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## **DBRS Upgrades CIT Group to BBB (low), Trend Now Stable**

**Industry: Fin.Svc.--Banks & Trusts, Fin.Svc.--Non-Bank Financials**

DBRS, Inc. (DBRS) upgraded the ratings of CIT Group Inc. (CIT or the Company), including the Company's Long-Term Issuer Rating to BBB (low) from BB (high). DBRS also upgraded the ratings of its primary banking subsidiary, CIT Bank, N.A. (the Bank) to BBB from BBB (low). The trend on all ratings is now Stable. The Intrinsic Assessment (IA) for the Bank is BBB, while its Support Assessment remains SA1. The Company's Support Assessment is SA3 and its Long-Term Issuer Rating is positioned one notch below the Bank's IA.

### **KEY RATING CONSIDERATIONS**

The ratings upgrade reflects CIT's success in implementing strategic initiatives, including refocusing on core businesses, improving operating efficiency and funding costs, and optimizing its capital structure. These initiatives have delivered sound new business volumes and good underlying returns. The ratings are supported by CIT's well-established commercial lending franchise to the U.S. middle market and small businesses. The Company's sound balance sheet is underpinned by a strong and disciplined risk management function, well-managed liquidity, and an improving funding profile that is significantly more deposit oriented.

While recognizing the progress CIT has made in its transformation plan, the ratings also consider CIT's above peer cost of funds and lower than peer returns. The ratings also consider the Company's lending to middle market companies and small businesses, which is inherently riskier than lending to large corporates, while also noting CIT's long track record and expertise in this space.

### **RATING DRIVERS**

A sustainable improvement in earnings and returns could result in upward ratings pressure. Continued progress in expanding the contribution of funding from deposits, while expanding its overall relationship with deposit customers to improve the stickiness of the deposit base, would also be viewed favorably.

Conversely, a prolonged deterioration in operating results, especially if driven by excessive risk taking or weakness in risk management could result in negative ratings pressure. Further, sustained material deposit outflows could also lead to negative ratings pressure.

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## RATING RATIONALE

CIT's well-established commercial lending franchise is a key factor in the ratings. With a history of lending to U.S. middle market companies and small businesses for more than 100 years, CIT has a well-developed brand and deep customer relationships that are supported by the Company's broad product offering and wide range of services. DBRS sees these strengths, as well as the Company's national lending footprint, as anchoring the Company's strong competitive position. Origination volumes in CIT's core business (excluding factoring) were a strong \$12.2 billion in 2018, up 28% year-over-year (YoY). Strong volumes indicate that the investments being made by CIT to broaden the Company's product and services offerings, and deepen relationships are flowing through to the business.

CIT's earnings generation is improving. While returns still lag the U.S. regional bank peer group, the gap is closing. The Company's actions to improve profitability, including improving the deposit mix and costs, driving top line revenue growth, cost reduction actions, and the return of excess capital, are positively impacting the bottom line and profitability metrics. In 2018, CIT reported net income before preferred dividends of \$447 million, down slightly YoY, reflecting various one-time items including the sale of the European rail business and the reverse mortgage business in 2018. When looking at underlying results, the YoY comparison is skewed by higher margin, non-core businesses being included in 2017 that were subsequently sold, including the commercial air business. The Company met its cost reduction target in 2018, contributing to efficiency gains. CIT reported a net efficiency ratio of 54.6% in 2018, in line with its target of mid-50% range by the end of 2018. The recent ratings upgrade reflects the progress the Company has made in improving earnings, and DBRS will continue to assess CIT's ability to sustain this momentum. DBRS sees underlying trends in earnings as benefiting from solid new business volumes, higher interest rates, and further progress in developing the deposit base.

