of the Company. These laws could result in CIT being less attractive to a potential acquirer and/or could affect the price that investors are willing to pay for our common stock.

Reforms to and uncertainty regarding LIBOR and certain other indices may adversely affect our business.

The U.K. Financial Conduct Authority announced in July 2017 that it will no longer persuade or require banks to submit rates for LIBOR after 2021. This announcement, in conjunction with financial benchmark reforms more generally and changes in the interbank lending markets have resulted in uncertainty about the future of LIBOR and certain other rates or indices which are used as interest rate "benchmarks." These actions and uncertainties may have the effect of triggering future changes in the rules or methodologies used to calculate benchmarks or lead to the discontinuance or unavailability of benchmarks. ICE Benchmark Administration is the administrator of LIBOR and maintains a reference panel of contributor banks. Uncertainty as to the nature and effect of such reforms and actions, and the potential or actual discontinuance of benchmark quotes, may adversely affect the value of, return on and trading market for our financial assets and liabilities that are based on or are linked to benchmarks, including any LIBOR-based securities, loans and derivatives, or our financial condition or results of operations. Furthermore, there can be no assurances that we and other market participants will be adequately prepared for an actual discontinuation of benchmarks, including LIBOR, that may have an unpredictable impact on contractual mechanics (including, but not limited to, interest rates to be paid to or by us) and cause significant disruption to financial markets that are relevant to our business segments, particularly Commercial Banking, among other adverse consequences, which may also result in adversely affecting our financial condition or results of operations.

Compliance, Regulatory and Legal Risks

Although we are not subject to the enhanced prudential supervision requirements applicable to banking organizations over $100 billion in assets, we may still be adversely affected by the increased scrutiny applicable to large regional banking organizations.

As a BHC with total consolidated assets of less than $100 billion, CIT is no longer subject to the FRB's enhanced prudential standards. However, the FRB has stated that it will continue to supervise and regulate financial institutions to ensure the safety and soundness of individual institutions and the stability of the broader banking system, and the capital planning and risk management practices of financial institutions with assets of less than $100 billion will continue to be reviewed through the regular supervisory process. Although the banking regulators have not finalized the scope of requirements applicable to CIT, we expect that CIT will be required to dedicate significant time, effort, and expense to comply with regulatory and supervisory standards and requirements imposed by our regulators, either through rulemaking or the supervisory process. If we fail to develop at a reasonable cost the systems and processes necessary to comply with the standards and requirements imposed by these rules, it could have a material adverse effect on our business, financial condition, or results of operations.

Our business is subject to significant government regulation and supervision and we could be adversely affected by banking or other regulations, including new regulations or changes in existing regulations or the application thereof.

The financial services industry, in general, is heavily regulated. CIT is subject to the comprehensive, consolidated supervision of the FRB and CIT Bank is subject to supervision by the OCC, in each case including risk-based and leverage capital requirements, information reporting requirements, consumer protection laws and regulations, financial crimes monitoring, and others. Further, CIT Bank is subject to regulation in certain instances by the FDIC, due to its insured deposits, and the CFPB. This regulatory oversight is established to protect depositors, consumer borrowers, federal deposit insurance funds and the banking system as a whole, and is not intended to protect debt and equity security holders. The financial condition and results of operations of a BHC (including its depository institution subsidiaries) that fails to satisfy applicable regulatory requirements and that has elected to be treated as an FHC, including maintaining its status as well managed and well capitalized and meeting the supervisory standards set by banking regulators, could be adversely affected, and the BHC may be restricted in its ability to undertake certain capital actions (such as declaring dividends or repurchasing outstanding shares) or to engage in certain activities or acquisitions.

These laws and regulations may impose significant assessments on CIT. Because our deposits are insured by the FDIC, we are subject to FDIC deposit insurance assessments. We generally are unable to control the amount of our assessments, and we may be required to pay higher FDIC assessments in the future than we currently do if increases are required to meet the FDIC's designated reserve ratio, or if there is an increase in the number of bank failures. In addition, CIT could be required to pay risk-based assessments to the Orderly Liquidation Fund if there are future liquidations of systemically important BHCs or non-bank financial companies. Any increase in our FDIC insurance assessments or any assessments related to the Orderly Liquidation Fund could adversely affect our business, financial condition, or results of operations. See the "Regulation – Banking Supervision and Regulation – FDIC Deposit Insurance" and "Regulation – Banking Supervision and Regulation – Orderly Liquidation Authority" sections of Item 1. Business Overview for additional discussion of FDIC deposit insurance and Orderly Liquidation Fund assessments.

Furthermore, the FRB and other U.S. banking agencies have broad enforcement powers with respect to BHCs and insured depository institutions, such as CIT and CIT Bank, including the power to impose cease and desist orders and/or substantial fines and other penalties. Failure to comply with applicable laws or regulations could subject CIT or CIT Bank, as well as their officers and directors, to administrative sanctions and potentially substantial civil and criminal penalties. Regulators also have broad authority to enforce AML and sanctions laws. Failure to comply with AML and sanctions laws or to maintain an adequate compliance program can lead to significant monetary penalties and reputational damage, and federal regulators evaluate the effectiveness of an applicant in combating money laundering when considering approval of applications to acquire, merge, or consolidate with another banking institution, or to engage in other expansionary activities. There have been a number of significant enforcement actions by regulators, as well as state attorneys general and the Department of Justice, against banks, broker-dealers and non-bank financial institutions with respect to AML and sanctions laws and some have resulted in substantial penalties, including criminal pleas. Any violation of law or regulation, possibly even inadvertent or unintentional violations, could result in the fines, sanctions or other penalties described above, which could have significant reputational or other consequences and could have a material adverse effect on our business, financial condition and results of operations. See the "Regulation – Banking Supervision and Regulation" section of Item 1. Business Overview for additional discussion of the laws and regulations applicable to CIT and CIT Bank.

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

Our Aviation Lending, Rail, Maritime and other equipment financing operations are subject to various laws, rules, and regulations administered by authorities in jurisdictions where we do business. In the U.S., our equipment leasing operations, including for railcars, ships, and other equipment, are subject to rules and regulations relating to safety, operations, maintenance, and mechanical standards promulgated by various federal and state agencies and industry organizations, including the U.S. Department of Transportation, the Federal Aviation Administration, the Federal Railroad Administration, the Association of American Railroads, the Maritime Administration, the U.S. Coast Guard, and the U.S. Environmental Protection Agency. Similar governmental agencies issue similar rules and regulations in other countries in which we do business. In 2015, the U.S. Pipeline and Hazardous Materials Safety Administration ("PHMSA") and Transport Canada ("TC") each released final rules establishing enhanced design and performance criteria for tank cars loaded with a flammable liquid and requiring retrofitting of existing tank cars to meet the enhanced standards within a specified time frame. In addition, the U.S. Congress enacted the Fixing America's Surface Transportation Act ("FAST Act"), which, among other things, expanded the scope of tank cars classified as carrying flammable liquids, added additional design and performance criteria for tank cars in flammable service, and required additional studies of certain criteria established by PHMSA and TC. In addition, state agencies regulate some aspects of rail and maritime operations with respect to health and safety matters not otherwise preempted by federal law. Our business operations and our equipment financing and leasing portfolios may be adversely impacted by rules and regulations promulgated by governmental and industry agencies, which could require substantial modification, maintenance, or refurbishment of our railcars, ships, or other equipment, or potentially make such equipment inoperable or obsolete. Violations of these rules and regulations can result in substantial fines and penalties, including potential limitations on operations or forfeitures of assets.

The California Consumer Privacy Act ("CCPA") (AB-375) was enacted on June 28, 2018, and becomes effective for certain companies conducting business in California on January 1, 2020. The CCPA imposes significant requirements on covered companies with respect to consumer data privacy rights. The CCPA is the first of what may be other state statutes or regulations designed to protect consumer personal data. Compliance with these and similar regulations could potentially require substantive technology infrastructure and process changes across many of CIT's businesses. Non-compliance with the CCPA or similar laws and regulations could lead to substantial regulatory imposed fines and penalties and/or reputational harm. CIT cannot predict whether any pending or future legislation will be adopted, or the substance and impact of any legislation on CIT. Future legislation could result in substantial costs to CIT and could have an adverse effect on our business, financial condition and results of operations.

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We are currently involved in a number of legal proceedings, and may from time to time be involved in government investigations and inquiries, related to the conduct of our business, the results of which could have an adverse effect on our business, financial condition, or results of operation.

We are currently involved in a number of legal proceedings, and may from time to time be involved in government and regulatory investigations and inquiries, relating to matters that arise in connection with the conduct of our business (collectively, "Litigation"). We are also at risk when we have agreed to indemnify others for losses related to Litigation they face, such as in connection with the sale of a business or assets by us. It is inherently difficult to predict the outcome of Litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages. We cannot state with certainty what the eventual outcome of the pending Litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter will be, if any. The actual results from resolving Litigation matters may involve substantially higher costs and expenses than the amounts reserved or amounts estimated to be reasonably possible, or judgments may be rendered, or fines or penalties assessed in matters for which we have no reserves or have not estimated reasonably possible losses. Adverse judgments, fines or penalties in one or more Litigation matters could have a material adverse effect on our business, financial condition, or results of operations.

We could be adversely affected by changes in tax laws and regulations or the interpretations of such laws and regulations.

We are subject to the income tax laws of the U.S., its states and municipalities and those of the foreign jurisdictions in which we do business. These tax laws are complex and may be subject to different interpretations. We must make judgments and interpretations about the application of these inherently complex tax laws when determining our provision for income taxes, our deferred tax assets and liabilities, and our valuation allowance. Changes to the tax laws, administrative rulings or court decisions could increase our provision for income taxes and reduce our net income.

These changes could affect our regulatory capital ratios as calculated in accordance with the Basel III Rule. The exact impact is dependent upon the effects an amendment has on our net DTAs arising from NOL and tax credit carryforwards, versus our net DTAs related to temporary timing differences, as the former is a deduction from capital (the numerator to the ratios), while the latter is included in RWA (the denominator). See "Regulation — Banking Supervision and Regulation — Capital Requirements" section of Item 1. Business Overview for further discussion regarding the impact of DTA's on regulatory capital.

In addition, our ability to continue to record our DTAs is dependent on our ability to realize their value through NOL carrybacks or future projected earnings. Future changes in tax laws or regulations could adversely affect our ability to record our DTAs. Loss of part or all of our DTAs would have a material adverse effect on our financial condition and results of operations. See the “Critical Accounting Estimates - Realizability of Deferred Tax Assets” section of the MD&A for additional discussion regarding our DTAs.

Our investments in certain tax-advantaged projects may not generate returns as anticipated and may have an adverse impact on our financial results.

We invest in certain tax-advantaged projects promoting affordable housing, community development and renewable energy resources. Our investments in these projects are designed to generate a return primarily through the realization of federal and state income tax credits, and other tax benefits, over specified time periods. We are subject to the risk that previously recorded tax credits, which remain subject to recapture by taxing authorities based on compliance features required to be met at the project level, will fail to meet certain government compliance requirements and will not be able to be realized. The risk of not being able to realize the tax credits and other tax benefits depends on many factors outside of our control, including changes in the applicable tax code and the ability of the projects to be completed. If we are unable to realize these tax credits and other tax benefits, it may have a material adverse effect on our financial results.

Operational Risks

If we fail to maintain adequate internal control over financial reporting, it could result in a material misstatement of the Company's annual or interim financial statements.

Management of CIT is responsible for establishing and maintaining adequate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. As of December 31, 2016, the Company had identified two material weaknesses in our internal controls, which were remediated in 2017. As of December 31, 2018, the Company reported no material weaknesses, as disclosed in Item 9A. Controls and Procedures. However, if we identify additional material weaknesses or other deficiencies in our internal controls, or if material weaknesses or other deficiencies exist that we fail to identify, our risk will be increased that a material misstatement to our annual or interim financial statements will not be prevented or detected on a timely basis. Any such potential material misstatement, if not prevented or detected, could require us to restate previously released financial statements and could otherwise have a material adverse effect on our business, results of operations, and financial condition.

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Changes in accounting standards or interpretations could materially impact our reported earnings and financial condition.

The FASB, the SEC and other regulatory agencies periodically change the financial accounting and reporting standards that govern the preparation of CIT's consolidated financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, potentially resulting in changes to previously reported financial results, or a cumulative charge to retained earnings. For example;

- We implemented new guidance on lease accounting (ASU 2016-02 Leases (Topic 842), effective January 1, 2019), which requires lessees to recognize lease liabilities, and corresponding right of use assets, on their balance sheets, and may prompt certain of our leasing customers to reconsider whether to lease equipment for their business or to purchase it outright using the proceeds of a loan, and may have an adverse effect on our leasing business by broadening our competition from equipment lessors to all equipment lenders.
- We are also reviewing new guidance on the measurement of credit losses (ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, effective January 1, 2020), or "CECL", which introduces a forward-looking "expected loss" model to estimate credit losses to cover the expected life of the portfolio, rather than the incurred loss model under current U.S. GAAP. CECL substantially changes how we calculate our allowance for loan and lease losses ("ALLL"). Although we are still evaluating the impact of CECL, and cannot predict with certainty when and how it will affect our financial condition and results of operations, including our regulatory capital, we expect that CECL will likely result in an increase in our ALLL upon adoption, which could have a material adverse effect on our results of operations.

See Note 1. Business and Summary of Significant Accounting Policies – Recent Accounting Pronouncements in Item 8. Financial Statements and Supplementary Data for a discussion of accounting pronouncements that could impact CIT and its business.

The preparation of our financial statements requires the use of estimates that may vary from actual results.

The preparation of our financial statements in conformity with GAAP requires management to make difficult, subjective or complex judgments about matters that are uncertain, which include assumptions and estimates of current risks and future trends, all of which may undergo material changes. Materially different amounts could be reported under different conditions or using different assumptions or estimates. Because of the inherent uncertainty of estimates involved in preparing our financial statements, we may be required to undertake one or a number of actions that include, but are not limited to, increasing our ALLL (and/or sustaining losses that are significantly higher than reserves); recognizing significant impairment charges to goodwill; or increasing our accrued income taxes. Any of these actions could have a material adverse effect on our financial condition and results of operations. See the "Critical Accounting Estimates" section of the MD&A for additional discussion of our accounting estimates.

In particular, our critical accounting estimates include the ALLL and goodwill impairment. The quality of our loans and leases depends on the creditworthiness of our customers and their ability to fulfill their obligations to us. We maintain a consolidated ALLL on our loans to provide for loan defaults and non-performance. The amount of our ALLL reflects management's judgment of losses inherent in the portfolio. However, the economic environment is dynamic, and our portfolio credit quality could decline in the future.

Our ALLL may not keep pace with changes in the credit-worthiness of our customers or in collateral values. If the credit quality of our customer base declines, if the risk profile of a market, industry, or group of customers changes significantly, if we are unable to collect the full amount on accounts receivable taken as collateral, or if the value of equipment, real estate, or other collateral deteriorates significantly, our ALLL may prove inadequate, which could have a material adverse effect on our business, results of operations, and financial condition.

See Note 1 — Significant Accounting Policies of Item 8. Financial Statements and Supplementary Data and the "Critical Accounting Estimates" section of the MD&A for additional discussion on the methodology management uses to determine our ALLL.

Management reviews our intangible assets for impairment in accordance with GAAP on an annual basis, or more often as warranted by changes in events or circumstances. As of December 31, 2018, we had recorded goodwill of $369.9 million. If management's estimates of fair value are inaccurate or change as a result of changes in market or economic conditions, the Company may recognize an impairment charge to goodwill. Any impairment to goodwill could have a material adverse effect on our financial condition and results of operations.

See Note 25 — Goodwill and Other Intangible Assets of Item 8. Financial Statements and Supplementary Data and the "Critical Accounting Estimates" section of the MD&A for additional discussion of goodwill impairment testing.

If the models that we use in our business are poorly designed, our business or results of operations may be adversely affected.

