CIT GROUP INC
Form 10-Q
November 03, 2017
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

|X| Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2017

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

Commission File Number: 001-31369
CIT GROUP INC.

(Exact name of Registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check One):
Large accelerated filer |X| Accelerated filer |_| Non-accelerated filer |_| (Do not check if a smaller reporting company)
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. |_|

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

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

As of October 31, 2017, there were 131,258,836 shares of the registrant's common stock outstanding.

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Part One — Financial Information
Item 1. Consolidated Financial Statements
CIT GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited) (dollars in millions — except share data)

	September 30, 2017	December 31, 2016
Assets		
Cash and due from banks, including restricted balances of $60.8 and $176.1 at September 30, 2017 and December 31, 2016[(1)], respectively (see Note 6 for amounts pledged)	$453.4	$822.1
Interest bearing deposits, including restricted balances of $90.1 and $102.8 at September 30, 2017 and December 31, 2016[(1)], respectively (see Note 6 for amounts pledged)	2,658.9	5,608.5
Investment securities, including securities carried at fair value with changes recorded in net income of $247.7 and $283.5 at September 30, 2017 and December 31, 2016, respectively (see Note 6 for amounts pledged)	5,744.8	4,491.1
Assets held for sale[(1)]	2,162.0	636.0
Loans (see Note 6 for amounts pledged)	28,505.3	29,535.9
Allowance for loan losses	(419.5)	(432.6)
Total loans, net of allowance for loan losses[(1)]	28,085.8	29,103.3
Operating lease equipment, net (see Note 6 for amounts pledged)[(1)]	6,724.2	7,486.1
Bank-owned life insurance	651.8	—
Goodwill	625.5	685.4
Other assets, including $71.5 and $111.6 at September 30, 2017 and December 31, 2016, respectively, at fair value	1,667.1	2,117.0
Assets of discontinued operations[(1)]	562.0	13,220.7
Total Assets	$49,335.5	$64,170.2
Liabilities		
Deposits	$29,594.7	$32,304.3
Credit balances of factoring clients	1,698.5	1,292.0
Other liabilities, including $190.6 and $177.9 at September 30, 2017 and December 31, 2016, respectively, at fair value	1,496.1	1,897.6
Borrowings, including $897.4 and $2,321.7 contractually due within twelve months at September 30, 2017 and December 31, 2016, respectively	8,531.2	14,935.5
Liabilities of discontinued operations[(1)]	563.7	3,737.7
Total Liabilities	41,884.2	54,167.1
Stockholders' Equity		
Preferred Stock: $0.01 par value, 100,000,000 authorized, 325,000 shares issued and outstanding	325.0	—
Common Stock: $0.01 par value, 600,000,000 authorized		
Issued: 207,439,872 and 206,182,213 at September 30, 2017 and December 31, 2016, respectively	2.1	2.1
Outstanding: 131,370,803 and 202,087,672 at September 30, 2017 and December 31, 2016, respectively		
Paid-in capital	8,787.1	8,765.8
Retained earnings	2,025.8	1,553.0
Accumulated other comprehensive loss	(73.3)	(140.1)

Treasury stock: 76,069,069 and 4,094,541 shares at September 30, 2017 and December 31, 2016 at cost, respectively	(3,615.4)	(178.1)
Total Common Stockholders' Equity	7,126.3	10,002.7
Noncontrolling minority interests	—	0.4
Total Equity	7,451.3	10,003.1
Total Liabilities and Equity	$49,335.5	$64,170.2

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

Assets		
Cash and interest bearing deposits, restricted	$88.3	$99.9
Total loans, net of allowance for loan losses	146.8	300.5
Operating lease equipment, net	759.9	775.8
Assets of discontinued operations	—	2,321.7
Total Assets	$995.0	$3,497.9
Liabilities		
Beneficial interests issued by consolidated VIEs (classified as long-term borrowings)	$603.9	$770.0
Liabilities of discontinued operations	—	1,204.6
Total Liabilities	$603.9	$1,974.6

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

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CIT GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited) (dollars in millions — except per share data)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest income				
Interest and fees on loans	$403.5	$443.8	$1,236.9	$1,343.4
Other interest and dividends	50.5	31.9	151.0	93.9
Interest income	454.0	475.7	1,387.9	1,437.3
Interest expense				
Interest on borrowings	(84.1)	(88.8)	(267.8)	(276.5)
Interest on deposits	(92.6)	(99.4)	(281.2)	(298.3)
Interest expense	(176.7)	(188.2)	(549.0)	(574.8)
Net interest revenue	277.3	287.5	838.9	862.5
Provision for credit losses	(30.1)	(45.1)	(84.2)	(157.9)
Net interest revenue, after credit provision	247.2	242.4	754.7	704.6
Non-interest income				
Rental income on operating leases	252.3	254.3	754.8	779.4
Other non-interest income	63.3	83.6	227.0	268.2
Total non-interest income	315.6	337.9	981.8	1,047.6
Total revenue, net of interest expense and credit provision	562.8	580.3	1,736.5	1,752.2
Non-interest expenses				
Depreciation on operating lease equipment	(71.1)	(66.9)	(222.0)	(191.3)
Maintenance and other operating lease expenses	(57.9)	(56.6)	(165.0)	(156.1)
Operating expenses	(277.3)	(302.9)	(884.5)	(942.3)
Loss on debt extinguishment and deposit redemption	(53.5)	(5.2)	(218.3)	(9.2)
Total non-interest expenses	(459.8)	(431.6)	(1,489.8)	(1,298.9)
Income from continuing operations before benefit (provision) for income taxes	103.0	148.7	246.7	453.3
Benefit (provision) for income taxes	119.8	(54.5)	95.5	(210.1)
Income from continuing operations	222.8	94.2	342.2	243.2
Discontinued Operations				
Income (loss) from discontinued operations, net of taxes	(1.9)	37.3	95.4	51.3
Gain (loss) on sale of discontinued operations, net of taxes	(1.3)	—	118.6	—
Total income (loss) from discontinued operations, net of taxes	(3.2)	37.3	214.0	51.3
Net Income	$219.6	$131.5	$556.2	$294.5
Basic income per common share				
Income from continuing operations	$1.66	$0.47	$1.98	$1.21
Income (loss) from discontinued operations	(0.02)	0.18	1.24	0.25
Basic income per share	$1.64	$0.65	$3.22	$1.46
Diluted income per common share				
Income from continuing operations	$1.64	$0.47	$1.96	$1.21
Income (loss) from discontinued operations	(0.03)	0.18	1.23	0.25
Diluted income per share	$1.61	$0.65	$3.19	$1.46
Average number of common shares (thousands)				
Basic	133,916	202,036	172,682	201,775
Diluted	136,126	202,755	174,201	202,388