While lending to middle market companies and small businesses is inherently riskier than lending to large corporates, CIT's deep expertise in lending into this market along with a robust risk management function, well-articulated risk appetite and sound servicing capabilities are illustrated in the strong asset performance. Non-accruals and net charge-offs remain near cyclically low levels reflecting the still favorable operating conditions for U.S. companies. At year-end 2018, non-accrual loans remained at historically low levels at just 0.92% of total loans. Provisioning also remains in line with expectations, with reserve growth related to new business volumes. Net charge-offs of \$115 million in 2018 remain at relatively low levels.

CIT's funding and liquidity profile is good. Wholesale funding reliance is being reduced with more assets being moved to the Bank and funded via deposits. About 83% of total assets are funded within

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CIT Bank. The Company's funding profile has notably transformed post-crisis, with deposit growth the major driver of the transformation. Deposit funding reached 79% of total funding at the end of 2018, up from 77% a year earlier, and a notable increase from just 12% in 2010. Long-term debt maturities are well-laddered at the Bank Holding Company with modest maturities over the coming years, and no near-term senior debt maturities. Also, in 2018, CIT significantly reduced its secured borrowing and structured debt, further unencumbering its balance sheet.

CIT continues to maintain sound levels of capital. CIT is currently targeting a common equity tier 1 (CET1) ratio at the upper end of the 10%-11% range by 2019, subject to regulatory approval. This range is in line with U.S. regional bank peers. At the end of 2018, CIT reported a fully phased-in CET1 ratio of 12.0%. The Company's tangible common equity/tangible assets ratio was solid at 10.7% at the end of 2018.

Concurrent with the rating action, DBRS confirmed the BBB (low) rating of the Revolving Credit Facility (the Facility), which is now equalized to the Company's Issuer Rating. Prior to this action, the Facility was rated one notch above the issuer rating reflecting DBRS's view that while the facility is unsecured, recovery, in the case of default, would be greater than 80%. This view on the recovery reflects the upstream guarantee in place from eight operating subsidiaries of CIT for the benefit of the Facility. The ratings of the Facility and the Issuer have converged at the same level as the Issuer Rating has strengthened. Based on DBRS policy, the notching up from the Issuer Rating based on the recovery analysis described above is limited on the Facility to BBB (low).

The Grid Summary Scores for CIT are as follows: Franchise Strength – Good/Moderate; Earnings Power – Moderate; Risk Profile – Good/Moderate; Funding & Liquidity – Good/Moderate; Capitalisation – Good/Moderate.

#### Notes:

All figures are in U.S. dollars unless otherwise noted.

The applicable methodology is Global Methodology for Rating Banks and Banking Organisations (July 2018), which can be found on our website under Methodologies.

The primary sources of information used for this rating include company documents and SNL Financial. DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS

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had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
CIT Group Inc.	Long-Term Issuer Rating	Upgraded	BBB (low)	Stb	Apr 12, 2019
CIT Group Inc.	Long-Term Senior Debt	Upgraded	BBB (low)	Stb	Apr 12, 2019
CIT Group Inc.	Short-Term Issuer Rating	Upgraded	R-2 (low)	Stb	Apr 12, 2019
CIT Group Inc.	Short-Term Instruments	Upgraded	R-2 (low)	Stb	Apr 12, 2019
CIT Group Inc.	Subordinated Debt	Upgraded	BB (high)	Stb	Apr 12, 2019
CIT Group Inc.	Preferred Stock	Upgraded	BB (low)	Stb	Apr 12, 2019
CIT Group Inc.	Revolving Credit Facility	Confirmed	BBB (low)	Stb	Apr 12, 2019
CIT Bank, N.A.	Long-Term Issuer Rating	Upgraded	BBB	Stb	Apr 12, 2019
CIT Bank, N.A.	Long-Term Senior Debt	Upgraded	BBB	Stb	Apr 12, 2019
CIT Bank, N.A.	Long-Term Deposits	Upgraded	BBB	Stb	Apr 12, 2019
CIT Bank, N.A.	Short-Term Issuer Rating	Upgraded	R-2 (high)	Stb	Apr 12, 2019
CIT Bank, N.A.	Short-Term Instruments	Upgraded	R-2 (high)	Stb	Apr 12, 2019

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