We rely on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy, and calculating regulatory capital levels, as well as to estimate the value of financial instruments and balance sheet items. Poorly designed or implemented models or gaps in model risk management process present the risk that our business decisions based on information incorporating models will be adversely affected due to the inadequacy of that information, or lack compensating controls. Also, information we provide to the public or to our regulators based on poorly designed or implemented models could be inaccurate or misleading. Some of the decisions that our regulators make, including those related to capital distributions to our shareholders, could be affected adversely if their perception is that the quality of the models used to generate the relevant information or necessary compensating controls is insufficient.

It could adversely affect our business if we fail to retain and/or attract skilled employees.

Our business and results of operations will depend in part upon our ability to retain and attract highly skilled and qualified executive officers and management, financial, compliance, technical, marketing, sales, and support employees. Competition for qualified executive officers and employees can be challenging, and CIT cannot ensure success in attracting or retaining such individuals. This competition can lead to increased expenses in many areas. If we fail to attract and retain qualified executive officers and employees, it could have a material adverse effect on our ability to compete or operate our business successfully, or to meet our operations, risk management, compliance, regulatory, funding and financial reporting requirements.

In the second quarter of 2016, the FRB, OCC, FDIC, and SEC jointly published proposed rules designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking at covered financial institutions, which include a bank or BHC with $1 billion or more of assets, such as CIT and CIT Bank. The agencies have taken no action on the proposed rules since they were introduced and it cannot be determined at this time whether or when a final rule will be adopted. Compliance with such a final rule, if approved, may substantially affect the manner in which we structure compensation for our executives and other employees. Depending on the nature and application of the final rules, we may not be able to successfully compete with certain financial institutions and other companies that are not subject to some or all of the rules to retain and attract executives and other high performing employees. If this were to occur, our business, financial condition and results of operations could be adversely affected.

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

We and our subsidiaries are party to various financing arrangements, commercial contracts and other arrangements, such as securitization transactions, derivatives transactions, funding facilities, and agreements to purchase or sell loans, leases or other assets, that give, or in some cases may give, the counterparty the ability to exercise rights and remedies upon the occurrence of certain events. Such events may include a material adverse effect or material adverse change (or similar event), a breach of representations or warranties, a failure to disclose material information, a breach of covenants, certain insolvency events, a default under certain specified other obligations, or a failure to comply with certain financial covenants. The counterparty could have the ability, depending on the arrangement, to, among other things, require early repayment of amounts owed by us or our subsidiaries and in some cases payment of penalty amounts, or require the repurchase of assets previously sold to the counterparty. Additionally, a default under financing arrangements or derivatives transactions that exceed a certain size threshold in the aggregate may also cause a cross-default under instruments governing our other financing arrangements or derivatives transactions. If the ability of any counterparty to exercise such rights and remedies is triggered and we are unsuccessful in avoiding or minimizing the adverse consequences discussed above, such consequences could have a material adverse effect on our business, results of operations, and financial condition.

We may be exposed to risk of environmental liability or claims for negligence, property damage, or personal injury when we take title to properties or lease certain equipment.

In the course of our business, we may foreclose on and take title to real estate that contains or was used in the manufacture or processing of hazardous materials or that is subject to other environmental risks. In addition, we may lease equipment to our customers that is used to mine, develop, process, or transport hazardous materials. As a result, we could be subject to environmental liabilities or claims for negligence, property damage, or personal injury with respect to these properties or equipment. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination, accidents or other hazardous risks, or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site or equipment involved in a hazardous incident, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination, property damage, personal injury or other hazardous risks emanating from the property or related to the equipment. If we become subject to significant environmental liabilities or claims for negligence, property damage, or personal injury, our financial condition and results of operations could be adversely affected.

We rely on our systems, employees, and certain third party vendors and service providers in conducting our operations, and certain failures, including internal or external fraud, operational errors, systems malfunctions, disasters, or terrorist activities, could materially adversely affect our operations.

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical and recordkeeping errors, and computer or telecommunications systems malfunctions. Our businesses depend on our ability to process a large number of increasingly complex transactions. If any of our operational, accounting, or other data processing systems fail or have other significant shortcomings (including intrusion into or degradation of systems or technology by cyber attackers), we could be materially adversely affected. We are similarly dependent on our employees. We could be materially adversely affected if one of our employees causes a significant operational break-down or failure, either as a result of human error or intentional sabotage or fraudulent manipulation of our operations or systems. Third parties with which we do business, including vendors that provide internet access, portfolio servicing, deposit products, or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns, failures, capacity constraints

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of their own systems or employees, or cyber security attacks through their systems to our systems. Any of these occurrences could diminish our ability to operate one or more of our businesses, or cause financial loss, potential liability to clients, inability to secure insurance, reputational damage, or regulatory intervention, which could have a material adverse effect on our business.

We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, electrical or telecommunications outages, natural or man-made disasters, such as fires, earthquakes, hurricanes, floods, or tornados, disease pandemics, or events arising from local or regional politics, including terrorist acts or international hostilities. Such disruptions may give rise to losses in service to clients and loss or liability to us. In addition, there is the risk that our controls and procedures as well as business continuity and data security systems prove to be inadequate. The computer systems and network systems we and others use could be vulnerable to unforeseen problems. These problems may arise in both our internally developed systems and the systems of third-party hardware, software, and service providers. Any such failure could affect our operations and could materially adversely affect our results of operations by requiring us to expend significant resources to correct the defect, as well as by exposing us to litigation or losses not covered by insurance. The adverse impact of disasters, terrorist activities, or international hostilities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses that we deal with, particularly those that we depend upon but have no control over.

Our framework for managing risks may not be effective in mitigating risk and loss.

Our risk management framework seeks to mitigate risk and loss. We have established processes and procedures intended to identify, measure, monitor, report, analyze, and mitigate the types of risk to which we are subject, including liquidity risk, credit risk, market risk, interest rate risk, legal and compliance risk, strategic risk, reputational risk, and operational risk related to our employees, systems and vendors, among others. Any system of control and any system to reduce risk exposure, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met.

A failure in our internal controls or our systems or strategies to mitigate risk could have a significant negative impact not only on our earnings, but also our reputation with customers, regulators and investors, which is critical to our ability to attract and retain customers and highly-skilled management and employees. Our reputation can be damaged as a result of any number of circumstances, including, among others, employee misconduct, regulatory action or litigation. Moreover, whereas negative public opinion once was primarily driven by adverse news coverage in traditional media, the advent and expansion of social media creates the potential for rapid and widespread dissemination of inaccurate, misleading, or false information that could damage our reputation and affect our ability to attract and retain customers and employees.

If our risk management framework proves ineffective, we may not be able to effectively mitigate our risk exposures in particular market environments or against particular types of risk, and we could incur litigation, negative regulatory consequences, reputational damages or other adverse consequences and we could suffer unexpected losses that may affect our financial condition or results of operations.

See the “Risk Management” section of the MD&A for additional discussion of our risk management framework and related risks.

We and/or our affiliates are involved from time to time in information-gathering requests, investigations and proceedings by various governmental regulatory agencies and law enforcement authorities, as well as self-regulatory agencies.

We and/or our affiliates are involved from time to time in information-gathering requests, reviews, investigations and proceedings (both formal and informal) by governmental regulatory agencies and law enforcement authorities, as well as self-regulatory agencies, regarding our customers and businesses. Because our businesses are complex and subject to continuing change, and because they are subject to extensive regulation by federal, state and foreign authorities, the outcome of any of these requests, reviews, investigations and proceedings and their impact on us can be difficult to predict. In addition, a violation of law or regulation by another financial institution may give rise to an inquiry or investigation by regulators or other authorities of the same or similar practices by us. For example, an event of improper sales practices at other financial institutions, including the opening of fraudulent customer accounts, has prompted close scrutiny of consumer banking practices by regulators and the media. Moreover, the complexity of the federal and state regulatory and enforcement regimes in the U.S. means that a single event or topic may give rise to numerous and overlapping investigations and regulatory proceedings. Such matters may result in material adverse consequences, including without limitation, adverse judgments, settlements, fines, penalties, injunctions or other actions, amendments and/or restatements of our SEC filings and/or financial statements, as applicable, and/or determinations of material weaknesses in our disclosure controls and procedures.

There has been a trend of large settlements with governmental agencies that may adversely affect the outcomes for other financial institutions, to the extent they are used as a template for other settlements in the future. In some cases, governmental authorities have required criminal pleas or other extraordinary terms as part of such settlements with other financial institutions. The uncertain regulatory enforcement environment makes it difficult to estimate probable losses, which can lead to substantial disparities between legal reserves and actual settlements or penalties.

We continually encounter technological change, and if we are unable to implement new or upgraded technology when required, it may have a material adverse effect on our business.

The financial services industry is continually undergoing rapid technological change with frequent introduction of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our continued success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that satisfy customer demands and create efficiencies in our operations. If we are unable to effectively implement new technology-driven products and services that allow us to remain competitive or be successful in marketing these products and services to our customers, or if we implement technology that is susceptible to information security breaches or cyber security attacks, it may have a material adverse effect on our business.

We could be adversely affected by information security breaches or cyber security attacks.

Information security risks, including privacy risk for large financial institutions such as CIT, have generally increased in recent years, in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties, some of which may be linked to terrorist organizations or hostile foreign governments. Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our businesses rely on our digital technologies, computer and email systems, software, and networks to conduct their operations. Our technologies, systems, networks, and our customers' devices may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of CIT's or our customers' confidential, proprietary and other information, including personally identifiable information of our customers and employees, or otherwise disrupt CIT's or its customers' or other third parties' business operations.

In recent years, there have been several well-publicized attacks on various companies, including in the retail, financial services, media and entertainment, social media, and other industries, and personal, proprietary, and public e-mail systems in which the perpetrators gained unauthorized access to confidential information and customer data, often through the introduction of computer viruses or malware, cyber-attacks, phishing, social engineering, or other means. Recently, there have also been a series of Business Email Compromise (“BEC”) incidents on public companies. In a BEC incident, fraudsters use spoofed or compromised email accounts to trick an organization’s personnel into effectuating wire transfers to financial accounts controlled by the fraudsters. Even if not directed at CIT specifically, attacks on other entities with whom we do business or on whom we otherwise rely or attacks on financial or other institutions important to the overall functioning of the financial system could adversely affect, directly or indirectly, aspects of our business.

Since January 1, 2016, we have not experienced any material information security breaches involving either proprietary or customer information. However, if we experience cyber-attacks or other information security breaches in the future, either the Company or its customers may suffer material losses. While CIT maintains insurance coverage that may, subject to policy terms and conditions, including significant deductibles, cover certain aspects of cyber risk, such insurance coverage may be insufficient to cover all losses. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the risk that protective measures in place, despite their sophistication, may be defeated, the prominent size and scale of CIT and its role in the financial services industry, our plans to continue to implement our online banking channel strategies and develop additional remote connectivity solutions to serve our customers (including on-line and mobile applications), our geographic footprint, the outsourcing of some of our business operations, and the continued uncertain global economic environment. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and mitigate any information security vulnerabilities. The inherent limitations in investigating and remediating an information security incident could also further increase the cost and consequences of such incident. We expect that any investigation of an information security incident would be inherently unpredictable and that there would be some passage of time before the completion of any investigation and before full and reliable information is available to us. During such time we may not know the extent of any harm to us or our customers, or how best to remediate the incident, and certain errors or actions could be repeated and compounded before they are discovered and remediated.

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber-attacks or security breaches of the networks, systems or devices that our customers use to access our products and services, or a failure to adequately disclose such disruptions, failures, cyber-attacks, or security breaches to our customers, suppliers, or vendors or to the financial markets, could result in customer attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, remediation costs, including preventative costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

Certain operations are concentrated in Southern California, and changes in the local economy, or natural or man-made disasters, could adversely affect our financial condition or results of operations.

CIT Bank’s branch network and the majority of the Company’s consumer mortgage loans are concentrated in Southern California. As a result, local economic conditions significantly affect the demand for mortgage loans, the ability of borrowers to repay these loans and the value of the collateral securing these loans, and changes in the economic conditions in Southern California could adversely affect our business, financial condition or results of operations.

Furthermore, our consumer mortgage loans are typically collateralized by the underlying property, primarily single family homes. A natural disaster, particularly wildfires or earthquakes, or a man-made disaster, including acts of terrorism, in Southern California could adversely affect the value of collateral underlying our mortgage loans or otherwise affect our borrowers’ ability to repay their loans, or could disrupt CIT Bank’s operations. The severity and impact of earthquakes, wildfires and other natural disasters are difficult to predict and may be exacerbated by global climate change. Any of these events could have a material adverse effect on our business, financial condition or results of operations.

See the “Business Segments – Consumer Banking” section of Item 1. Business Overview for additional discussion of our consumer banking business and related risks.

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Item 1B. Unresolved Staff Comments

There are no unresolved SEC staff comments.

Item 2. Properties

CIT primarily operates in North America. CIT occupies approximately 1.6 million square feet of space, which includes office space and our branch network, the majority of which is leased.

Item 3. Legal Proceedings

CIT is currently involved, and from time to time in the future may be involved, in a number of judicial, regulatory, and arbitration proceedings relating to matters that arise in connection with the conduct of its business (collectively, "Litigation"), certain of which Litigation matters are described in Note 21 — Contingencies. In view of the inherent difficulty of predicting the outcome of Litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages, CIT cannot state with confidence what the eventual outcome of the pending Litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter may be, if any. In accordance with applicable accounting guidance, CIT establishes reserves for Litigation when those matters present loss contingencies as to which it is both probable that a loss will occur and the amount of such loss can be reasonably estimated. Based on currently available information, CIT believes that the results of Litigation that is currently pending, taken together, will not have a material adverse effect on the Company's financial condition, but may be material to the Company's operating results or cash flows for any particular period, depending in part on its operating results for that period. The actual results of resolving such matters may be substantially higher than the amounts reserved.

For more information about pending legal proceedings, including an estimate of certain reasonably possible losses in excess of reserved amounts, see Note 21 — Contingencies.

Item 4. Mine Safety Disclosure

Not applicable

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PART TWO

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

Market Information — CIT's common stock trades on the New York Stock Exchange ("NYSE") under the symbol "CIT."

Holders of Common Stock — As of February 8, 2019, there were 45,749 beneficial holders of common stock.

Dividends — Dividend information is included in the Capital section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Shareholder Return — The following graph shows the annual cumulative total shareholder return for common stock during the period from December 31, 2013 to December 31, 2018. The chart also shows the cumulative returns of the S&P 500 Index and S&P Banks Index for the same period. The comparison assumes $100 was invested on December 31, 2013. Each of the indices shown assumes that all dividends paid were reinvested.

CIT STOCK PERFORMANCE DATA

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
CIT	$ 100.00	$ 92.73	$ 78.00	$ 85.42	$ 99.88	$ 78.90
S&P 500	$ 100.00	$ 113.68	$ 115.24	$ 129.01	$ 157.16	$ 150.26
S&P Banks	$ 100.00	$ 115.51	$ 116.49	$ 144.81	$ 177.47	$ 148.29
S&P Financials	$ 100.00	$ 115.18	$ 113.38	$ 139.18	$ 169.99	$ 147.83

Securities Authorized for Issuance Under Equity Compensation Plans — Our CIT Group Inc. 2016 Omnibus Incentive Plan was approved by shareholders in 2016, and replaced the Amended and Restated CIT Group Inc. Long-Term Incentive Plan (the “Prior Plan”). The Prior Plan was approved by the Bankruptcy Court in 2009 and did not require shareholder approval. No new equity awards may be granted under the Prior Plan. Equity awards associated with these plans are presented in the following table.

	Number of Securities to be Issued Upon	Weighted- Average	Number of Securities Remaining Available

	Exercise of Outstanding Options	Exercise Price of Outstanding Options	for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by shareholders or the Court	N/A	N/A	4,639,054*

* Excludes 2,159,435 shares underlying outstanding awards granted to employees and/or directors that are unvested and/or unsettled.

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During 2018, we had no equity compensation plans that were not approved by shareholders or the Court. For further information on our equity compensation plans, including the weighted average exercise price, see Item 8. Financial Statements and Supplementary Data, Note 19— Retirement, Postretirement and Other Benefit Plans.