Dividends declared per common share	$0.15	$0.15	$0.45	$0.45

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

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CIT GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited) (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net Income	$219.6	$131.5	$556.2	$294.5
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	11.1	(2.2)	54.6	16.3
Net unrealized gains on available for sale securities	3.9	5.6	10.6	20.3
Changes in benefit plans net gain (loss) and prior service (cost)/credit	0.1	0.1	1.6	1.3
Other comprehensive income, net of tax	15.1	3.5	66.8	37.9
Comprehensive income	$234.7	$135.0	$623.0	$332.4

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

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CIT GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited) (dollars in millions)

	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Minority Interests	Total Equity
December 31, 2016 as reported	$—	$ 2.1	$8,765.8	$1,553.0	$ (140.1)	$(178.1)	$ 0.4	$10,003.1
Adoption of Accounting Standard Update 2016-09	—	—	1.0	(1.0)	—	—	—	—
December 31, 2016	—	2.1	8,766.8	1,552.0	(140.1)	(178.1)	0.4	10,003.1
Net income	—	—	—	556.2	—	—	—	556.2
Other comprehensive income, net of tax	—	—	—	—	66.8	—	—	66.8
Dividends paid	—	—	—	(82.4)	—	—	—	(82.4)
Issuance of preferred stock	325.0	—	(7.0)	—	—	—	—	318.0
Share repurchases	—	—	(9.6)	—	—	(3,416.5)	—	(3,426.1)
Amortization of restricted stock, stock option and performance shares expenses	—	—	34.8	—	—	(20.8)	—	14.0
Employee stock purchase plan	—	—	2.1	—	—	—	—	2.1
Distribution of earnings and capital	—	—	—	—	—	—	(0.4)	(0.4)
September 30, 2017	$325.0	$ 2.1	$8,787.1	$2,025.8	$ (73.3)	$(3,615.4)	$ —	$7,451.3
December 31, 2015	$—	$ 2.0	$8,718.1	$2,524.0	$ (142.1)	$(157.3)	$ 0.5	$10,945.2
Net income	—	—	—	294.5	—	—	—	294.5
Other comprehensive income, net of tax	—	—	—	—	37.9	—	—	37.9
Dividends paid	—	—	—	(92.2)	—	—	—	(92.2)
Amortization of restricted stock, stock option and performance shares expenses	—	—	38.2	—	—	(20.7)	—	17.5
Issuance of common stock — acquisition	—	0.1	—	—	—	—	—	0.1
Employee stock purchase plan	—	—	1.9	—	—	—	—	1.9
September 30, 2016	$—	$ 2.1	$8,758.2	$2,726.3	$ (104.2)	$(178.0)	$ 0.5	$11,204.9

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

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CIT GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (dollars in millions)

	Nine Months Ended September 30, 2017	2016
Cash Flows From Operations		
Net income	$556.2	$294.5
Adjustments to reconcile net income to net cash flows from operations:		
Provision for credit losses	84.2	173.6
Net depreciation, amortization and (accretion)	291.8	603.0
Net gains on asset sales and impairments on assets held for sale and other	(255.8)	(68.8)
Loss on debt extinguishment	256.6	—
Provision for deferred income taxes	0.6	136.4
Decrease in finance receivables held for sale	43.4	168.1
Goodwill and intangible assets - impairment	—	4.2
Net (payment) reimbursement of expense from FDIC	(4.6)	3.1
Decrease in other assets	145.7	52.2
(Decrease) increase in other liabilities	(729.4)	72.9
Net cash flows provided by operations	388.7	1,439.2
Cash Flows From Investing Activities		
Changes in loans, net	916.3	520.9
Purchases of investment securities	(4,447.7)	(3,347.3)
Proceeds from sales and maturities of investment securities	3,180.7	2,835.8
Proceeds from asset and receivable sales	795.5	1,094.9
Proceeds from sale of commercial air	10,026.0	—
Purchases of assets to be leased and other equipment	(660.2)	(1,420.2)
Net decrease in short-term factoring receivables	(308.8)	(288.1)
Purchases of restricted stock	(17.5)	—
Proceeds from redemption of restricted stock	9.1	9.8
Payments to the FDIC under loss share agreements	(0.2)	(2.2)
Proceeds from the FDIC under loss share agreements and participation agreements	56.5	83.9
Proceeds from sale of OREO, net of repurchases	82.7	103.3
Purchase of bank owned life insurance	(650.0)	—
Net change in restricted cash	662.8	(22.4)
Net cash flows provided by (used in) investing activities	9,645.2	(431.6)
Cash Flows From Financing Activities		
Proceeds from the issuance of term debt	18.1	10.1
Repayments of term debt and net settlements	(8,308.9)	(1,332.2)
Proceeds from FHLB advances	1,650.0	1,645.5
Repayments of FHLB debt	(915.4)	(2,324.9)
Net (decrease) increase in deposits	(2,707.3)	91.5
Collection of security deposits and maintenance funds	64.2	260.3
Use of security deposits and maintenance funds	(35.6)	(118.2)
Repurchase of common stock	(3,425.5)	—
Net proceeds from issuance of preferred stock	318.0	—
Dividends paid	(82.4)	(92.3)
Taxes paid through withholding of common stock under employee stock plans	(20.6)	(20.6)