Issuer Purchases of Equity Securities — Details of the repurchases of our common stock during the three months ended December 31, 2018, are included in the following table:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1 - 31, 2018	4,982,338	$48.58	4,982,338	—
November 1 - 30, 2018	4,693,162	$46.26	4,693,162	—
December 1 - 31, 2018	—	$—	—	—
Total Purchases	9,675,500			—

During 2018, we purchased $1.6 billion (inclusive of the amount in the above table) of common stock via an equity tender offer and open market repurchases. The above purchases completed the $750 million common equity capital return approved by the Board of Directors in June 2018. Securities purchased information is included in the Capital section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

As disclosed in Note 29 – Subsequent Events to Item 8. Financial Statements and Supplementary Data, on January 28, 2019, CIT received a “non-objection” from the Federal Reserve Bank of New York to CIT’s plan for a common equity capital return of up to $450 million through September 2019. The Company’s Board of Directors has approved the capital return.

Unregistered Sales of Equity Securities — There were no sales of common stock during 2018, 2017 and 2016. There were issuances of common stock under equity compensation plans and an employee stock purchase plan, both of which are subject to registration statements.

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Item 6. Selected Financial Data

Select Data (dollars in millions)

	At or for the Years Ended December 31,				
	2018	2017	2016	2015	2014
Select Statements of Operations Data					
Net interest revenue	$1,075.3	$1,117.9	$1,158.3	$713.8	$440.5
Provision for credit losses	171.0	114.6	194.7	158.6	104.4
Total non-interest income	1,382.8	1,371.6	1,182.2	1,167.7	1,213.5
Total non-interest expenses	1,650.1	2,183.3	2,124.9	1,536.9	1,305.1
Income (loss) from continuing operations	472.1	259.4	(182.6)	724.1	675.7
Net income (loss)	447.1	468.2	(848.0)	1,034.1	1,119.1
Net income (loss) available to common shareholders	428.2	458.4	(848.0)	1,034.1	1,119.1
Per Common Share Data					
Diluted income (loss) per common share - continuing operations	$3.82	$1.52	$(0.90)	$3.89	$3.57
Diluted income (loss) per common share	3.61	2.80	(4.20)	5.55	5.91
Book value per common share	55.70	53.25	49.50	54.45	50.07
Tangible book value per common share(1)	51.15	49.58	45.41	48.33	47.59
Dividends declared per common share	0.82	0.61	0.60	0.60	0.50
Dividend payout ratio	22.7%	21.8%	NM	10.8%	8.5%
Performance Ratios					
Return (available to common shareholders; continuing operations) on average common stockholders' equity(1), (2)	7.30%	3.53%	(2.26)%	11.96%	11.93%
Return (available to common shareholders; continuing operations) on average tangible common stockholders' equity(1), (2)	8.20%	7.72%	3.17%	13.37%	12.63%
Net finance revenue as a percentage of average earning assets	3.41%	3.43%	3.60%	3.47%	3.30%
Return (available to common shareholders; continuing operations) on average earning assets(1)	1.00%	0.53%	(0.38)%	1.90%	2.26%
Average total equity to average total asset ratio	13.8%	16.1%	17.0%	17.9%	19.6%
Balance Sheet Data					
Loans, including receivables pledged	$30,795.4	$29,113.9	$29,535.9	$30,518.7	$18,260.6
Allowance for loan losses	(489.7)	(431.1)	(432.6)	(347.0)	(334.2)
Operating lease equipment, net	6,970.6	6,738.9	7,486.1	6,851.7	5,980.9
Total cash and deposits	1,795.6	1,718.7	6,430.6	7,652.4	6,155.2
Investment securities	6,233.8	6,469.9	4,491.1	2,953.7	1,550.3
Assets of discontinued operations	249.8	501.3	13,220.7	13,059.6	12,493.7
Total assets	48,537.4	49,278.7	64,170.2	67,391.9	47,755.5

Deposits	31,239.5	29,569.3	32,304.3	32,761.4	15,838.7
Borrowings	8,118.8	8,974.4	14,935.5	16,350.3	15,969.6
Liabilities of discontinued operations	297.0	509.3	3,737.7	4,302.0	3,818.1
Total common stockholders' equity	5,621.6	6,995.0	10,002.7	10,944.7	9,057.9
Credit Quality					
Non-accrual loans as a percentage of loans	0.92 %	0.76 %	0.94 %	0.83 %	0.88 %
Net charge-offs as a percentage of average loans	0.39 %	0.39 %	0.37 %	0.58 %	0.55 %
Allowance for loan losses as a percentage of loans	1.59 %	1.48 %	1.46 %	1.14 %	1.83 %
Capital Ratios[1]					
Common Equity Tier 1 Capital Ratio (fully phased-in)	12.0 %	14.4 %	13.8 %	12.6 %	N/A
Tier 1 Capital Ratio (fully phased-in)	12.7 %	15.1 %	13.8 %	12.6 %	14.5 %
Total Capital Ratio (fully phased-in)	14.8 %	16.2 %	14.6 %	13.2 %	15.1 %

(1) See Non-GAAP Financial Measures for a reconciliation of non-GAAP to GAAP financial information.

(2) 2017 and prior calculations are adjusted to reflect an estimated reduction in equity for Commercial Air, that was moved to discontinued operations and sold.

NM – Not meaningful

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

CIT Group Inc., together with its subsidiaries (collectively "we", "our", "CIT" or the "Company"), is a bank holding company ("BHC") and regulated by the Board of Governors of the Federal Reserve System ("FRB") and the Federal Reserve Bank of New York ("FRBNY") under the U.S. Bank Holding Company Act of 1956, as amended. CIT Bank, N.A. is regulated by the Office of the Comptroller of the Currency of the U.S. Department of the Treasury ("OCC").

Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk ("MD&A") contains financial terms that are relevant to our business, and a Glossary of key terms is included at the end of Item 1. Business Overview. Management uses certain non-GAAP financial measures in this MD&A in its analysis of the financial condition and results of operations of the Company. See "Non-GAAP Financial Measurements" for a reconciliation of these financial measures to comparable U.S. GAAP measures.

Throughout this MD&A we reference "Notes" to our financial statements. These Notes are included in Item 8. Financial Statements and Supplementary Data.

SUMMARY OF 2018 FINANCIAL RESULTS

The following table summarizes the Company’s results in accordance with GAAP as included in the Condensed Consolidated Statements of Income. We also provide results that are not in accordance with GAAP, and are reconciled to GAAP in the "Non-GAAP Financial Measurements" section at the end of this MD&A.

Results of Operations (dollars in millions)

	2018	2017	2016
GAAP Results			
Income (loss) from continuing operations available to common shareholders	$453.2	$249.6	$(182.6)
(Loss) income from discontinued operations, net of taxes	(25.0)	208.8	(665.4)
Net income (loss) available to common shareholders	$428.2	$458.4	$(848.0)
Diluted income (loss) per common share			
Income (loss) from continuing operations available to common shareholders	$3.82	$1.52	$(0.90)
(Loss) income from discontinued operations, net of taxes	(0.21)	1.28	(3.30)
Diluted income (loss) per common share available to common shareholders	$3.61	$2.80	$(4.20)
Average number of common shares — diluted (thousands)	118,777	163,950	201,850
Non-GAAP Results, excluding noteworthy items			
Income from continuing operations available to common shareholders	$479.6	$504.1	$384.2
(Loss) income from discontinued operations, net of taxes	(11.2)	51.0	325.2
Net income available to common shareholders	$468.4	$555.1	$709.4
Diluted income per common share			
Income from continuing operations available to common shareholders	$4.04	$3.07	$1.90
(Loss) income from discontinued operations, net of taxes	(0.10)	0.32	1.61
Diluted income per common share available to common shareholders	$3.94	$3.39	$3.51
Average number of common shares — diluted (thousands)	118,777	163,950	201,850

Net income available to common shareholders and net income available to common shareholders excluding noteworthy items[1] were down from 2017. While the trends reflected the results from continuing operations described below, the decline was also affected by the loss in discontinued operations in 2018, compared to income in 2017, which included income from the Commercial Air business that was sold on April 4, 2017. Net income available to common shareholders in 2017 was up from 2016, due to significant noteworthy items. Net income available to common shareholders, excluding noteworthy items, was down in 2017 from 2016, reflecting a full year of operating earnings in 2016 from Commercial Air.

Noteworthy items are discussed in various sections of the MD&A. The 2018 noteworthy items are displayed in a following table, and noteworthy items for all three years are included in the Non-GAAP Financial Measurements section.

Income from continuing operations available to common shareholders excluding noteworthy items[1] was $480 million, a decrease of $24 million compared to 2017, reflecting lower net finance revenue and an increase in the provision for credit losses, partially offset by higher other non-interest income, lower operating expenses and lower tax rate. Period end loans and leases at December 31, 2018, were down slightly from 2017, reflecting the sales of NACCO and the reverse mortgage portfolio, along with run-off of LCM and NSP, which were partially offset by increased new business volume.

[1] Net income available to common shareholders excluding noteworthy items and income from continuing operations available to common shareholders excluding noteworthy items are non-GAAP measures; see “Non-GAAP Financial Measurements” for a reconciliation of non-GAAP to GAAP financial information.

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Income from continuing operations available to common shareholders for 2017 was up from 2016. Results from both years were impacted by significant noteworthy items. Compared to 2016, income from continuing operations excluding noteworthy items increased, as lower operating expenses, higher other non-interest income and a decline in the provision for credit losses was partially offset by a decline in net finance revenue[2]. Period end loans and leases at December 31, 2017 were up from 2016, reflecting growth in the Commercial Banking segment.

The results per diluted common share also reflect the decline in the average number of diluted common shares outstanding due to the repurchase of more than 31 million shares during 2018 and more than 71 million shares in 2017.

The following table reflects the impact of noteworthy items on our GAAP results for the year ended December 31, 2018. See similar reconciliations for the years ended December 31, 2017 and 2016 in the Non-GAAP Financial Measurements section.

Results of Operations for the Year Ended December 31, 2018 (dollars in millions, except per share amounts)

	Income from Continuing Operations Available to Common Shareholders		Net Income Available to Common Shareholders	
GAAP Results	$ 453.2	$ 3.82	$ 428.2	$ 3.61
NACCO suspended depreciation	(18.7)	(0.16)	(18.7)	(0.16)
Gain and other revenues from sale of reverse mortgage portfolio	(21.6)	(0.18)	(21.6)	(0.18)
Impairment of LCM indemnification asset	15.5	0.13	15.5	0.13
Release of valuation reserve on AHFS	(10.6)	(0.09)	(10.6)	(0.09)
TRS termination charge	52.5	0.44	52.5	0.44
NACCO gain on sale	(19.4)	(0.16)	(19.4)	(0.16)
Loss on debt redemption	28.7	0.24	28.7	0.24
Loss on Financial Freedom servicing business	-	-	13.8	0.12
Non-GAAP Results (certain EPS balances may not sum due to rounding)	$ 479.6	$ 4.04	$ 468.4	$ 3.94

STRATEGIES

Our strategies and accomplishments to simplify, strengthen and grow CIT in 2018 were as follows:

	Strategies	Accomplishments
Maximize Potential of Core Businesses	• Grow revenues – grow core businesses, enhance fee revenue, and leverage connectivity among businesses • Optimize cash and investment portfolio	• 6% average core loan and lease growth[2] • Divested non-core businesses • New origination volume up 28%
Enhance Operational Efficiency	• Reduce and manage operating expenses • Invest in and enhance technology	• Achieved our $1,050 million operating expense target while continuing to invest in technology
Optimize Funding Costs	• Reduce unsecured debt cost • Improve deposit mix to lower cost (relative to index)	• Terminated costly, legacy TRS funding vehicle

		• Smoothed and extended unsecured maturity profile; next maturity not until 2021 • Improved credit ratings • Increased Direct Bank deposits by ~25% and added over 60,000 new customers
Optimize Capital Structure	• Manage, deploy and align capital • Target 10-11% CET1 ratio	• Reduced our CET1 ratio from over 14% to 12% • Repurchased $1.6 billion of common stock • Increased ordinary dividend by 56% • Issued Tier 2 capital and further aligned capital structure with regional bank peers
Maintain Strong Risk Management	• Maintain credit and operating risk discipline	• Reduced international and operational risk with divestitures of non-core businesses • Credit reserves remain strong at 1.59% • Cash flow lending ~10% of total loan and lease exposure

Our strategies for 2019 are as follows:

	Strategies
Grow Core Businesses	• Deepen client relationships • Innovate with value
Optimize Balance Sheet	• Enhance funding and deposits • Optimize capital structure
Enhance Operational Efficiency	• Maintain vigilance on expenses • Improve operating leverage
Maintain Strong Risk Management	• Maintain credit discipline on structures while focusing on strong collateral • Maintain strong liquidity and capital risk management practices

[2] Net finance revenue is a non-GAAP measure; see "Non-GAAP Financial Measurements" for a reconciliation of non-GAAP to GAAP financial information.

[3] Core loans and leases is net of credit balances of factoring clients and excludes NACCO, LCM, and NSP; see "Non-GAAP Financial Measurements" for a reconciliation of non-GAAP to GAAP financial information.

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PERFORMANCE MEASUREMENTS

The following chart reflects key performance indicators evaluated by management and used throughout this MD&A, certain of which are based on Non-GAAP balances as discussed in the Non-GAAP Financial Measurements section:

KEY PERFORMANCE INDICATORS	MEASUREMENTS
Asset Generation — originate new business and grow earning assets.	-New business volumes; -Loans and leases (included in earning assets); and Earning asset balances.
Revenue Generation — lend money at rates in excess of borrowing costs and consistent with risk profile of obligor, earn rentals on the equipment we lease commensurate with the risk, and generate other revenue streams.	-Net finance revenue and other non-interest income; -Net finance margin; Operating lease revenue as a percentage of average operating lease equipment; and -Asset yields and funding costs.
Credit Risk Management — accurately evaluate creditworthiness of customers, maintain high-quality assets and balance income potential with loss expectations.	-Net charge-offs, balances and as a percentage of average loans; -Non-accrual loans, balances and as a percentage of loans; -Classified assets and delinquencies balances; and -Loan loss reserve, balance and as a percentage of loans.
Equipment and Residual Risk Management — appropriately evaluate collateral risk in leasing transactions and remarket or sell equipment at lease termination.	-Equipment utilization; -Market value of equipment relative to book value; and -Gains and losses on equipment sales.
Expense Management — maintain efficient operating platforms and related infrastructure.	-Operating expenses and trends; and -Net efficiency ratio.
Profitability — generate income and appropriate returns to shareholders.	-Net income per common share (EPS); -Net income and pre-tax income, each as a percentage of average earning assets (ROA); and -Net income and pre-tax income as a percentage of average tangible common stockholders' equity (ROTCE).

Capital Management — maintain a strong capital position, while deploying excess capital.	-CET1, Tier 1 and Total capital ratios; -Tier 1 Leverage Ratio; and -Book value and Tangible book value per share.
Liquidity Management — maintain access to appropriate funding at competitive rates to meet obligations as they come due.	-Levels of high quality liquid assets and as a % of total assets; -Committed and available funding facilities; -Debt maturity profile and ratings; and -Funding mix.
Manage Market Risk — measure and manage risk to income statement and economic value of enterprise due to movements in interest and foreign currency exchange rates.	-Net Interest Income Sensitivity; and -Economic Value of Equity (EVE).

DISCONTINUED OPERATIONS

At December 31, 2018, discontinued operations was comprised of Business Air and residual activity of the Financial Freedom servicing business (“Financial Freedom”), a former division of CIT Bank that serviced reverse mortgage loans. Financial Freedom was sold on May 31, 2018 and the economic benefit and risk of Financial Freedom has been transferred to the buyer. At December 31, 2018, certain assets and liabilities of Financial Freedom remained in discontinued operations, and will continue to be held in discontinued operations until the required investor consent is received. The sale is described further in Note 2 — Discontinued Operations.

The Financial Freedom servicing business that was sold included all the operations, mortgage servicing rights and related servicing assets and liabilities. CIT recognized an after tax loss on disposal of Financial Freedom of $16 million in discontinued operations, related primarily to indemnification reserves and transaction costs.