Payments on affordable housing investment credits	(17.5)	(8.4)
Net cash flows used in financing activities	(13,462.9)	(1,889.2)
Effect of exchange rate changes on cash and cash equivalents	15.2	(2.3)
Decrease in unrestricted cash and cash equivalents	(3,413.8)	(883.9)
Unrestricted cash and cash equivalents, beginning of period	6,375.2	7,470.6
Unrestricted cash and cash equivalents, end of period	$2,961.4	$6,586.7
Supplementary Cash Flow Disclosure		
Interest paid	$(776.1)	$(915.9)
Federal, foreign, state and local income taxes (paid) refunded, net	$(38.0)	$49.9
Supplementary Non Cash Flow Disclosure		
Transfer of assets from held for investment to held for sale	$2,074.6	$2,020.5
Transfer of assets from held for sale to held for investment	$122.6	$91.0
Deposits on flight equipment purchases applied to acquisition of flight equipment purchases, and origination of finance leases, capitalized interest, and buyer furnished equipment	$91.2	$210.4
Transfers of assets from held for investment to OREO	$85.3	$71.6
Capital lease unexercised bargain purchase options	$17.5	$7.1
Unfunded payments on affordable housing investment credits committed during the period	$60.1	$—

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

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

NOTE 1 — BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CIT Group Inc., together with its subsidiaries (collectively “we”, “our”, “CIT” or the “Company”), has provided financial solutions to its clients since 1908. The Company provides financing, leasing and advisory services principally to middle market companies in a wide variety of industries primarily in North America. CIT is a bank holding company (“BHC”) and a financial holding company (“FHC”). Through its bank subsidiary, CIT Bank, N.A., doing business as OneWest Bank, CIT provides a full range of commercial and consumer banking and related services to customers through 70 branches located in Southern California and its online bank, bankoncit.com.

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. CIT Bank, N.A. is regulated by the Office of the Comptroller of the Currency of the U.S. Department of the Treasury (“OCC”).

BASIS OF PRESENTATION

Basis of Financial Information

These consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial information and accordingly do not include all information and note disclosures required by generally accepted accounting principles in the United States of America (“GAAP”) for complete financial statements. The financial statements in this Form 10-Q, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of CIT’s financial position, results of operations and cash flows in accordance with GAAP. These consolidated financial statements should be read in conjunction with our Form 10-K for the year ended December 31, 2016.
The accounting and financial reporting policies of CIT Group Inc. conform to GAAP and the preparation of the consolidated financial statements requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates and assumptions. Some of the more significant estimates include: allowance for loan losses, loan impairment, fair value determination, lease residual values, liabilities for uncertain tax positions, realizability of deferred tax assets, purchase accounting adjustments, indemnification assets, goodwill, intangible assets, and contingent liabilities, including amounts associated with the discontinued operation. Additionally where applicable, the policies conform to accounting and reporting guidelines prescribed by bank regulatory authorities.

Principles of Consolidation

The accompanying consolidated financial statements include financial information related to CIT Group Inc. and its majority-owned subsidiaries and those variable interest entities (“VIEs”) where the Company is the primary beneficiary. In preparing the consolidated financial statements, all significant inter-company accounts and transactions have been eliminated. Assets held in an agency or fiduciary capacity are not included in the consolidated financial statements. The current period’s results of operations do not necessarily indicate the results that may be expected for any other interim period or for the full year as a whole.

Discontinued Operations

Discontinued Operations as of September 30, 2017 and December 31, 2016 included certain assets and liabilities of the Financial Freedom business that was acquired as part of the OneWest Transaction and the Business Air business, while December 31, 2016 also included certain assets and liabilities of the Commercial Air business. Income from discontinued operations reflects the activities of the Aerospace (Commercial Air and Business Air) and Financial Freedom businesses for the quarters ended September 30, 2017 and 2016. We completed the sale of our Commercial Air business in April 2017.

On October 6, 2017, CIT announced that CIT Bank, N.A. has agreed to sell Financial Freedom, its reverse mortgage servicing business and the reverse mortgage portfolio serviced by Financial Freedom (the “Financial Freedom Transaction”). The Financial Freedom Transaction is expected to close in the second quarter of 2018 and is subject to certain regulatory and investor approvals and other customary closing conditions. See further discussions in Note 2 — Discontinued Operations and Note 17 - Subsequent Events.

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

Bank-Owned Life Insurance

During the third quarter of 2017, CIT Bank purchased life insurance policies on the lives of certain officers and employees and is the owner and beneficiary of the policies. CIT Bank purchased these policies, known as bank-owned life insurance ("BOLI"), to provide an efficient method to offset the cost of providing employee benefits. CIT Bank records these BOLI policies as a separate line item in the Consolidated Balance Sheets at each policy's respective cash surrender value, with changes recorded in other non-interest income in the Consolidated Statements of Income.