The loss in discontinued operations was $25 million in 2018, compared to income of $209 million in 2017, as 2017 income reflects a gain on the sale of Commercial Air and operations of that business during the first quarter of 2017. We completed the sale of our Commercial Air business in April 2017 for $10.4 billion and recorded a pre-tax gain of $146 million. The loss from discontinued operations in 2016 was $665 million, which included losses of $455 million from Aerospace (Commercial Air and Business Air) and $210 million from Financial Freedom. The loss in Aerospace included an $847 million net tax expense related to the Company’s decision to no longer assert that it would indefinitely reinvest the unremitted earnings of Commercial Air, while the loss from Financial Freedom included $191 million after tax of curtailment reserve and other charges.

Business Air loans and leases totaled $54 million at December 31, 2018, down from $184 million at December 31, 2017.

Further details of discontinued operations, along with condensed balance sheets and income statements are included in Note 2 — Discontinued Operations.

RESULTS FROM CONTINUING OPERATIONS

Unless specifically noted, the discussions and data presented throughout the following sections reflect CIT balances on a continuing operations basis.

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NET FINANCE REVENUE

Net Finance Revenue ("NFR") and Net Finance Margin ("NFM")[4] are key metrics used by management to measure the profitability of our earning assets. NFR includes interest and yield-related fee income on our loans, rental income on our operating lease equipment, and interest and dividend income on interest-bearing cash and investments, less funding costs and depreciation, maintenance and other operating lease expenses from our operating lease equipment. The consolidated financial statements include the effects of Purchase Accounting Accretion ("PAA"). Accretion and amortization of certain purchase accounting adjustments primarily impact interest income and interest expense, and are summarized in a table in this section.

The following table presents the average balance sheet and related rates, along with the NFR and NFM.

Average Balances and Rates[(1)] (dollars in millions)

	Years ended December 31, 2018			December 31, 2017			December 31, 2016		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
Interest bearing cash deposits	$2,399.6	$42.3	1.76 %	$5,291.5	$57.7	1.09 %	$6,450.6	$33.1	0.51 %
Investment securities and securities purchased under agreement to resell	6,354.3	176.3	2.77 %	5,352.3	139.8	2.61 %	3,384.0	98.8	2.92 %
Loans and loans held for sale[(2)(3)]	28,644.8	1,711.4	5.97 %	28,281.6	1,685.1	5.96 %	30,233.0	1,803.8	5.97 %
Total interest earning assets[(2)(3)]	37,398.7	1,930.0	5.16 %	38,925.4	1,882.6	4.84 %	40,067.6	1,935.7	4.83 %
Operating lease equipment, net (including held for sale)[(4)]	7,738.7	467.5	6.04 %	7,685.0	488.2	6.35 %	7,222.8	556.9	7.71 %
Indemnification assets	77.0	(39.6)	(51.43)%	241.7	(47.0)	(19.45)%	373.8	(24.2)	(6.47)%
Average earning assets ("AEA")[(2)(5)]	45,214.4	2,357.9	5.21 %	46,852.1	2,323.8	4.96 %	47,664.2	2,468.4	5.18 %
Non-interest earning assets									
Cash and due from banks	203.9			587.1			882.1		
Allowance for loan losses	(456.6)			(430.4)			(390.8)		
All other non-interest bearing assets	2,646.8			2,398.0			4,048.3		
Assets of discontinued	386.5			3,752.0			13,021.2		

operations									
Total Assets	$47,995.0			$53,158.8			$65,225.0		
Interest bearing deposits and borrowings									
Deposits	$29,266.1	$460.4	1.57 %	$29,538.2	$373.3	1.26 %	$31,545.1	$394.8	1.25 %
Borrowings	8,824.0	354.7	4.02 %	10,674.0	344.4	3.23 %	15,493.6	358.4	2.31 %
Total interest-bearing liabilities	38,090.1	815.1	2.14 %	40,212.2	717.7	1.78 %	47,038.7	753.2	1.60 %
Non-interest bearing deposits	1,493.3			1,450.0			1,177.5		
Other non-interest bearing liabilities	1,397.5			1,645.0			1,689.2		
Liabilities of discontinued operations	386.0			1,303.1			4,236.5		
Noncontrolling interests	-			0.2			0.5		
Stockholders' equity	6,628.1			8,548.3			11,082.6		
Total Liabilities and Shareholders' Equity	$47,995.0			$53,158.8			$65,225.0		
Net revenue spread			3.07 %			3.18 %			3.58 %
Impact of non-interest bearing sources			0.34 %			0.25 %			0.02 %
NFR ($) / NFM (%)[2][5]		$1,542.8	3.41 %		$1,606.1	3.43 %		$1,715.2	3.60 %
Adjusted NFR / NFM (excluding noteworthy items)[5]		$1,516.3	3.35 %		$1,603.8	3.49 %		$1,715.2	3.60 %

(1) The average balances presented are derived based on month end balances during the year. Tax exempt income was not significant in any of the periods presented. Average rates are impacted by PAA.

(2) The balance and rate presented is calculated net of average credit balances for factoring clients.

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

(4) Operating lease rental income is a significant source of revenue; therefore we have presented the rental revenues net of depreciation and net of maintenance and other operating lease expenses.

(5) AEA, NFR, NFM, adjusted NFR and adjusted NFM are non-GAAP measures. See "Non-GAAP Financial Measurements" for a reconciliation of non-GAAP to GAAP financial information.

[4] NFR,NFM, net operating lease revenue and AEA, and respective amounts excluding noteworthy items are non-GAAP measures. See "Non-GAAP Measurements" for reconciliation of non-GAAP to GAAP financial information.

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The following table presents year-over-year changes in net interest revenue and operating lease margins as presented in the preceding table disaggregated between volume (level of lending or borrowing) and rate (rates charged to customers or incurred on borrowings). Volume change is calculated as change in volume times the previous rate, while rate change is change in rate times the previous volume. The rate/volume change, change in rate times change in volume, is allocated between volume change and rate change at the ratio each component bears to the absolute value of their total.

Average Balances and Rates[1] (dollars in millions)

	2018 Over 2017 Comparison Increase (Decrease)			2017 Over 2016 Comparison Increase (Decrease)		
	Due To Change In:			Due To Change In:		
	Volume	Rate	Net	Volume	Rate	Net
Interest-bearing cash	$(40.7)	$25.3	$(15.4)	$(7.0)	$31.6	$24.6
Investment securities and securities purchased under agreement to resell	27.4	9.1	36.5	51.8	(10.8)	41.0
Loans and loans held for sale[2][3]	21.7	4.6	26.3	(116.3)	(2.4)	(118.7)
Operating lease equipment, net (including held for sale)[4]	3.4	(24.1)	(20.7)	33.9	(102.6)	(68.7)
Indemnification assets	47.5	(40.1)	7.4	11.1	(33.9)	(22.8)
AEA[2][5]	$59.3	$(25.2)	$34.1	$(26.5)	$(118.1)	$(144.6)
Interest-bearing deposits	$(3.5)	$90.6	$87.1	$(25.3)	$3.8	$(21.5)
Borrowings	(65.8)	76.1	10.3	(130.7)	116.7	(14.0)
Total interest-bearing liabilities	$(69.3)	$166.7	$97.4	$(156.0)	$120.5	$(35.5)

[1]...[5] See footnotes to prior table.

NFR is driven by revenues on loans and leases after considering interest costs, depreciation and maintenance costs on operating lease assets, and was $1,543 million in 2018, down from $1,606 million in 2017. NFR in both years benefited from the suspension of depreciation expense related to the European Rail business, NACCO, $27 million in 2018 and $17 million in 2017. When operating lease equipment is in AHFS, depreciation is suspended, resulting in a benefit to NFR. The impact from suspended depreciation is further explained later in this section. 2017 also included $23 million in interest expense on approximately $5.8 billion of unsecured borrowings that had been allocated to discontinued operations but was recorded in continuing operations following the Commercial Air sale on April 4, 2017, until the redemption of that debt later in the 2017 second quarter. Partially offsetting that cost was $9 million in interest income related to the elevated cash balances for the period between the closing of the Commercial Air sale and the related liability management and capital actions. NFR excluding the noteworthy items[5] was $1,516 million, down from $1,604 million in 2017, as the increased revenues on average interest earning assets was offset by lower PAA of $90 million and higher deposit costs.

Compared to 2016, NFR excluding the noteworthy items in 2017 decreased from $1,715 million, primarily due to $83 million of lower PAA, an increase of negative interest income associated with the indemnification asset (discussed later in this section) and lower net rental income in Rail, partially offset by higher earnings on the investment securities portfolio.

Revenues generated on our interest-bearing cash and investments are indicative of the rising interest rate environment. The returns may fluctuate depending on the composition of the investments, interest rates and credit spreads. The average interest-bearing cash balance and income in 2017 was elevated, reflecting the period between the closing of the sale of Commercial Air and the related liability management and capital actions.

NFM was down slightly from 2017. NFM excluding noteworthy items[4] was down 14 bps, reflecting higher deposit costs from continued upward market trends, lower PAA and the sale of higher-yielding assets such as the reverse mortgage portfolio, partially offset by higher interest earned on our loans, cash and investments. NFM excluding noteworthy items in 2017 decreased 11 bps compared to 2016, reflecting the noted drivers of the decrease in NFR and lower gross yields in Rail, partially offset by an increase in yields on certain loan portfolios and a shift from interest-bearing cash balances to investment securities.

We explain in the Risk Management section that our balance sheet has a moderate amount of asset sensitivity, and it would be expected that in the rising interest rate environment, we would see the benefit of higher rates on our NFR. However, there are factors in addition to rising interest rates that have impacted and may continue to impact our NFR, including lower benefit from declining PAA, rising deposit betas, spread compression, a mix shift in the different types of earning assets, and repricing down of railcar renewal rates (which are not sensitive to interest rate changes).

AEA decreased from 2017, reflecting the deployment of interest-bearing cash into certain liability and capital management actions and lower average loans and leases, due to the impacts of the NACCO sale in October, reverse mortgage portfolio sale in May, and run-off of the LCM portfolio. Core average loans and leases increased 6% during 2018, and declined less than 1% during 2017.

[5] NFR, excluding noteworthy items and NFM, excluding noteworthy items are non-GAAP measures. See "Non-GAAP Measurements" for reconciliation of non-GAAP to GAAP financial information.

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AEA in 2017 included elevated cash balances for the period between the closing of the Commercial Air sale and related liability management and capital actions. Excluding the Commercial Air impact, AEA decreased 2% from 2017, reflecting the decline in interest-bearing cash deposits and sales and run-off of the noted portfolios, offset by growth in the Commercial Finance and Business Capital divisions in Commercial Banking, and the Other Consumer Banking division. The decline in 2017 compared to 2016 reflected a decrease in loans in the Commercial Finance division of Commercial Banking due to the repositioning of the portfolio, along with run-off in NSP and the LCM portfolio in Consumer Banking, partially offset by growth in the other Commercial Banking divisions and the impact from the elevated cash balance due to the Commercial Air sale proceeds.

The composition of our average funding mix reflects increasing deposit funding as follows:

Average Funding Mix

	Years Ended December 31, 2018	December 31, 2017	December 31, 2016
Deposits	78%	73%	67%
Unsecured borrowings	11%	16%	23%
Secured Borrowings:			
Structured financings	3%	4%	4%
FHLB advances	8%	7%	6%

These proportions will fluctuate in the future depending upon our funding activities. See Funding and Liquidity section for further details.

The following table details further the rates of interest bearing liabilities.

Interest-Bearing Deposits and Borrowings — Average Balances and Rates for the Years Ended (dollars in millions)

	Year Ended December 31, 2018			Year Ended December 31, 2017			Year Ended December 31, 2016		
	Average Balance	Interest Expense	Rate %	Average Balance	Interest Expense	Rate %	Average Balance	Interest Expense	Rate %
Interest-bearing Deposits									
Time deposits	$14,075.1	$266.5	1.89%	$15,413.1	$251.1	1.63%	$17,981.1	$291.1	1.62%
Interest-bearing checking	2,138.7	12.8	0.60%	2,887.7	16.1	0.56%	2,534.8	15.0	0.59%
Savings and online money market accounts	8,112.0	126.6	1.56%	5,249.4	54.0	1.03%	4,517.4	40.0	0.89%
Other money market / sweeps	4,940.3	54.5	1.10%	5,988.0	52.1	0.87%	6,511.8	48.7	0.75%
Total interest-bearing deposits	29,266.1	460.4	1.57%	29,538.2	373.3	1.26%	31,545.1	394.8	1.25%

Borrowings									
Unsecured notes	4,229.3	216.5	5.12%	6,302.3	326.4	5.18%	10,600.5	550.8	5.20%
Other secured and structured financings	1,488.9	61.4	4.12%	2,230.0	75.5	3.39%	4,316.4	144.2	3.34%
FHLB advances	3,332.7	73.1	2.19%	2,675.6	36.8	1.38%	2,865.3	24.1	0.84%
Other credit facilities[1]	-	14.0	-	-	11.4	-	-	19.3	-
Borrowings	9,050.9	365.0	4.03%	11,207.9	450.1	4.02%	17,782.2	738.4	4.15%
Allocated to discontinued operations	(226.9)	(10.3)		(533.9)	(105.7)		(2,288.6)	(380.0)	
Total borrowings	8,824.0	354.7	4.02%	10,674.0	344.4	3.23%	15,493.6	358.4	2.31%
Total interest-bearing liabilities	$38,090.1	$ 815.1	2.14%	$40,212.2	$717.7	1.78%	$47,038.7	$753.2	1.60%

(1) Balance includes interest expense related to facility fees and amortization of deferred costs on unused portions of credit facilities, including the Revolving Credit Facility and total return swaps.

We remain focused on optimizing our mix of deposits. Compared to 2017, we have increased the percentage of non-maturity deposits relative to total deposits in conjunction with our strategy to optimize deposit costs through the rate cycle, while working within our risk management discipline. The table above reflects increased savings and online money market deposits, as we introduced new products to attract deposits, which contributed to the increased rate. In addition, we reduced sweep accounts and time deposits in the brokered channel. Along with changes in deposit mix, deposit costs increased due to the impact from the increases in the market short-term interest rate and competition.

For the year ended December 31, 2017, the rate on interest-bearing deposits was up 1 bps from 2016, reflecting our strategy to optimize deposit costs and improve the quality of our deposits. The change in mix of our deposits reflects our strategy to reduce the percentage of time deposits relative to total deposits. We increased non-maturity deposits and reduced higher cost other money market and sweep accounts in our brokered and commercial channels.

See Funding and Liquidity section for tables that reflects period end deposits by type and by channel.

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The following table reflects our total deposit base, interest bearing and non-interest-bearing deposits, and related rate:

Total Deposits — Average Balances and Rates for the Years Ended (dollars in millions)

	Year Ended December 31, 2018			Year Ended December 31, 2017			Year Ended December 31, 2016		
	Average Balance	Interest Expense	Rate %	Average Balance	Interest Expense	Rate %	Average Balance	Interest Expense	Rate %
Interest-bearing deposits	$29,266.1	$460.4	1.57%	$29,538.2	$373.3	1.26%	$31,545.1	$394.8	1.25%
Non-interest-bearing deposits	1,493.3	-	-	1,450.0	-	-	1,177.5	-	-
Total deposits	$30,759.4	$460.4	1.50%	$30,988.2	$373.3	1.20%	$32,722.6	$394.8	1.21%

Deposits and borrowings are also discussed in Funding and Liquidity.

Borrowing costs increased compared to 2017, reflecting rising rates. The average balance for the unsecured notes was down, reflecting the full impact of the 2017 redemptions using the proceeds from the Commercial Air sale and the current year redemptions related to the liability actions associated with the NACCO sale. Borrowing costs in the current year reflected an increase in FHLB costs, primarily driven by rate increases, and also an increase in the use of this funding source. The weighted average maturity profile of the combined unsecured senior and subordinated notes is 5.0 years, compared to 3.5 years at December 31, 2017. The following table presents the significant activity of our unsecured notes in 2018. Amounts reflect par value:

Senior and Subordinated Unsecured Notes Activity in 2018 (dollars in millions)

	Principal Repayments	Issuances	Rate
Senior unsecured due March 2021		$ 500.0	4.125%
Senior unsecured due February 2024		500.0	4.750%
Senior unsecured due March 2025		500.0	5.250%
Subordinated unsecured due March 2028		400.0	6.125%
Senior unsecured due February 2019	$ 1,000.0		3.875%
Senior unsecured due February 2019	383.0		5.500%
Senior unsecured due May 2020	435.6		5.375%
Senior unsecured due August 2022	3.0		5.000%
	$ 1,821.6	$ 1,900.0	

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The issuance of the unsecured subordinated debt in conjunction with our capital plan allowed us to return $400 million of common equity. Most of the proceeds of the senior borrowings issued in the first quarter were used to repay $500 million of the 3.875% notes and $383 million of the 5.500% notes. Net proceeds from the sale of NACCO in October 2018 were used to redeem the outstanding balance of the 5.375% unsecured notes. We also repaid approximately $465 million of structured financings related to Rail and $250 million of the secured borrowings related to NACCO were either repaid prior to the sale or were transferred to the buyer upon sale of that business.