Revisions of Previously Issued Statements of Cash Flows

The Company has revised the Statement of Cash Flows for the nine months ended September 30, 2016 in connection with immaterial errors impacting the classification of certain balances between line items and categories as previously disclosed in its Form 10-K, Note 29 - Selected Quarterly Financial Data, for the year ended December 31, 2016, in addition to immaterial errors identified during 2017. The misclassifications resulted in an overstatement of net cash flows provided by operations of $62.8 million (which included an understatement of the 'increase in other assets' line item of $120.9 million and an understatement of the 'increase in accrued liabilities and payables' line item for the same amount for the prior year errors identified in 2017), an overstatement of net cash flows used in investing activities of $76.3 million, and an understatement of net cash flows used in financing activities of $4.8 million. The revision also resulted in a negative impact of $8.7 million disclosed as a separate line item within the Statement of Cash Flows reflecting the cumulative effect of exchange rate changes. The Company evaluated the impact of the errors and has concluded that individually and in the aggregate, the errors were not material to any previously issued financial statements.

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are included with the current Form 10-K for the year ended December 31, 2016. There were no material changes to these policies during the nine months ended September 30, 2017.

Newly Adopted Accounting Standards

The following pronouncements were issued by the Financial Accounting Standards Board ("FASB") and adopted by CIT as of January 1, 2017. Refer to Note 1 - Business and Summary of Significant Accounting Policies on Form 10-Q for the quarter ended March 31, 2017 for a detailed description of these pronouncements:

- Accounting Standards Update ("ASU") 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships.
- ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments.
- ASU 2016-07, Investments-Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.
- ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.
- ASU 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments - Equity Method and Joint Ventures (Topic 323).
- ASU 2017-04, Intangibles-Goodwill and Other (Topic 350).

Recent Accounting Pronouncements

The following accounting pronouncements were issued by the FASB but are not yet effective for CIT.

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

Standard	Summary of Guidance	Effect on CIT's Financial Statements
ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and subsequent related ASUs Issued May 2014, with Updates through May 2016	• Establishes the principles to apply in determining the amount and timing of revenue recognition. • The guidance specifies the accounting for certain costs related to revenue, and requires additional disclosures about the nature, amount, timing and uncertainty of revenues and related cash flows. • The core principle is that a company will recognize revenue when it transfers control of goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. • May be adopted using a full retrospective approach or a modified, cumulative effect approach (cumulative initial effect recognized at the date of adoption, with additional footnote disclosures).	• Effective for CIT as of January 1, 2018. • The review and analysis of CIT's individual revenue streams is substantially complete. "Interest Income" and "Rental Income on Operating Leases", CIT's two largest revenue items, are out of scope of the new guidance; as are many other revenues relating to financial assets and liabilities, including loans, leases, securities and derivatives. As such, the majority of our revenues will not be impacted; however, certain ancillary revenues and components of "Other income" are being assessed at a contractual level pursuant to the new standard. There are no material changes to the related accounting policies. • CIT does not anticipate a significant impact on our financial statements and disclosures. Disclosure enhancements are expected to be more qualitative in nature. • Our evaluations are not final and we continue to assess the impact of the Update on our revenue contracts. • CIT plans to adopt the standard using the modified retrospective method.
ASU 2016-02, Leases (Topic 842) Issued February 2016	• Lessees will need to recognize all leases longer than twelve months on the consolidated balance sheets as lease liabilities with corresponding right-of-use assets. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit thresholds. • Lessor accounting remains similar to the current model, but updated to align with certain changes to the lessee model (e.g., certain definitions, such as initial direct costs, have been updated) and the new	• Effective for CIT as of January 1, 2019. • CIT will need to determine the impact where it is both a lessee and a lessor: Lessor accounting: CIT is analyzing the impact of changes to the definition of 'initial direct costs' under the new guidance. The new standard has a narrower definition of initial direct costs, which will result in CIT recognizing increased upfront expenses offset by higher yield over the lease term. CIT is currently evaluating the bifurcation of certain non-lease components from lease revenue streams. If goods or services are determined to be a non-lease component and accounted for under ASC 606 or other applicable GAAP guidance, the income recognition may differ from current accounting. CIT expects that it will bifurcate certain maintenance components relating to our

revenue recognition standard. Lease classifications by lessors are similar, operating, direct financing, or sales-type.	railcar business.
• The ASU requires both quantitative and qualitative disclosures regarding key information about leasing arrangements. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. Early adoption is permitted.	Lessee accounting: CIT is continuing to evaluate the impact of the amended guidance on its Condensed Consolidated Financial Statements. CIT expects to recognize right-of-use assets and lease liabilities for substantially all of its operating lease commitments based on the present value of unpaid lease payments as of the date of adoption. • CIT management has assembled a project committee to assess the impact of this guidance. Initial scoping and assessment is complete and CIT is continuing to evaluate the impact on its financial statements and disclosures.