The following table depicts selected earning asset yields and margin-related data for our segments and divisions within the segments.

Segment Average Yield and Other Data (dollars in millions)

	Years Ended December 31,				Years Ended December 31,		
	2018	2017	2016		2018	2017	2016
Commercial Banking				Consumer Banking			
Average Earning Assets ("AEA")				Average Earning Assets ("AEA")			
Commercial Finance	$10,217.1	$9,867.0	$11,289.3	Other Consumer Banking	$3,215.5	$2,266.1	$1,968.6
Rail	7,462.8	7,460.2	7,089.3	LCM	3,465.2	4,787.9	5,558.8
Real Estate Finance	5,491.7	5,606.2	5,453.7	Total	$6,680.7	$7,054.0	$7,527.4
Business Capital	6,830.0	6,336.7	5,930.6				
Total	$30,001.6	$29,270.1	$29,762.9	Net Finance Revenue			
				Other Consumer Banking	$339.6	$219.9	$157.7
Net Finance Revenue				LCM	142.8	210.0	252.9
Commercial Finance	$337.7	$389.6	$447.7	Total	$482.4	$429.9	$410.6
Rail	265.3	318.8	349.9				
Real Estate Finance	171.7	199.4	209.8	Gross Yield			
Business Capital	309.5	310.7	306.7	Other Consumer Banking	3.66 %	3.49 %	3.65 %
Total	$1,084.2	$1,218.5	$1,314.1	LCM	6.38 %	6.24 %	6.28 %
				Total	5.07 %	5.36 %	5.59 %
Gross Yield							
Commercial Finance	5.64 %	5.47 %	5.36 %	Net Finance Margin			
Rail	11.24 %	11.59 %	12.86 %	Other Consumer Banking	10.56 %	9.70 %	8.01 %
Real Estate Finance	5.59 %	5.18 %	5.25 %	LCM	4.12 %	4.39 %	4.55 %
Business Capital	9.08 %	8.84 %	8.52 %	Total	7.22 %	6.09 %	5.45 %
Total	7.81 %	7.71 %	7.75 %				

				Non-Strategic Portfolios			
Net Finance Margin				AEA	$112.3	$277.0	$1,175.6
Commercial Finance	3.31 %	3.95 %	3.97 %	Net Finance Revenue	2.5	7.7	45.2
Rail	3.55 %	4.27 %	4.94 %	Gross Yield	6.06 %	8.27 %	7.86 %
Real Estate Finance	3.13 %	3.56 %	3.85 %	Net Finance Margin	2.23 %	2.78 %	3.84 %
Business Capital	4.53 %	4.90 %	5.17 %				
Total	3.61 %	4.16 %	4.42 %				

Gross yields (interest income plus rental income on operating leases as a percentage of AEA) in Commercial Banking were up from 2017. The Commercial Finance increase in gross yields was primarily driven by the benefit of higher short-term interest rates, partially offset by a decline in PAA. Higher interest recoveries also contributed to the increase. Gross yields in Rail were down as lease rates continued to re-price lower on average across the portfolio. The Real Estate Finance gross yield improved, driven by the benefit of higher short term interest rates that more than offset lower PAA and spread compression on new originations. Gross yields in Business Capital were up, reflecting asset mix.

Gross yields in 2017 compared to 2016 in Commercial Banking were down slightly, driven mostly by the decline in Rail. The Commercial Finance increase in gross yields was primarily driven by higher short-term interest rates, partially offset by a decline in PAA. The Real Estate Finance gross yield was down, as the benefit of higher short-term interest rates was offset by lower PAA. Gross yields in Rail were lower, as lease rates continued to re-price lower on average across the North American portfolio. Gross yields in Business Capital were up from 2016 due to asset mix.

Consumer Banking’s gross yield was down from 2017, resulting from the sale of the higher yielding reverse mortgage portfolio and continued run off of the legacy SFR portfolio, both within LCM. Gross yields in the Other Consumer Banking division reflect the benefit of the higher interest rate environment on new originations and floating rate assets within the portfolio. Gross yields in LCM were up, due to improved cash flow for PCI loans and lower negative interest income on the indemnification asset, partially offset by a reduction from the sale of the higher yielding reverse mortgages. NFM in Consumer Banking is higher than gross yields as this segment receives an interest benefit from the other segments for the value of excess deposits it generates. Compared to the prior year, the interest benefit increased due to deposit growth combined with an increase in market interest rates in 2018.

Consumer Banking gross yields were down in 2017 compared to 2016, impacted by lower PAA on mortgage loans in LCM, some of which is due to ceasing PAA accretion on the reverse mortgages that were transferred to AHFS related to the Financial Freedom Transaction. The decline in gross yield also reflects higher amounts of negative interest income associated with the indemnification asset.

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As of December 31, 2018, the remaining accretable purchase accounting adjustment was $626 million, of which $62 million related to Commercial Banking and $564 million related to Consumer Banking. This compares to $733 million of remaining accretable purchase accounting adjustment as of December 31, 2017, of which $97 million related to Commercial Banking and $636 million related to Consumer Banking. The remaining accretable purchase accounting adjustment in Consumer Banking is expected to run off at a rate consistent with the run-off of the underlying mortgages, which has averaged 15-20% annually, and we are expecting accretion of the remaining Commercial Banking purchase accounting adjustment to continue to trend lower. However, amounts may vary quarter to quarter from fluctuations in prepayments, which results in a loan's remaining purchase accounting adjustments being accelerated into interest income. (See footnote 1 to the following table).

The following table displays PAA by segment and division for both interest income and interest expense.

Purchase Accounting Accretion (dollars in millions)

	Years Ended December 31, 2018 PAA Accretion Recognized in:			December 31, 2017 PAA Accretion Recognized in:			December 31, 2016 PAA Accretion Recognized in:		
	Interest Income[1]	Interest Expense[2]	NFR	Interest Income[1]	Interest Expense[2]	NFR	Interest Income[1]	Interest Expense[2]	NFR
Commercial Banking									
Commercial Finance	$13.6	$ 0.2	$13.8	$45.6	$ 0.9	$46.5	$75.8	$ 2.2	$78.0
Real Estate Finance	19.5	—	19.5	41.9	—	41.9	71.6	—	71.6
Total Commercial Banking	33.1	0.2	33.3	87.5	0.9	88.4	147.4	2.2	149.6
Consumer Banking									
Other Consumer Banking	1.1	2.7	3.8	0.1	4.4	4.5	2.8	9.0	11.8
Legacy Consumer Mortgages[3]	82.1	—	82.1	115.7	—	115.7	126.6	—	126.6
Total Consumer Banking	83.2	2.7	85.9	115.8	4.4	120.2	129.4	9.0	138.4
Corporate and Other	—	—	—	—	0.4	0.4	—	4.2	4.2
Total CIT	$116.3	$ 2.9	$119.2	$203.3	$ 5.7	$209.0	$276.8	$ 15.4	$292.2

(1) Included in the above are accelerated recognition of approximately $24.8 million, $58.7 million and $81.2 million for the years ended December 31, 2018, 2017 and 2016, respectively.

(2) Debt and deposits acquired in the OneWest Bank acquisition were recorded at a net premium, therefore the PAA of that adjustment decreases interest expense.

(3) The 2018 decline from 2017 reflects the transfer of the reverse mortgage portfolio to AHFS at the end of the third quarter of 2017.

The following table sets forth the details on net operating lease revenues.

Net Operating Lease Data (dollars in millions)

	Years Ended December 31, 2018		2017		2016	
Rental income on operating leases	$1,009.0	13.04%	$1,007.4	13.11%	$1,031.6	14.28%

Depreciation on operating lease equipment	311.1	4.02 %	296.3	3.86 %	261.1	3.61 %
Maintenance and other operating lease expenses	230.4	2.98 %	222.9	2.90 %	213.6	2.96 %
Net operating lease revenue and %	$467.5	6.04 %	$488.2	6.35 %	$556.9	7.71 %
Average operating lease equipment, including amounts held for sale	$7,738.7		$7,685.0		$7,222.8	

Net operating lease revenue, which is a component of NFR, is driven principally by the performance of the Rail portfolio within the Commercial Banking segment. Net operating lease revenue was down from both 2017 and 2016, primarily due to rail leases continuing to renew at lower rates and higher depreciation. In 2018 and 2017, net operating lease revenue benefited from suspended depreciation, $27 million and $17 million, respectively, related to NACCO, which was in AHFS prior to its sale in October 2018. If the suspended depreciation related to NACCO were included, the operating lease margins would have been 5.70% and 6.14%, for 2018 and 2017, respectively. Suspended depreciation is discussed further below.

Railcar utilization, including commitments to lease, was 98% at December 31, 2018, and improved from 96% at December 31, 2017. Overall lease rates of cars renewing priced down about 15% in 2018 compared to the rates on expiring leases, which, although better than our guidance, continues to reflect excess capacity in the market. We continue to expect downward pressure, and anticipate re-pricing to be down 15%-20% on average through 2019, reflecting continued pressure from tank car lease rates, which are coming due for renewal at a faster pace and at rates that are down from peak levels.

Depreciation is recognized on railcars and other operating lease equipment. Depreciation increases in 2018 and 2017 from the respective prior year were driven by growth in the non-rail portfolio in Business Capital, which is depreciated over a shorter time span. Once a long-lived asset is classified as AHFS, depreciation expense is no longer recognized, and the asset is evaluated for impairment with any such charge recorded in other income. There were no related impairment charges recorded in the periods presented. Consequently, net operating lease revenue includes rental income on operating lease equipment classified as AHFS, but there is no related depreciation expense.

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Maintenance and other operating lease expenses tend to be variable and relate to the Rail portfolio. The increase in 2018 reflected increased volume from remarketing cars and pulling cars from storage and sending them into service. The increase in 2017 reflected increased maintenance, freight and storage costs in Rail due to growth in the portfolio.

See "Expenses — Depreciation on operating lease equipment" and "Concentrations — Operating Leases" for additional information.

Upon emergence from bankruptcy in 2009, CIT applied Fresh Start Accounting (“FSA”). The most significant remaining discount at December 31, 2018 related to Rail operating lease equipment ($1.1 billion). The discount on the operating lease equipment was, in effect, an impairment of the operating lease equipment upon emergence from bankruptcy, as the assets were recorded at their fair value, which was less than their carrying value. The recording of the FSA adjustment reduced the asset balances subject to depreciation and thus decreases depreciation expense over the remaining useful life of the operating lease equipment or until it is sold.

CREDIT METRICS

The following provides information on the provision for credit losses and allowance for loan and lease losses (“ALLL”), as well as certain credit metrics, including net charge-off and non-accrual loan levels, that management uses to track the credit quality of the portfolio.

The provision for credit losses was $171 million in 2018, up from $115 million in 2017 and down from $195 million in 2016. The increase from 2017 reflected higher provisioning for specific loans and the higher level of non-accruals. Asset growth and changes in portfolio mix, along with portfolio regrading, mostly in the Commercial Finance and Real Estate Finance divisions, also contributed to the increase in the provision. The decline in 2017 compared to 2016 reflected current market conditions and net credit benefits from changes in portfolio mix in Commercial Banking, partially offset by charges related to the Financial Freedom Transaction in 2017. Our assets are primarily commercial and a large part of our consumer loans are carried at a significant discount, which reduces charge-offs in our LCM division. As a result, the provision for credit losses is primarily driven by the Commercial Banking segment.

Net charge-offs were $115 million (0.39% as a percentage of average loans) in 2018, compared to $115 million (0.39%) in 2017 and $111 million (0.37%) in 2016. Net charge-offs include $12 million in 2018, $34 million in 2017 and $41 million in 2016 related to the transfer of receivables to AHFS. Absent charge-offs on loans transferred to AHFS, net charge-offs were 0.36%, 0.28%, and 0.23% for the years ended December 31, 2018, 2017 and 2016, respectively. Net charge-offs are discussed and presented in a table by segment and division later in this section.

Non-accrual loans totaled $282 million (0.92% of loans), compared to $221 million (0.76%) at December 31, 2017 and $279 million (0.94%) at December 31, 2016. Non-accruals are discussed and presented in a table by segment and division later in this section.

The following table presents detail on our ALLL, including charge-offs and recoveries and provides summarized components of the provision and allowance:

ALLL and Provision for Credit Losses (dollars in millions)

	Years Ended December 31,				
	2018	2017	2016	2015	2014
Allowance - beginning of period	$431.1	$432.6	$347.0	$334.2	$339.1

Provision for credit losses[1]	171.0	114.6	194.7	158.6	104.4
Other[1]	3.0	(0.9)	2.2	(9.1)	(10.7)
Net additions	174.0	113.7	196.9	149.5	93.7
Gross charge-offs[2]	142.8	137.7	136.6	165.1	126.8
Less: Recoveries	27.4	22.5	25.3	28.4	28.2
Net Charge-offs	115.4	115.2	111.3	136.7	98.6
Allowance - end of period	$489.7	$431.1	$432.6	$347.0	$334.2
Provision for credit losses[1]					
Specific allowance - impaired loans	$21.4	$(3.3)	$33.7	$18.1	$(15.3)
Non-specific allowance	149.6	117.9	161.0	140.5	119.7
Total	$171.0	$114.6	$194.7	$158.6	$104.4
Allowance for loan losses					
Specific reserves on impaired loans	$47.4	$26.0	$33.7	$27.4	$12.4
Non-specific reserves	442.3	405.1	398.9	319.6	321.8
Total	$489.7	$431.1	$432.6	$347.0	$334.2
Ratio					
Allowance for loan losses as a percentage of total loans	1.59 %	1.48 %	1.46 %	1.14 %	1.83 %
Allowance for loan losses as a percent of finance receivable / Commercial	1.90 %	1.74 %	1.81 %	1.44 %	1.83 %

(1) The provision for credit losses also includes amounts related to reserves on unfunded loan commitments, letters of credit, and deferred purchase agreements, all of which are reflected in other liabilities. The balances included in other liabilities totaled $42 million, $45 million, $44 million, $43 million, and $35 million at December 31, 2018, 2017, 2016, 2015, and 2014, respectively. “Other” also includes allowance for loan losses associated with loan sales and foreign currency translations.

(2) Gross charge-offs included $12 million, $34 million, $41 million, $73 million, and $43 million of charge-offs related to the transfer of receivables to assets held for sale for the years ended December 31,2018, 2017, 2016, 2015 and 2014, respectively.

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The ALLL was $490 million (1.59% of loans) at December 31, 2018, up from $431 million (1.48% of loans) at December 31, 2017 and $433 million (1.46% of loans) at December 31, 2016. The increase in ALLL of $59 million from 2017 reflected the higher provision, for reasons noted earlier. Compared to 2016, the 2017 ALLL reflects a greater percentage of commercial loans in the portfolio, partially offset by the lower reserve rate on the commercial portfolio. The increase in the 2016 ALLL from 2015 was primarily due to reserve builds across the divisions of Commercial Banking, including $32 million related to maritime loans within the Commercial Finance division.

See Note 3 — Loans for details regarding the unpaid principal balance, carrying value and ALLL related to PCI loans.

Loan Net Carrying Value (dollars in millions)

	Loans	Allowance for Loan Losses	Net Carrying Value
December 31, 2018			
Commercial Banking	$24,263.4	$ (460.2)	$23,803.2
Consumer Banking	6,532.0	(29.5)	6,502.5
Total	$30,795.4	$ (489.7)	$30,305.7
December 31, 2017			
Commercial Banking	$23,159.3	$ (402.2)	$22,757.1
Consumer Banking	5,954.6	(28.9)	5,925.7
Total	$29,113.9	$ (431.1)	$28,682.8
December 31, 2016			
Commercial Banking	$22,562.3	$ (408.4)	$22,153.9
Consumer Banking	6,973.6	(24.2)	6,949.4
Total	$29,535.9	$ (432.6)	$29,103.3
December 31, 2015			
Commercial Banking	$23,332.4	$ (336.8)	$22,995.6
Consumer Banking	7,186.3	(10.2)	7,176.1
Total	$30,518.7	$ (347.0)	$30,171.7
December 31, 2014			
Commercial Banking	$16,727.8	$ (296.7)	$16,431.1
Consumer Banking	1,532.8	(37.5)	1,495.3
Total	$18,260.6	$ (334.2)	$17,926.4

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The following table presents charge-offs, by class and business segment. See Results by Business Segment for additional information.

Charge-offs as a Percentage of Average Loans for the Years Ended December 31 (dollars in millions)

	2018		2017		2016		2015		2014	
Gross Charge-offs										
Commercial Finance	$77.5	0.77%	$31.3	0.33%	$62.2	0.57%	$59.5	0.61%	$29.7	0.38%
Real Estate Finance	0.2	-%	4.3	0.08%	1.6	0.03%	-	-%	-	-%
Business Capital	61.0	0.77%	79.6	1.07%	70.0	1.05%	53.5	0.81%	39.6	0.67%
Commercial Banking	138.7	0.59%	115.2	0.51%	133.8	0.58%	113.0	0.57%	69.3	0.44%
Other Consumer Banking	-	-%	0.2	-%	-	-%	-	-%	-	-%
Legacy Consumer Mortgages	4.1	0.13%	22.3	0.53%	2.8	0.04%	1.3	0.04%	-	-%
Consumer Banking	4.1	0.07%	22.5	0.35%	2.8	0.04%	1.3	0.04%	-	-%
Non-Strategic Portfolio	-	-%	-	-%	-	-%	50.8	5.17%	57.5	2.35%
Total	$142.8	0.48%	$137.7	0.47%	$136.6	0.45%	$165.1	0.70%	$126.8	0.70%
Less: Recoveries										
Commercial Finance	$4.5	0.04%	$1.1	0.02%	$2.1	0.02%	$3.7	0.04%	$0.6	0.01%
Business Capital	22.1	0.28%	20.0	0.26%	20.0	0.30%	13.9	0.21%	16.9	0.29%
Commercial Banking	26.6	0.11%	21.1	0.10%	22.1	0.10%	17.6	0.09%	17.5	0.11%
Other Consumer Banking	-	-%	0.1	-%	-	-%	-	-%	-	-%
Legacy Consumer Mortgages	0.8	0.03%	1.3	0.04%	3.1	0.04%	1.1	0.03%	-	-%
Consumer Banking	0.8	0.01%	1.4	0.03%	3.1	0.04%	1.1	0.03%	-	-%
Non-Strategic Portfolio	-	-%	-	-%	0.1	-%	9.7	0.98%	10.7	0.44%
Total	$27.4	0.09%	$22.5	0.08%	$25.3	0.08%	$28.4	0.12%	$28.2	0.15%
Net Charge-offs										
Commercial Finance	$73.0	0.73%	$30.2	0.31%	$60.1	0.55%	$55.8	0.57%	$29.1	0.37%
Real Estate Finance	0.2	-%	4.3	0.08%	1.6	0.03%	-	-%	-	-%
Business Capital	38.9	0.49%	59.6	0.81%	50.0	0.75%	39.6	0.60%	22.7	0.38%
Commercial Banking	112.1	0.48%	94.1	0.41%	111.7	0.48%	95.4	0.48%	51.8	0.33%
Other Consumer Banking	-	-%	0.1	-%	-	-%	-	-%	-	-%
Legacy Consumer Mortgages	3.3	0.11%	21.0	0.49%	(0.3)	-%	0.2	0.01%	-	-%
Consumer Banking	3.3	0.05%	21.1	0.32%	(0.3)	-%	0.2	0.01%	-	-%
Non-Strategic Portfolio	-	-%	-	-%	(0.1)	-%	41.1	4.19%	46.8	1.91%
Total	$115.4	0.39%	$115.2	0.39%	$111.3	0.37%	$136.7	0.58%	$98.6	0.55%

Net charge-offs in 2018 were driven primarily by episodic items within Commercial Finance and Business Capital. The decline in net charge-offs in Commercial Banking in 2017 reflected lower charge-offs in the energy portfolio, whereas this portfolio accounted for the increase in 2016 compared to 2015. In conjunction with strategic initiatives, transfers of portfolios to AHFS elevated net charge-offs in 2017 with charge-offs of $34 million related to transfers to AHFS, of which $20 million related to the reverse mortgage loan portfolio in Consumer Banking. In 2016, charge-offs of $41 million related to Commercial Finance loans transferred to AHFS. In 2015, significant charge-offs were recorded on the transfers to AHFS of the Canada and China portfolios in NSP, along with certain asset sales in Commercial Finance. Charge-offs associated with loans transferred to AHFS do not generate future recoveries as the loans are generally sold before recoveries can be realized and any gains on sales are reported in other non-interest income.

The following tables present information on non-accruing loans, which includes loans in AHFS for each period, and when added to other real estate owned ("OREO") and other repossessed assets, sums to non-performing assets. PCI loans are excluded from these tables as the carrying value is based on the estimate of cash flows deemed to be collectible. Accordingly, such PCI loans are not considered past due or on non-accrual status even though they may be contractually past due.

Non-accrual and Accruing Past Due Loans at December 31 (dollars in millions)[(1)]

	2018	2017	2016	2015	2014
Non-accrual loans					
U.S.	$264.8	$211.1	$218.9	$185.3	$71.8
Foreign	17.5	9.8	59.7	67.0	88.6
Non-accrual loans	$282.3	$220.9	$278.6	$252.3	$160.4
Troubled Debt Restructurings					
U.S.	$87.9	$103.5	$41.7	$26.4	$13.5
Foreign	—	—	40.6	4.6	3.7
Restructured loans	$87.9	$103.5	$82.3	$31.0	$17.2
Accruing loans past due 90 days or more					
Accruing loans past due 90 days or more	$35.6	$31.9	$32.0	$15.8	$10.3

(1) Factored receivables within our Business Capital division do not accrue interest and therefore are not considered within non-accrual loans but are considered for credit provisioning purposes.

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Segment Non-accrual Loans as a Percentage of Loans at December 31 (dollars in millions)

	2018		2017		2016	
Commercial Finance	$190.0	1.81%	$134.8	1.36%	$188.8	1.90%
Real Estate Finance	2.2	0.04%	2.8	0.05%	20.4	0.37%
Business Capital	45.7	0.55%	53.2	0.70%	41.7	0.60%
Commercial Banking	237.9	0.98%	190.8	0.82%	250.9	1.11%
Legacy Consumer Mortgages	32.2	1.15%	19.9	0.60%	17.3	0.36%
Other Consumer Banking	6.1	0.16%	0.4	0.02%	0.1	-%
Consumer Banking	38.3	0.59%	20.3	0.34%	17.4	0.25%
Non-Strategic Portfolio	6.1	NM	9.8	NM	10.3	NM
Total	$282.3	0.92%	$220.9	0.76%	$278.6	0.94%

NM — Not meaningful; Non-accrual loans include loans held for sale. All of NSP non-accrual loans reflected loans held for sale; since there were no portfolio loans, no % is displayed.

Non-accrual loans were up from December 31, 2017, driven by various loans across different industries in Commercial Finance. We did not experience any notable trends in any specific industry or geography. Non-accrual loans in Consumer Banking were up, reflecting non-PCI loans in LCM, as that portfolio continues to season since its acquisition. Other Consumer Banking non-accrual loans were up, as that portfolio matures. Non-accrual loans decreased in 2017, reflecting the resolution of Maritime and Real Estate Finance loans. Non-accrual loans were up in 2016, driven by a $49 million Maritime account and a few other large accounts in the Commercial Finance division and a large account in Real Estate Finance (all within the Commercial Banking segment), partially offset by decreases due to portfolio sales of the Canadian and U.K. portfolios in the NSP segment. Our portfolio is subject to volatility as larger accounts migrate in and out of non-accrual status or are otherwise resolved.

Approximately 58% of our non-accrual accounts were paying currently compared to 52% at December 31, 2017. Our impaired loan carrying value (including PAA discount and charge-offs) to outstanding unpaid principal balances was approximately 64% compared to 76% at December 31, 2017. For this purpose, impaired loans comprise principally non-accrual loans $500,000 and greater and TDRs.

Total delinquency (30 days or more) was 1.3% of loans at December 31, 2018 and December 31, 2017. Delinquency status of loans and loans held for sale are presented in Note 3 — Loans.

The tables that follow reflect loan carrying values of accounts that have been modified, excluding PCI loans and those in trial modification.

TDRs and Modifications (dollars in millions)

	2018	% Compliant	2017	% Compliant	2016	% Compliant
Troubled Debt Restructurings						
Deferral of principal and/or interest	$44.2	67%	$31.8	95%	$9.6	99%
Covenant relief and other	43.7	96%	71.7	70%	72.7	95%
Total TDRs	$87.9	82%	$103.5	78%	$82.3	84%
Percent non-accrual	79%		63%		41%	
Modifications[(1)]						

Extended maturity	$43.9	100 %	$35.7	100 %	$95.0	100 %
Covenant relief	106.6	85 %	260.2	100 %	261.1	100 %
Interest rate increase	146.7	100 %	102.8	100 %	138.2	100 %
Other	384.4	93 %	229.5	90 %	216.0	92 %
Total Modifications	$681.6		$628.2		$710.3	
Percent non-accrual	13 %		8 %		23 %	

(1) Table depicts the predominant element of each modification, which may contain several of the characteristics listed.
PCI loans, TDRs and other credit quality information is included in Note 3 — Loans.

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NON-INTEREST INCOME

As presented in the following table, Non-interest Income includes Rental Income on Operating Leases and Other Non-Interest Income. Certain line-items in the table are changed from the year-ago presentation; all prior periods are conformed.

Non-interest Income (dollars in millions)

	Years Ended December 31,		
	2018	2017	2016
Rental income on operating leases	$1,009.0	$1,007.4	$1,031.6
Other non-interest income:			
Fee revenues	103.5	113.6	111.6
Factoring commissions	102.4	102.9	105.0
Gains on leasing equipment, net of impairments	59.5	43.1	30.1
BOLI income	25.5	7.6	-
Gains on investment securities, net of impairments	15.3	28.9	11.5
Other revenues	67.6	68.1	(107.6)
Total other non-interest income	373.8	364.2	150.6
Total other non-interest income, excluding noteworthy items[1]	$399.5	$369.7	$357.1
Total non-interest income	$1,382.8	$1,371.6	$1,182.2
Factoring volume	$30,324.6	$27,480.1	$24,907.4

[1] Total non-interest income, excluding noteworthy items are non-GAAP balances, see reconciliations to GAAP balance in Non-GAAP Financial Measurements.

Rental Income on Operating Lease Equipment

Rental income on operating leases from equipment we lease is generated in the Rail and Business Capital divisions in the Commercial Banking segment. Rental income is discussed in “Net Finance Revenues” and “Results by Business Segment”. Operating lease equipment is presented in Note 5 — Operating Lease Equipment and information specific to our rail portfolio is presented in Concentrations.

Other Non-Interest Income

Fee revenues, which include fees on lines and letters of credit, capital markets-related fees, agent and advisory fees and servicing fees, are mainly driven by our Commercial Banking segment. Fee revenue was down in 2018, reflecting lower capital market fees in Commercial Finance.

Factoring commissions, which are included in Business Capital, were flat compared to 2017, as higher volumes, driven by an increase in the technology industry, were offset by a lower average commission rate. Factoring commissions were down slightly in 2017 compared to 2016 despite an increase in factoring volumes, as a reduction in the mix of higher risk receivables put downward pressure on pricing.

Gains on leasing equipment, net of impairments corresponded mostly to sales of rail assets, while a majority of the assets sold relate to equipment in the Business Capital division. The increase in 2018 compared to 2017 reflected higher volume of asset sales. Asset sales volume was down in 2017 compared to 2016, and 2016 included higher impairment charges.

BOLI income was up, reflecting a full year of income, compared to a little over one quarter in 2017, the initial year that CIT invested in this insurance.

Gains on investment securities, net of impairments in 2018 were down on less activity. Gains in 2017 mostly reflected gains on sales of agency mortgage-backed securities acquired with the OneWest transaction that had higher risk weightings, changes in value of mortgage-backed securities ("MBS") carried at fair value, and to a lesser extent, sales of equity investments that were received as part of a lending transaction, or in some cases, a workout situation. During 2017, essentially all of the MBS carried at fair value were sold or matured. 2016 mainly included net gains on agency MBS.

Other revenues included items that are more episodic in nature, such as gains on receivable sales, OREO sales and work-out related claims, net gains (losses) on derivatives and foreign currency exchange, proceeds received in excess of carrying value on non-accrual accounts held for sale that were repaid or had another workout resolution, insurance proceeds in excess of carrying value on damaged leased equipment, and income from joint ventures. Absent the noteworthy items listed below, other revenues were up in 2018 compared to 2017 due to higher gains on customer derivatives and foreign currency exchange compared to a loss in 2017. Absent the noteworthy items listed below, other revenues were down in 2017 compared to 2016, again reflecting a loss on derivatives and foreign currency exchange compared to a significant gain in 2016. 2016 also included a $22 million equity security sale from a loan workout.

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Excluding noteworthy items, total other non-interest income[6] increased in 2018 and 2017. Noteworthy items decreased other non-interest income in 2018 by $26 million, all of which is included in other revenues and described as follows:

- The Company's subsidiary, CIT TRS Funding BV, exercised its option to terminate a financing facility structured as a total return swap ("TRS") (the "Dutch TRS Facility") prior to maturity as disclosed in Note 10 – Derivative Financial Instruments, which required a payment of the present value of the remaining facility fee (the "Optional Termination Fee"). The Optional Termination Fee and the reduction of the liability associated with the TRS derivative resulted in net pretax charges for the Company of approximately $69 million in the Corporate segment.
- Impairment charge of $21 million to reduce the indemnification asset (included in other assets) for the amounts deemed uncollectable within the remaining indemnification period in Consumer Banking. See further disclosure in Note 3 – Loans (Credit Quality Information section).
- $29 million of income in Consumer Banking related to the Financial Freedom Transaction, primarily a $27 million gain on the sale of the reverse mortgage portfolio.
- $25 million gain on sale of NACCO in Commercial Banking.
- An $11 million benefit from a release of a valuation reserve related to AHFS in China within the NSP segment.

Noteworthy items decreased total other non-interest income in 2017 by $6 million, all of which is included in other revenues and as follows:

- A $29 million benefit in Corporate related to the change in accounting policy for LIHTC from the equity method to the proportional amortization method, which was more than offset in additional tax expense. (See Note 1 — Business and Summary of Significant Accounting Policies)
- Charges of $27 million, including a $5 million write-down of OREO, a $9 million impairment on reverse mortgage related assets and a $12 million write-down of the reverse mortgage portfolio that was moved to AHFS, all related to the Financial Freedom Transaction in Consumer Banking.
- Currency translation adjustment ("CTA") charges of $8 million, previously reflected in stockholders' equity associated with the liquidation of international entities.

Noteworthy items decreased total other non-interest income in 2016 by $207 million, all of which is included in other revenues and as follows:

- As discussed in Note 10 – Derivative Financial Instruments, CIT Financial Ltd., a Canadian subsidiary of CIT, exercised its option to terminate a financing facility structured as a TRS (the "Canadian TRS Facility"), which required a payment of the present value of the remaining facility fee, partially offset by the derivative liability benefit from the reversal of mark-to-market charges, which resulted in a net pretax charge of approximately $243 million in Corporate.
- Gains on the Canada and U.K. portfolio sales of $46 million in NSP.
- An asset impairment charge of $11 million on assets held for sale and CTA charge of $3 million in NSP.
- A $5 million gain related to the IndyMac venture in Consumer Banking.