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

Standard	Summary of Guidance	Effect on CIT's Financial Statements
ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments Issued June 2016	• Introduces a forward-looking "expected loss" model (the "Current Expected Credit Losses" ("CECL") model) to estimate credit losses to cover the full remaining expected life of the portfolio upon adoption, rather than the incurred loss model under current U.S. GAAP, on certain types of financial instruments. • It eliminates existing guidance for purchase credit impaired ("PCI") loans, and requires recognition of an allowance for expected credit losses on financial assets purchased with more than insignificant credit deterioration since origination. • It amends existing impairment guidance for Available for Sale ("AFS") securities to incorporate an allowance, which will allow for reversals of impairment losses in the event that the credit of an issuer improves. • In addition, it expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses ("ALLL"). • Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted (modified-retrospective approach).	• Effective for CIT as of January 1, 2020. • While CIT is currently in the process of evaluating the impact of the amended guidance on its Condensed Consolidated Financial Statements, it currently expects the ALLL to increase upon adoption given that the allowance will be required to cover the full remaining expected life of the portfolio upon adoption, rather than the incurred loss model under current U.S. GAAP. The extent of this increase is still being evaluated and will depend on economic conditions and the composition of CIT's loan and lease portfolios at adoption date.
ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	• Includes amendments on recognition, measurement, presentation and disclosure of financial instruments. • Adds a new Topic (ASC 321, Investments - Equity Securities) to the FASB Accounting Standards	• Effective for CIT as of January 1, 2018. • CIT is currently evaluating the impact of this new guidance on the Consolidated Financial Statements. •

Issued June 2016	Codification, which provides guidance on accounting for equity investments. • The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of the Update. • Requires adoption by applying a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption.	CIT's implementation efforts include the identification of securities within the scope of the guidance and the related impact to accounting policies, presentation, and disclosures. • CIT does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

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

Standard	Summary of Guidance	Effect on CIT's Financial Statements
ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory Issued October 2016	• Requires that the Company recognize the tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, and any deferred tax asset that arises in the buyer's jurisdiction would also be recognized at the time of the transfer even though the pre-tax effects of the transaction are eliminated in consolidation. • The modified retrospective approach will be required for transition to the new guidance, with a cumulative-effect adjustment recorded in retained earnings as of the beginning of the period of adoption.	• Effective for CIT as of January 1, 2018. • CIT is currently evaluating the impact of this new guidance on the Consolidated Financial Statements.
ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments Issued August 2016	• Clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The new guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. • Requires retrospective application to all periods presented.	• Effective for CIT as of January 1, 2018. • CIT's evaluation of the ASU is substantially complete. CIT does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.
ASU 2016-18, Statement of Cash Flows (Topic 230):Restricted Cash Issued November 2016	• Requires that the Statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. • Requires adoption using a retrospective transition method for each period presented.	• Effective for CIT as of January 1, 2018. • CIT's evaluation of the ASU is substantially complete. CIT does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.
ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business Issued January 2017	• This guidance narrows the definition of a business. This standard provides guidance to assist entities with evaluating when a set of transferred assets and activities is a business. • This guidance must be applied prospectively to transactions occurring within the period of adoption.	• Effective for CIT as of January 1, 2018. • CIT is currently evaluating the impact of this ASU, but does not expect the adoption of this guidance to have a material

	• Early adoption is permitted. This guidance must be applied prospectively to transactions occurring within the period of adoption.	impact on its Consolidated Financial Statements.
ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) Issued February 2017	• This guidance clarifies the scope of accounting for derecognition or partial sale of nonfinancial assets to exclude all businesses and non-profit activities. • ASU 2017-05 also provides a definition for in substance nonfinancial assets and additional guidance on partial sales of nonfinancial assets.	• Effective for CIT as of January 1, 2018. • CIT will adopt this guidance in conjunction with the new revenue recognition guidance on a modified retrospective basis.

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

Standard	Summary of Guidance	Effect on CIT's Financial Statements
ASU 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost Issued March 2017	• Requires employers that present a measure of operating income in their statement of income to include only the service cost component of net periodic pension cost and net periodic postretirement benefit cost in operating expenses (together with other employee compensation costs). • The other components of net benefit cost, including amortization of prior service cost/credit, and settlement and curtailment effects, are to be included in non-operating expenses in a separate line item(s). • Stipulates that only the service cost component of net benefit cost is eligible for capitalization. • Early adoption is permitted. The amendments related to presentation of service cost and other components in the income statements must be applied retrospectively to all periods presented. The amendments related to the capitalization of the service cost component should be applied prospectively, on and after the date of adoption.	• Effective for CIT as of January 1, 2018. • CIT is currently evaluating the impact of this ASU on its financial statements and disclosures.
ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities Issued March 2017	• ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. • The new guidance applies to all entities that hold investments in callable debt securities for which the amortized cost basis exceeds the amount repayable by the issuer at the earliest call date (i.e., at a premium). • This guidance must be adopted on a modified retrospective basis through a cumulative-effect adjustment to retained earnings.	• Effective for CIT as of January 1, 2019. • CIT is currently evaluating the impact of this ASU on its financial statements and disclosures and does not intend to early adopt this standard.
ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting	• The amendments in this Update provide guidance about which changes to the terms or conditions of a	• Effective for CIT as of January 1,

Issued May 2017	share-based payment award require an entity to apply modification accounting. • This guidance must be adopted prospectively to an award modified on or after the adoption date.	2018. • CIT is evaluating the impact of this ASU on its financial statements and disclosures.

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

Standard	Summary of Guidance	Effect on CIT's Financial Statements
ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities Issued August 2017	• The purpose of this Update is to better align a company's financial reporting for hedging activities with the economic objectives of those activities and to simplify the application of the hedge accounting model. Among other things, ASU 2017-12: (a) expands the types of transactions eligible for hedge accounting; (b) eliminates the separate measurement and presentation of hedge ineffectiveness; (c) simplifies the requirements around the assessment of hedge effectiveness; (d) provides companies more time to finalize hedge documentation; and (e) enhances presentation and disclosure requirements. • Requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption.	• Effective for CIT as of January 1, 2019. • Early adoption is permitted in any interim or annual period; as a result CIT currently intends to adopt prior to the effective date. • While CIT continues to assess all potential impacts of the standard, preliminary assessment indicates that adoption may not have a material impact on its Consolidated Financial Statements.