NON-INTEREST EXPENSES

Non-Interest Expense (dollars in millions)

Years Ended December 31,

	2018	2017	2016
Depreciation on operating lease equipment	$311.1	$296.3	$261.1
Maintenance and other operating lease expenses	230.4	222.9	213.6
Operating expenses:			
Compensation and benefits	558.4	566.3	585.5
Technology	131.5	127.9	133.7
Professional fees	82.7	132.3	175.8
Insurance	68.3	84.7	96.5
Net occupancy expense	65.6	67.8	71.9
Advertising and marketing	47.6	42.2	20.5
Other expenses	92.0	89.6	137.8
Operating expenses, excluding restructuring costs and intangible asset amortization	1,046.1	1,110.8	1,221.7
Intangible asset amortization	23.9	24.7	25.6
Restructuring costs	-	53.0	36.2
Operating expenses	1,070.0	1,188.5	1,283.5
Goodwill impairment	-	255.6	354.2
Loss on debt extinguishment and deposit redemptions	38.6	220.0	12.5
Total non-interest expenses	$1,650.1	$2,183.3	$2,124.9
Headcount	3,678	3,909	4,080
Net efficiency ratio(1)	54.6 %	56.4 %	65.5 %
Net efficiency ratio, excluding noteworthy items(1)	54.6 %	56.3 %	57.6 %

(1) Net efficiency ratio and net efficiency ratio excluding noteworthy items are non-GAAP measurements used by management to measure operating expenses (before restructuring costs and intangible amortization) to the level of total net revenues. See "Non-GAAP Financial Measurements" for a reconciliation of non-GAAP to GAAP financial information and description of the calculation.

6 Other non-interest income excluding noteworthy items is a non-GAAP measure; see "Non-GAAP Financial Measurements" for a reconciliation of non-GAAP to GAAP financial information.

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Depreciation on Operating Lease Equipment

Depreciation expense is driven by rail equipment and small and large ticket equipment, in the Rail and Business Capital divisions in Commercial Banking, respectively. Depreciation expense is discussed in "Net Finance Revenue," as it is a component of our NFM. Equipment held for sale also impacts the balance, as depreciation expense is suspended on operating lease equipment once it is transferred to AHFS.

Maintenance and Other Operating Lease Expenses

Maintenance and other operating lease expenses relates to equipment ownership and leasing costs associated with the Rail portfolio and tend to be variable. Rail provides railcars primarily pursuant to full-service lease contracts under which Rail as lessor is responsible for railcar maintenance and repair. The increase in 2018 from 2017 reflected increased volume from remarketing cars and pulling cars from storage and sending them into service. Maintenance expenses on railcars in 2017 increased from 2016 on the growing portfolio, with increased costs associated with end of lease railcar returns and higher Railroad Interchange repair expenses.

Operating Expenses

In 2016, we initiated a plan to reduce expenses and focused on organizational simplification, third-party efficiencies and technology and operational improvements. As a result of these efforts, we met our goal by the end of 2018 to reduce our annual operating expense to our target of $1,050 million (before noteworthy items, restructuring costs and intangible amortization) for 2018, as we continue to right-size the organization. We are targeting an additional reduction of at least $50 million over the next two years, which will be driven primarily by continued organizational efficiencies and digital process automation, along with rationalization of our real estate footprint. This target reduction does not include the impact from changes in lease accounting rules.

Operating expenses reflect the following:

- Compensation and benefits decreased in 2018 and 2017 reflecting the lower headcount resulting from our strategic initiatives. See Note 19 — Retirement, Postretirement and Other Benefit Plans in Item 8. Financial Statements and Supplementary Data.
- Technology costs were up in 2018 as we upgraded various systems. Costs in 2017 decreased from 2016 due to the timing of anticipated costs. Technology costs in 2016 related to system upgrades and enhancements incurred to integrate OneWest Bank, charges to write-off certain capitalized IT costs, and the additional regulatory reporting requirements of being considered a SIFI organization at that time.
- Professional fees included legal and other professional fees, such as tax, audit, and consulting services. In 2017 and 2016, we incurred third-party costs to assist in improving our capital planning and CCAR reporting capabilities. With the change to certain regulations in 2018, as discussed in the Capital Management section of "Capital", CIT is no longer subject to the same level of regulatory stress testing and capital reporting and planning requirements. The amount in 2016 also reflected costs incurred for various strategic initiatives, consulting services related to strategic reviews of our businesses, and continued OneWest Bank integration costs.
- Insurance expenses primarily reflect FDIC costs for our deposits. The decrease from 2017 and 2016 reflected lower FDIC costs, due to a decline in the assessment base, changes in the assessment variables related to our loan portfolios and the elimination of the surcharge.
- Net Occupancy expenses were down from 2017 and 2016 as we continued to streamline our operations and closed 6 bank branches.
-

Advertising and marketing expenses include costs associated with raising deposits and marketing programs. The increase in 2018 and 2017 reflected additional marketing promotions, primarily in Consumer Banking.

- Restructuring costs reflects various organizational efficiency initiatives. Restructuring costs in 2017 and 2016 primarily reflect strategic initiatives to reduce operating expenses and streamline our operations. The facility exiting activities were minor in comparison. See Note 26 — Severance and Facility Exiting Liabilities for additional information.
- Intangible asset amortization is disclosed in Note 25 — Goodwill and Intangible Assets, which displays the intangible assets by type and segment, and describes the accounting methodologies.
- Other expenses include items such as travel and entertainment, office equipment and supplies and taxes (other than income taxes, such as state sales tax, etc.), and from time to time includes settlement agreement costs, including OneWest Bank legacy matters. Other expenses were elevated in 2016, which included $27 million of legacy matters (servicing related contingent obligations and resolution of a pre-acquisition litigation matter) in Consumer Banking.

Our January 1, 2019, adoption of ASU 2016-02, Leases (Topic 842), and subsequent related ASUs, will impact operating expenses in 2019 and thereafter as a result of the following items. Comparative periods prior to 2019 will not be adjusted for these items.

- On January 1, 2019, we began to record gross operating expenses and other non-interest income for property taxes paid by CIT as lessor that are reimbursed by the lessees. The gross-up will result in annual incremental operating expenses, expected to be between $25 million and $30 million, with a corresponding increase in other non-interest income. The annual impact is dependent on many variables, including, but not limited to, lease portfolio composition, changes in tax rates and tax assessments, and the terms of our contractual arrangements.
- The new lease guidance has a narrower definition of initial direct costs (“IDC”) that may be capitalized. On January 1, 2019, we began to expense as incurred certain lease origination costs that were previously capitalized. This will result in increased operating expenses, estimated to be between $15 million and $20 million annually, caused by lower IDC deferrals, with a benefit to be recorded to NFR over the life of the lease, as there will be less capitalized costs to amortize. The annual impact is dependent on many variables, including, but not limited to, lease origination activity levels and the amount of origination costs incurred.

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We do not expect the property tax gross-up or change in IDC accounting to impact the economics and overall profitability of our lease offerings.

As a lessee, we do not expect the impact of the new accounting guidance to have a material impact on our non-interest expenses.

See Note 1 — Business and Summary of Significant Accounting Policies for further additional discussion of the new lease guidance.

Goodwill Impairment

The Company recorded goodwill impairment of $255.6 million in 2017, mostly related to Equipment Finance in the Commercial Banking segment, and impairment of $319.4 million and $34.8 million in the Consumer Banking and Commercial Banking segments, respectively, during 2016.

See Note 25 — Goodwill and Intangible Assets in Item 8. Financial Statements and Supplementary Data and Critical Accounting Estimates further in the MD&A, both of which discuss goodwill impairment testing.

Loss on Debt Extinguishments and Deposit Redemptions

The losses in 2018 and 2017 related to the tender and early redemption of unsecured borrowings. The losses in 2017 were driven by the elevated level of redemptions utilizing funds from the sale of Commercial Air. Loss on debt extinguishments and deposit redemptions in 2016 related to certain secured debt instruments and early redemptions of high-cost brokered deposits.

See the Funding and Liquidity and Note 9 — Borrowings sections for further discussion.

INCOME TAXES

Income Tax Data (dollars in millions)

	Years Ended December 31,		
	2018	2017	2016
Provision for income taxes, before noteworthy and tax discrete items	$178.1	$247.9	$259.3
Benefit on noteworthy items and other tax discrete items	(13.2)	(315.7)	(55.8)
Provision (benefit) for income taxes	$164.9	$(67.8)	$203.5
Effective tax rate	25.9 %	(35.4)%	NM
Effective tax rate, before noteworthy items and tax discrete items[1]	26.4 %	33.6 %	40.2 %

[1] Effective tax rate excluding noteworthy items and tax discrete items are non-GAAP measures. See “Non-GAAP Financial Measurements” for reconciliation of non-GAAP financial information.

The Company's 2018 income tax expense before noteworthy and tax discrete items is $178.1 million. This compares to an income tax expense before noteworthy and tax discrete items of $247.9 million in 2017 and $259.3 million in 2016. The income tax provision before tax discrete and noteworthy items was lower in the current year, as compared to prior years, primarily driven by lower statutory income tax rates from U.S. tax reform (21% in the current year compared to 35% in the prior years), partially offset by a change in accounting policy for LIHTC investments from the equity method of accounting to the proportional method, and disallowance of FDIC insurance premiums.

The effective tax rate each year is impacted by a number of factors, including the relative mix of domestic and international earnings, effects of changes in enacted tax laws, adjustments to valuation allowances (“VA”), and tax discrete items. The future period’s effective tax rate may vary from the actual year-end 2018 effective tax rate due to the changes in these factors.

Included in the tax benefit on noteworthy and other tax discrete items of $13.2 million for the current year was:

- $15.2 million deferred income tax benefit recorded resulting from the release of a VA on deferred tax assets established on the capital losses generated in the prior year from an equity investment in a wholly-owned foreign subsidiary,
- $14.5 million deferred income tax expense resulting from revaluation of U.S. state deferred tax assets and liabilities as a result of state tax rate changes,
- $6.9 million deferred income tax expense related to the increase to the deferred tax liability on the Company’s investment in NACCO, which was sold in October 2018,
- $3.2 million deferred income tax benefit (net of reserve of $1.1 million) recorded for credits recognized related to Research and Experimentation Expenses,
- $1.4 million deferred income tax benefit resulting from favorable audit resolutions with state taxing authorities on prior year U.S. state income tax returns, and
- $14.8 million income tax benefit on other tax discrete items and noteworthy items remaining as listed in the “Non-GAAP Financial Measurements” section.

Included in the tax benefit on noteworthy and other tax discrete items of $315.7 million for 2017 was:

- $177.4 million deferred income tax benefit related to the recognition of a $234.2 million deferred tax asset related to an equity investment in a wholly-owned foreign subsidiary, partially offset by a $56.8 million VA,

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- $26.6 million income tax expense related to the cumulative effect adjustment for the Company's election to change the accounting policy for LIHTC investments from the equity method to the proportional amortization method. The total income tax expense of $38.2 million disclosed within Management's Discussion and Analysis "Non-GAAP Financial Measurements" section and Note 1 includes an $11.6 million tax effect of the $29 million pretax item recorded in other non-interest income,
- $19.3 million current tax benefit, including interest and penalties, related to legacy OneWest Bank matters, including the release of a tax reserve upon the favorable resolution of an uncertain tax position and recognition of expected tax refunds,
- $13.9 million in deferred tax expense recorded related to the restructuring of legal entities in preparation for the Commercial Air sale,
- $11.6 million net deferred tax benefit was recognized from the effect of the enacted U.S. tax reform legislation which included the following:
  - $13.6 million deferred income tax benefit related to the reduction of deferred tax liabilities on previously untaxed earnings and profits ("E&P") due to provisions in the U.S. Tax Reform that imposes a one-time "Toll Tax" on unremitted net positive E&P. This tax converts the net positive E&P into "previously taxed income" that can be repatriated without any further tax. The Company has a net deficit in E&P and, accordingly, has no Toll Tax liability,
  - $4.9 million expense reported on the income tax expense line for an increase in amortization expense resulting from revaluation of the LIHTC investments,
  - $2.9 million deferred income tax benefit related to revaluation of the U.S. deferred tax assets and liabilities as a result of change in U.S federal tax rates from 35% to 21% with an effective date of January 1, 2018,
- $5.7 million net deferred tax benefit related to the recognition of NACCO related items including impact of French tax law changes of an $11.0 million deferred tax benefit and adjustments to deferred taxes on the Company's investment in NACCO of $5.3 million deferred tax expense,
- $0.5 million of miscellaneous other year to date net tax expense items, and
- $142.7 million tax benefit on the other tax discrete items and noteworthy items remaining as listed in the "Non-GAAP Financial Measurements" section.

Included in the tax benefit on noteworthy and other tax discrete items of $55.8 million for 2016 was:

- $54.0 million tax expense related to establishment of domestic and international deferred tax liabilities due to Management's decision to no longer assert its intent to indefinitely reinvest its unremitted earnings in Canada,
- $15.0 million tax expense related to the establishment of VAs against certain international net deferred tax assets due to our international platform rationalizations,
- $13.9 million tax benefit, including interest and penalties, resulting from resolution of certain tax matters by the tax authorities related to uncertain tax positions taken on certain prior year non-U.S. tax returns,
- $4.9 million of miscellaneous net tax expense items, and
- $115.8 million tax benefit on the other tax discrete items and noteworthy items remaining as listed in the "Non-GAAP Financial Measurements" section.

See Note 18 — Income Taxes for additional information.

RESULTS BY BUSINESS SEGMENT

CIT manages its business and reports its financial results in three operating segments, Commercial Banking, Consumer Banking, and Non-Strategic Portfolios, and a non-operating segment, Corporate and Other. See Non-Interest Income, Non-Interest Expenses and Credit Metrics for discussions of consolidated trends on these topics.

See Business Segments in Item 1. Business Overview for more detailed descriptions of each of the business segments and divisions therein, and Note 24 — Business Segment Information.

Commercial Banking

Commercial Banking is comprised of four divisions: Commercial Finance, Rail, Real Estate Finance and Business Capital. Revenue is generated from interest earned on loans, rents on equipment leased, fees and other revenue from lending and leasing activities and banking services, along with capital markets transactions and commissions earned on factoring and related activities.

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Commercial Banking: Financial Data and Metrics (dollars in millions)

	Years Ended December 31,					
Earnings Summary	2018		2017		2016	
Interest income	$1,333.0		$1,248.0		$1,287.9	
Rental income on operating leases	1,009.0		1,007.4		1,020.0	
Finance revenue	2,342.0		2,255.4		2,307.9	
Interest expense	716.3		517.7		519.1	
Depreciation on operating lease equipment	311.1		296.3		261.1	
Maintenance and other operating lease expenses	230.4		222.9		213.6	
Net finance revenue (NFR)	1,084.2		1,218.5		1,314.1	
Provision for credit losses	167.1		88.7		183.1	
Other non-interest income	320.8		291.0		293.8	
Operating expenses	692.9		691.7		761.6	
Goodwill impairment	-		255.6		34.8	
Income before income taxes	$545.0		$473.5		$628.4	
Select Period End Balance						
Loans and leases (includes HFS)	$31,298.3		$31,232.4		$30,406.1	
Earning assets (net of credit balances of factoring clients)	29,820.8		30,039.0		29,403.1	
Select Average Balances						
Average loans (includes HFS, and net of credit balances)	$22,010.2		$21,339.5		$22,165.2	
Average operating leases (AOL)* (includes HFS)	7,738.7		7,685.0		7,193.5	
Average earning assets (AEA)	30,001.6		29,270.1		29,762.9	
Statistical Data						
Net finance margin - NFR as a % of AEA	3.61	%	4.16	%	4.42	%
Net operating lease revenue — rental income, net of depreciation and maintenance and other operating lease expenses*	$467.5		$488.2		$545.3	
Operating lease margin as a % of AOL*	6.04	%	6.35	%	7.59	%
Net efficiency ratio	49.0	%	45.4	%	47.0	%
Pretax return on AEA	1.82	%	1.62	%	2.11	%
New business volume	$10,610.9		$8,607.7		$8,216.2	

* See discussion below for the impact of suspended depreciation.