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

NOTE 2 — DISCONTINUED OPERATIONS

Aerospace

As discussed in Note 2 — Acquisitions and Discontinued Operations in our Annual Report on Form 10-K for the year ended December 31, 2016, the activity associated with the Commercial Air and Business Air businesses were included in discontinued operations. The Commercial Air business was sold on April 4, 2017.

The following condensed financial information reflects the Business Air business as of September 30, 2017 and a combination of the Commercial Air and Business Air businesses as of December 31, 2016.
Condensed Balance Sheet — Aerospace (dollars in millions)

	September 30, 2017	December 31, 2016
Total cash and deposits	$ —	$759.0
Net Loans	198.9	1,047.7
Operating lease equipment, net	19.6	9,677.6
Goodwill	—	126.8
Other assets[1]	(3.2)	1,161.5
Assets of discontinued operations	$ 215.3	$12,772.6
Secured borrowings	$ —	$1,204.6
Other liabilities[2]	9.3	1,597.3
Liabilities of discontinued operations	$ 9.3	$2,801.9

(1) Amount includes deposits on commercial aerospace equipment of $1,013.7 million at December 31, 2016.

(2) Amount includes commercial aerospace maintenance reserves of $1,084.9 million and security deposits of $167.0 million at December 31, 2016.

Commercial Air was sold on April 4, 2017. The purchase price was $10.4 billion, and we recorded a pre-tax gain of $146 million, which is included in the Condensed Statement of Income below for the nine months ended September 30, 2017.
Condensed Statement of Income — Aerospace (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest income	$3.0	$17.7	$26.8	$49.5
Interest expense	(1.2)	(91.2)	(98.5)	(273.5)
Provision for credit losses	—	(1.0)	—	(15.7)
Rental income on operating leases	2.0	309.3	310.7	928.8
Other Income	—	(3.8)	13.4	16.7
Depreciation on operating lease equipment[1]	—	(112.3)	—	(339.4)
Maintenance and other operating lease expenses	—	(3.8)	(4.2)	(25.4)
Operating expenses[2]	(1.0)	(27.6)	(39.6)	(74.5)
Loss on debt extinguishment[3]	—	—	(39.0)	(1.6)

Income from discontinued operations before provision for income taxes	2.8	87.3	169.6	264.9
Provision for income taxes	(0.3)	(20.1)	(71.0)	(12.5)
Gain (loss) on sale of discontinued operations, net of taxes	(1.3)	—	118.6	—
Income from discontinued operations, net of taxes	$1.2	$67.2	$217.2	$252.4

(1) Depreciation on operating lease equipment is suspended when an operating lease asset is placed in Assets Held for Sale.

(2) Operating expenses include salaries and benefits and other operating expenses in the prior quarters. Operating expenses for the nine months ended September 30, 2017, included costs related to the commercial air separation initiative.

(3) The Company repaid approximately $1 billion of secured borrowings in the first quarter of 2017 within discontinued operations and recorded a loss of $39 million in relation to the extinguishment of those borrowings.

Condensed Statement of Cash Flows — Aerospace (dollars in millions)

	Nine Months Ended September 30,	
	2017	2016
Net cash flows provided by operations	$32.7	$726.9
Net cash flows provided by (used in) investing activities	10,783.4	(262.8)

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Reverse Mortgage Servicing

The Financial Freedom business, a division of CIT Bank that services reverse mortgage loans, was acquired in conjunction with the OneWest Transaction. Pursuant to ASC 205-20, the Financial Freedom business is reflected as discontinued operations. Assets include primarily Home Equity Conversion Mortgages (“HECMs”) and servicing advances. The liabilities include reverse mortgage servicing liabilities, which relates primarily to loans serviced for third party investors, secured borrowings and contingent liabilities. Continuing operations includes a separate portfolio of reverse mortgage loans of $862 million and other real estate owned assets of $25 million at September 30, 2017, which are recorded in the Consumer Banking segment (refer to Note 3-Loans) and are serviced by Financial Freedom. On October 6, 2017, CIT entered into a definitive agreement to sell the Financial Freedom business and the reverse mortgage loan portfolio serviced by Financial Freedom. The Financial Freedom Transaction is expected to close in the second quarter of 2018 and is subject to certain regulatory and investor approvals and other customary closing conditions. See Note 17 - Subsequent Events.

As a mortgage servicer of residential reverse mortgage loans, the Company is exposed to contingent liabilities for breaches of servicer obligations as set forth in industry regulations established by the Department of Housing and Urban Development (“HUD”) and the Federal Housing Administration (“FHA”) and in servicing agreements with the applicable counterparties, such as third party investors. Under these agreements, the servicer may be liable for failure to perform its servicing obligations, which could include fees imposed for failure to comply with foreclosure timeframe requirements established by servicing guides and agreements to which CIT is a party as the servicer of the loans. The Company had established reserves for contingent servicing-related liabilities associated with discontinued operations.

During the nine months ended September 30, 2017, the Company and the FDIC resolved the selling and servicing-related obligations for certain reverse mortgage loans with Fannie Mae. In connection with the settlement, the Company released the FDIC from its indemnification obligation to CIT with respect to the Fannie Mae serviced loans, which reduced the indemnification receivable by $77 million. As of September 30, 2017, the indemnification receivable from the FDIC was $29 million for covered servicing-related obligations related to reverse mortgage loans pursuant to the loss share agreement between CIT Bank and the FDIC related to the acquisition by OneWest Bank from the FDIC of certain assets of IndyMac Federal Bank FSB ("IndyMac") (the "IndyMac Transaction"). See the Company's Report on Form 10-K for the year ended December 31, 2016, Note 5 - Indemnification Assets, for further information.

During the nine months ended September 30, 2017, income from Financial Freedom was driven by a net release of the curtailment reserve of $111 million, partially offset by an increase of $40 million in other servicing-related reserves. In addition, during the nine months ended September 30, 2017, the Company entered into a settlement of approximately $89 million with the HUD OIG and Department of Justice to resolve servicing related claims, which was within the Company’s existing reserves. Further, the Company recognized a write-down of its servicing operations of $54 million, of which $50 million related to impairment of its mortgage servicing rights, included in Other liabilities below.

Condensed Balance Sheet — Financial Freedom (dollars in millions)

	September 30, 2017	December 31, 2016
Total cash and deposits, all of which is restricted	$ 6.5	$ 5.8
Net Loans[(1)]	299.2	374.0

Other assets[2]	41.0	68.3
Assets of discontinued operations	$ 346.7	$ 448.1
Secured borrowings[1]	$ 293.6	$ 366.4
Other liabilities[3]	260.8	569.4
Liabilities of discontinued operations	$ 554.4	$ 935.8

(1) Net loans include $292.7 million and $365.5 million of securitized balances at September 30, 2017 and December 31, 2016, respectively, and $6.5 million and $8.5 million of additional draws awaiting securitization respectively. Secured borrowings relate to those receivables.

(2) Amount includes servicing advances, servicer receivables and property and equipment, net of accumulated depreciation.

(3) Other liabilities include $165.2 million and $518.2 million of contingent liabilities, $79.5 million and $28.8 million of reverse mortgage servicing liabilities and $16.1 million and $22.3 million of other accrued liabilities at September 30, 2017 and December 31, 2016, respectively.

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

The results from discontinued operations for the quarters and nine months ended September 30, 2017 and 2016 are presented below.
Condensed Statement of Income — Financial Freedom (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest income[(1)]	$2.5	$2.8	$8.0	$8.8
Interest expense[(1)]	(2.3)	(2.5)	(7.2)	(8.2)
Other income (losses)[(2)]	5.7	(10.2)	(29.8)	7.3
Operating expenses[(3)]	(13.1)	(38.5)	23.8	(299.1)
Loss from discontinued operations before benefit for income taxes	(7.2)	(48.4)	(5.2)	(291.2)
Benefit for income taxes[(4)]	2.8	18.5	2.0	90.1
Loss from discontinued operation, net of taxes	$(4.4)	$(29.9)	$(3.2)	$(201.1)

(1) Includes amortization for the premium associated with the HECM loans and related secured borrowings.

(2) For the nine months ended September 30, 2017, other income included an impairment charge of approximately $50 million on the mortgage servicing rights. For the quarter and nine months ended September 30, 2016, other income included an impairment charge of approximately $19 million on the mortgage servicing rights.

(3) For the quarter and nine months ended September 30, 2017, operating expense is comprised of approximately $5 million and $14 million in salaries and benefits, $1 million and $9 million in professional and legal services, and $5 million and $9 million for other expenses such as data processing, premises and equipment, and miscellaneous charges. For the nine months ended September 30, 2017, operating expenses included a net release of the curtailment reserve of $111 million, partially offset by an increase of $40 million in other servicing-related reserves. For the quarter and nine months ended September 30, 2016, operating expense is comprised of approximately $5 million and $11 million in salaries and benefits, $7 million and $16 million in professional services and $3 million and $11 million for other expenses such as data processing, premises and equipment, legal settlement, and miscellaneous charges. In addition, in the nine months ended September 30, 2016, operating expenses included a net increase to the servicing-related reserve of approximately $230 million.

(4) For the quarter and nine months ended September 30, 2017, the Company's tax rate for discontinued operations was 39% and 38%, respectively. For the quarter and nine months ended September 30, 2016, the Company’s tax rate for discontinued operations was 38% and 31% respectively.

Condensed Statement of Cash Flows — Financial Freedom
Discontinued Operations (dollars in millions)

	Nine Months Ended September 30,	
	2017	2016
Net cash flows used for operations	$(33.8)	$(32.0)
Net cash flows provided by investing activities	84.3	69.8

CIT's Consolidated Statement of Cash Flows for the nine months ended September 30, 2017 included $102 million of activity within the decrease in other liabilities related to the Company's net release of servicing-related reserves partially offset by the impairment charge to the servicing liability, and $77 million of activity within the decrease in other assets related to the Company's release of the FDIC from its indemnification obligation to CIT with respect to the Fannie Mae serviced loans. For the nine months ended September 30, 2016, there was $230 million of activity within the increase in other liabilities related to the Company's net increase in servicing-related reserves.

Combined Results for Discontinued Operations

The following tables reflect the combined results of the discontinued operations. Details of the balances are discussed in prior tables.