Pre-tax earnings in 2018 included a noteworthy item for the gain on sale of NACCO of $25 million; both 2018 and 2017 included a noteworthy item for the benefit from the suspension of depreciation expense on operating lease equipment held for sale related to NACCO of $27 million and $17 million, respectively, while 2017 and 2016 included goodwill impairment charges of $256 million and $35 million, respectively. Excluding noteworthy items, pre-tax earnings were $493 million, $712 million and $663 million in 2018, 2017 and 2016, respectively, reflecting lower NFR in 2018, and higher credit costs compared to 2017.

AEA consisted primarily of loans and leases. AEA was up from 2017, mostly reflecting growth in Business Capital and Commercial Finance and partially offset by a decline in Real Estate Finance. Rail AEA was flat as new business volume was essentially offset by the sale of NACCO in October 2018, which consisted of approximately $1.2 billion of leases and loans in AHFS, including approximately 15,000 railcars. The modest AEA decrease in 2017 from 2016 reflected declines in the Commercial Finance division, partially offset by increases in the other divisions.

Compared to 2017, new business volume increased, with strong growth in all divisions except Rail. New business volume in 2017 was up from 2016, as increases in Commercial Finance and Real Estate Finance offset declines in Rail and the Equipment Finance businesses in Business Capital.

Rail serves over 500 customers, including all of the U.S. and Canadian Class I railroads (i.e., railroads with annual revenues of approximately USD $450 million and greater), other railroads and non-rail companies, such as shippers and power and energy companies. Our rail portfolio included approximately 116,000 railcars at December 31, 2018, and we had approximately 2,700 railcars on order from manufacturers that had deliveries scheduled into 2020. See Note 20 — Commitments for railcar manufacturer commitment data and Concentrations for detail on the operating lease fleet.

Trends included the following:

- NFR in 2018 was down from 2017, reflecting pressure on rental income, as noted below, higher interest expense and lower PAA, partially offset by the growth in AEA and an increase in interest income from higher interest rates on floating rate earning assets. NFR in 2017 decreased from 2016, reflecting lower AEA and PAA, partially offset by the benefits from interest rate increases on the floating rate portfolios and $17 million of suspended depreciation on rail assets held for sale.
- NFM decreased compared to 2017 due to the mentioned decreases in NFR. Pressure on NFM was also driven by continued lower lease renewal rates on our rail portfolio, as discussed below and in the Net Finance Revenue section earlier in the MD&A. NFM in 2017 declined from 2016, driven by the NFR declines discussed above.

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- PAA totaled $33 million in 2018, essentially all of which benefited interest income, compared to $88 million in 2017 and $150 million in 2016. PAA that was accelerated, for instance due to sale or prepayment, totaled $13 million in 2018, $44 million in 2017, and $66 million in 2016. See Purchase Accounting Accretion table in Net Finance Revenue section for amounts of PAA by division.
- Gross yields (interest income plus rental income on operating leases as a % of AEA) in 2018 were up from 2017, while down slightly from 2016. See Select Segment and Division Margin Metrics table and discussion that follows that table in Net Finance Revenue section for gross yields by division.
- Net operating lease revenue, which is a component of NFR, is driven primarily by the performance of our rail portfolio. Rail's net rental income was down from 2017, reflecting renewal rates that continue to price lower due to excess capacity in the market, partially offset by the improvement in railcar utilization. See the Net Finance Revenue section for further discussion related to our operating lease portfolio.

Consumer Banking

Consumer Banking includes Retail Banking, Consumer Lending, and SBA Lending, which are grouped together for purposes of discussion as Other Consumer Banking, and LCM. Revenue is generated from interest earned on residential mortgages, and small business loans, and from fees for banking services.

Consumer Banking: Financial Data and Metrics (dollars in millions)

	Years Ended December 31,		
Earnings Summary	2018	2017	2016
Interest income	$338.9	$378.1	$420.8
Interest (benefit) expense	(143.5)	(51.8)	10.2
Net finance revenue (NFR)	482.4	429.9	410.6
Provision for credit losses	3.9	25.9	11.7
Other non-interest income	35.0	4.1	40.0
Operating expenses	369.3	401.5	380.9
Goodwill impairment	-	-	319.4
Income (loss) before income taxes	$144.2	$6.6	$(261.4)
Select Period End Balance			
Earning assets	$6,558.0	$6,962.6	$7,383.2
Loans (includes HFS)	6,535.9	6,820.2	7,041.8
Deposits	26,052.4	23,421.8	22,542.2
Select Average Balances			
Average loans (includes HFS)	$6,595.3	$6,812.3	$7,153.5
Average earning assets (AEA)	6,680.7	7,054.0	7,527.4
Statistical Data			
Net finance margin - NFR as a % of AEA	7.22%	6.09%	5.45%
Net efficiency ratio	67.8%	88.3%	80.4%
Pretax return on AEA	2.16%	0.09%	(3.47)%
New business volume	$1,611.7	$949.4	$960.5

Pre-tax earnings in each of the years included noteworthy items. Pretax results for 2018 included a net benefit of $8 million in non-interest income, comprised of a $29 million benefit related primarily to the net gain on the sale of the reverse mortgage portfolio related to the Financial Freedom Transaction, partially offset by a $21 million valuation write-down to the indemnification asset for the amounts deemed uncollectable within the remaining indemnification period for certain covered loans in our LCM portfolio (see Note 2 — Discontinued Operations and Note 3 — Loans). Pretax results for 2017 were impacted by $42 million of aggregate charges related to the Financial Freedom Transaction ($27 million charge in non-interest income on reverse mortgage related assets and $15 million of charge-offs in the provision for credit losses related to the transfer of the reverse mortgage portfolio to AHFS). Pretax results for 2016 reflected a $319 million goodwill impairment charge, a $27 million charge in operating expenses from the resolution of legacy items assumed with the OneWest Transaction (servicing-related contingent reserves and resolution of a pre-acquisition litigation matter) and a $5 million gain in other non-interest income due to the sale of loans related to the IndyMac Venture. Excluding noteworthy items, pre-tax earnings were $136 million, compared to $49 million in 2017 and $80 million in 2016. Pre-tax earnings excluding noteworthy items were up from 2017, as the increase in interest benefit received from other segments for the value of excess deposits this segment generated and lower operating expenses offset lower income following the sale of our reverse mortgage portfolio.

AEA was down compared to 2017 and 2016. The run-off of the LCM portfolio, a decline in the indemnification asset (due to the reduction in the related estimated contingent liabilities from servicing activities to zero and an impairment charge), and the sale of the reverse mortgage portfolio, comprised of loans and related OREO assets of $884 million, were partially offset by new business volume in the Other Consumer Banking division. Average loan growth in Other Consumer Banking was primarily driven by increases in residential mortgage lending in the retail and correspondent origination channels. LCM made up $3.4 billion of the current average balance, with a significant portion covered by the loss sharing agreement with the FDIC related to IndyMac assets. The indemnification period under the IndyMac loss share agreement ends in March 2019, the benefit of which is recorded as an indemnification asset. See Note 2 — Discontinued Operations and Note 3 – Loans.

Deposits, which include deposits from the branch and online channels, increased from 2017 and 2016, driven by an increase in savings and online money market accounts, partially offset by a decrease in interest-bearing checking accounts.

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Trends included the following:

- NFR increased from 2017, due to an increase in interest benefit described above, partially offset by the decline in interest income due to the sale of the reverse mortgage portfolio, lower PAA as assets mature and run-off of the LCM portfolio. NFR increased from 2016 to 2017 as the larger benefit from the value of the excess deposits generated offset the higher negative amortization on the indemnification asset that reduced interest income on loans and lower PAA on loans. NFM reflected similar trends. There was $46 million (including accelerated PAA of $12 million) of net PAA (PAA less amounts of negative interest on the indemnification asset) in 2018, compared to $73 million (including accelerated PAA of $14 million) in 2017 and $114 million (including accelerated PAA of $14 million) in 2016.

Non-Strategic Portfolios (NSP)

NSP consists of businesses and portfolios that we no longer consider strategic.

Non-Strategic Portfolios: Financial Data and Metrics (dollars in millions)

	Years Ended December 31,		
Earnings Summary	2018	2017	2016
Interest income	$6.8	$22.9	$80.8
Rental income on operating leases	-	-	11.6
Finance revenue	6.8	22.9	92.4
Interest expense	4.3	15.2	47.2
Net finance revenue (NFR)	2.5	7.7	45.2
Benefit for credit losses	-	-	(0.1)
Other non-interest income	17.5	3.1	52.1
Operating expenses	7.8	12.7	42.2
Income (loss) before income taxes	$12.2	$(1.9)	$55.2
Select Period End Balance			
Earning assets	$99.1	$145.3	$433.4
Loans and leases (includes HFS)	20.2	63.3	210.1
Select Average Balances			
Average earning assets (AEA)	$112.3	$277.0	$1,175.6
Average loans (includes HFS)	39.3	129.8	903.5
Statistical Data			
Net finance margin — NFR as a % of AEA	2.23 %	2.78 %	3.84 %
Pretax return on AEA	10.86 %	(0.69)%	4.70 %

Income before income taxes for each year includes noteworthy items as we executed on our plan to exit international platforms. 2018 reflects an $11 million reversal of a valuation reserve in other non-interest income due to an increase in fair value of certain assets held for sale in China. In 2017, the loss before income taxes included an $8 million CTA charge in other non-interest income related to the exit of international businesses. The 2016 results included a $22 million gain from the sale of the Canadian Equipment and Corporate Finance businesses in 2016, plus a gain of $24 million from the sale of the U.K. Equipment Finance business, partially offset by $14 million of impairment and CTA charges. Excluding these noteworthy items, pre-tax earnings were $2 million, compared to $6 million in 2017 and $23 million in 2016.

The loans and leases at December 31, 2018 were all in China.

Corporate and Other

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

Corporate and Other: Financial Data and Metrics (dollars in millions)

	Years Ended December 31,		
Earnings Summary	2018	2017	2016
Interest income	$211.7	$186.6	$122.0
Interest expense	238.0	236.6	176.7
Net finance revenue (NFR)	(26.3)	(50.0)	(54.7)
Other non-interest income	0.5	66.0	(235.3)
Operating expenses, including gain (loss) on debt extinguishment	38.6	302.6	111.3
Loss before income taxes	$(64.4)	$(286.6)	$(401.3)
Select Balances			
Earning assets (end of period)	$7,943.5	$7,702.8	$9,587.2
Average earning assets	8,419.8	10,251.0	9,198.2

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Noteworthy items decreased pre-tax income by $107 million, $256 million and $280 million for 2018, 2017 and 2016, respectively. Noteworthy items included loss on debt extinguishments in each of the periods. Noteworthy items in 2018 and 2016 included charges related to the termination of TRSs of $69 million and $243 million, respectively. See also Note 10 – Derivative Financial Instruments for a discussion on the terminations of the TRS facilities. 2017 and 2016 included restructuring charges, and 2017 also included interest expense partially offset by interest income, related to the timing of debt repayments and the elevated cash balances from the Commercial Air sale and the related liability management and capital actions. Noteworthy items are listed in the Non-GAAP Financial Measurements section.

Excluding noteworthy items, there was a pre-tax income of $43 million, compared to pre-tax losses of $30 million and $122 million for 2018, 2017 and 2016, respectively.

LOANS AND LEASES

The following table presents our period end loans and leases by segment.

Loans and Leases Composition (dollars in millions)

	December 31,			$ Change	$ Change
	2018	2017	2016	2018 vs 2017	2017 vs 2016
Commercial Banking					
Commercial Finance					
Loans	$10,478.5	$9,928.8	$9,923.9	$549.7	$4.9
Assets held for sale	9.7	123.5	351.4	(113.8)	(227.9)
Total loans and leases	10,488.2	10,052.3	10,275.3	435.9	(223.0)
Real Estate Finance					
Loans	5,399.7	5,567.9	5,566.6	(168.2)	1.3
Assets held for sale	45.7	22.3	-	23.4	22.3
Total loans and leases	5,445.4	5,590.2	5,566.6	(144.8)	23.6
Business Capital					
Loans	8,301.5	7,579.8	6,968.1	721.7	611.7
Operating lease equipment, net	549.1	478.0	369.0	71.1	109.0
Assets held for sale	8.9	-	6.0	8.9	(6.0)
Total loans and leases	8,859.5	8,057.8	7,343.1	801.7	714.7
Rail					
Loans	83.7	82.8	103.7	0.9	(20.9)
Operating lease equipment, net	6,421.5	6,260.9	7,117.1	160.6	(856.2)
Assets held for sale	-	1,188.4	0.3	(1,188.4)	1,188.1
Total loans and leases	6,505.2	7,532.1	7,221.1	(1,026.9)	311.0
Total Segment - Commercial Banking					
Loans	24,263.4	23,159.3	22,562.3	1,104.1	597.0
Operating lease equipment, net	6,970.6	6,738.9	7,486.1	231.7	(747.2)

Assets held for sale	64.3	1,334.2	357.7	(1,269.9)	976.5
Total loans and leases	31,298.3	31,232.4	30,406.1	65.9	826.3
Consumer Banking					
Legacy Consumer Mortgages					
Loans	2,787.5	3,331.1	4,829.9	(543.6)	(1,498.8)
Assets held for sale	-	861.0	32.8	(861.0)	828.2
Total loans and leases	2,787.5	4,192.1	4,862.7	(1,404.6)	(670.6)
Other Consumer Banking					
Loans	3,744.5	2,623.5	2,143.7	1,121.0	479.8
Assets held for sale	3.9	4.6	35.4	(0.7)	(30.8)
Total loans and leases	3,748.4	2,628.1	2,179.1	1,120.3	449.0
Total Segment - Consumer Banking					
Loans	6,532.0	5,954.6	6,973.6	577.4	(1,019.0)
Assets held for sale	3.9	865.6	68.2	(861.7)	797.4
Total loans and leases	6,535.9	6,820.2	7,041.8	(284.3)	(221.6)
Non-Strategic Portfolios					
Assets held for sale	20.2	63.3	210.1	(43.1)	(146.8)
Total loans and leases	20.2	63.3	210.1	(43.1)	(146.8)
Total Loans	30,795.4	29,113.9	29,535.9	1,681.5	(422.0)
Total operating lease equipment, net	6,970.6	6,738.9	7,486.1	231.7	(747.2)
Total assets held for sale	88.4	2,263.1	636.0	(2,174.7)	1,627.1
Total loans and leases	$37,854.4	$38,115.9	$37,658.0	$(261.5)	$457.9

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Total loans and leases were down 0.7% in 2018 from the previous year. Commercial Banking loans and leases were up slightly, driven by growth in Business Capital and Commercial Finance, partially offset by declines in Rail and Real Estate Finance. Rail loans and leases were down due to the sale of NACCO ($1.2 billion of loans and leases). Loans and leases in Consumer Banking were down due to the run-off of the LCM portfolio and the sale of the reverse mortgage portfolio related to the Financial Freedom Transaction, partially offset by new business volume in the Other Consumer Banking division.

Total loans and leases were up 1.2% in 2017 from 2016. Growth in Commercial Banking was led by Business Capital, as factoring receivables were up, as well as the equipment financing portfolios in this division. New originations in Consumer Banking partially offset run-off of LCM, which included the reverse mortgage portfolio that was transferred to HFS in 2017. The 2017 increase in AHFS from 2016 reflects the additions of the European rail assets and the reverse mortgage loan portfolio in LCM.

Total loans and leases trends are discussed in the respective segment descriptions in the prior section, "Results by Business Segment."

The following table reflects the contractual maturities of our loans, which excludes certain items such as purchase accounting adjustments, unearned income and other yield-related fees.

Contractual Maturities of Loans at December 31, 2018 (dollars in millions)

	Commercial		Consumer	
Fixed-rate	U.S.	Foreign	U.S.	Total
1 year or less	$4,257.4	$141.4	$ 88.7	$4,487.5
Year 2	1,407.2	44.4	78.7	1,530.3
Year 3	1,085.7	132.9	81.8	1,300.4
Year 4	687.7	11.0	84.7	783.4
Year 5	390.9	92.0		