Condensed Combined Balance Sheet Discontinued
Operations (dollars in millions)

	September 30, 2017	December 31, 2016
Total cash and deposits	$ 6.5	$764.8
Net Loans	498.1	1,421.7
Operating lease equipment, net	19.6	9,677.6
Goodwill	—	126.8
Other assets	37.8	1,229.8
Assets of discontinued operations	$ 562.0	$13,220.7
Secured borrowings	$ 293.6	$1,571.0
Other liabilities	270.1	2,166.7
Liabilities of discontinued operations	$ 563.7	$3,737.7

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

Condensed Combined Statement of Income Discontinued Operations (dollars in millions)

	Quarters Ended September 30, 2017	Quarters Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Interest income	$5.5	$20.5	$34.8	$58.3
Interest expense	(3.5)	(93.7)	(105.7)	(281.7)
Provision for credit losses	—	(1.0)	—	(15.7)
Rental income on operating leases	2.0	309.3	310.7	928.8
Other income (losses)	5.7	(14.0)	(16.4)	24.0
Depreciation on operating lease equipment	—	(112.3)	—	(339.4)
Maintenance and other operating lease expenses	—	(3.8)	(4.2)	(25.4)
Operating expenses	(14.1)	(66.1)	(15.8)	(373.6)
Loss on debt extinguishment	—	—	(39.0)	(1.6)
Income (loss) from discontinued operations before benefit (provision) for income taxes	(4.4)	38.9	164.4	(26.3)
Benefit (provision) for income taxes	2.5	(1.6)	(69.0)	77.6
Gain (loss) on sale of discontinued operations, net of taxes	(1.3)	—	118.6	—
Income (loss) from discontinued operations, net of taxes	$(3.2)	$37.3	$214.0	$51.3

Condensed Combined Statement of Cash Flows Discontinued
Operations (dollars in millions)

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Net cash flows (used for) provided by operations	$(1.1)	$694.9
Net cash flows provided by (used in) investing activities	10,867.6	(393.0)

NOTE 3 — LOANS

Loans, excluding those reflected as discontinued operations, consist of the following:
Loans by Product (dollars in millions)

	September 30, 2017	December 31, 2016
Commercial loans	$ 20,346.6	$ 20,117.8
Direct financing leases and leveraged leases	2,746.0	2,852.9
Total commercial	23,092.6	22,970.7
Consumer loans	5,412.7	6,565.2
Total loans	28,505.3	29,535.9
Loans held for sale[(1)]	1,056.6	635.8
Loans and held for sale loans[(1)]	$ 29,561.9	$ 30,171.7

(1) Loans held for sale includes loans primarily related to portfolios in Commercial Banking, Consumer Banking and the China portfolio in NSP. As discussed in subsequent tables, since the Company manages the credit risk and collections of loans held for sale consistently with its loans held for investment, the aggregate amount is presented in this table.

The following table presents loans, excluding loans held for sale, by segment, based on obligor location:
Loans (dollars in millions)

	September 30, 2017			December 31, 2016		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Commercial Banking	$20,778.5	$1,914.1	$22,692.6	$20,440.7	$2,121.6	$22,562.3
Consumer Banking[1]	5,812.7	—	5,812.7	6,973.6	—	6,973.6
Total	$26,591.2	$1,914.1	$28,505.3	$27,414.3	$2,121.6	$29,535.9

(1) The Consumer Banking segment includes certain commercial loans, primarily consisting of a portfolio of Small Business Administration (SBA) loans. These loans are excluded from the Consumer loan balance and included in the Commercial loan balances in the tables throughout this note.

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

The following table presents selected components of the net investment in loans:
Components of Net Investment in Loans (dollars in millions)

	September 30, 2017	December 31, 2016
Unearned income	$ (792.9)	$ (727.1)
Unamortized premiums / (discounts)	(4.1)	(31.0)
Accretable yield on Purchased Credit-Impaired ("PCI") loans	(1,116.9)	(1,261.4)
Net unamortized deferred costs and (fees)(1)	64.6	55.8

(1) Balance relates to the Commercial Banking segment.

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

Credit Quality Information

Commercial obligor risk ratings are reviewed on a regular basis by Credit Risk Management and are adjusted as necessary for updated information affecting the borrowers' ability to fulfill their obligations.

The following table summarizes commercial loans by the risk ratings that bank regulatory agencies utilize to classify credit exposure and which are consistent with indicators the Company monitors. The consumer loan risk profiles are different from commercial loans, and use loan-to-value ("LTV") ratios in rating the credit quality, and therefore are presented separately below.

Commercial Loans and Held for Sale Loans — Risk Rating by Class / Segment (dollars in millions)

Grade:	Pass	Special Mention	Classified-accruing	Classified-non-accrual	PCI Loans	Total
September 30, 2017						
Commercial Banking						
Commercial Finance	$7,696.3	$ 494.7	$ 1,000.5	$ 192.5	$ 12.4	$9,396.4
Real Estate Finance	5,205.0	137.0	165.8	2.8	53.4	5,564.0
Business Capital	7,129.3	305.0	251.1	45.2	—	7,730.6
Rail	101.0	1.5	2.0	—	—	104.5
Total Commercial Banking	20,131.6	938.2	1,419.4	240.5	65.8	22,795.5
Consumer Banking						
Other Consumer Banking	373.4	4.6	19.7	—	2.3	400.0
Total Consumer Banking	373.4	4.6	19.7	—	2.3	400.0
Non- Strategic Portfolios	55.1	16.6	11.3	4.8	—	87.8
Total	$20,560.1	$ 959.4	$ 1,450.4	$ 245.3	$ 68.1	$23,283.3
December 31, 2016						
Commercial Banking						
Commercial Finance	$8,184.7	$ 677.6	$ 1,181.7	$ 188.8	$ 42.7	$10,275.5

Real Estate Finance	5,191.4	168.7	115.6	20.4	70.5	5,566.6
Business Capital	6,238.7	422.0	271.7	41.7	—	6,974.1
Rail	88.7	14.1	0.9	—	—	103.7
Total Commercial Banking	19,703.5	1,282.4	1,569.9			