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DBRS Confirms CIT Group at BBB (low) Following Acquisition Announcement

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

DBRS, Inc. (DBRS) confirmed the ratings of CIT Group Inc. (CIT or the Company), including the Company's Long-Term Issuer Rating of BBB (low). The trend on all ratings remains Stable. The ratings action follows CIT's acquisition announcement of Mutual of Omaha Bank (Mutual) for a purchase price of \$1 billion. The deal is expected to close in 1Q20, subject to regulatory and shareholder approvals.

KEY RATING CONSIDERATIONS

The confirmation of CIT's ratings reflects DBRS's view that the acquisition makes strategic sense and should further accelerate the Company's strategic plan. Specifically, the transaction will improve CIT's funding profile by adding close to \$7 billion of low-cost, relationship-driven deposits to the Company's \$35 billion deposit base. Mutual is a leading provider of services to community associations and property management companies, which attracts highly sticky homeowner association (HOA) deposits. Additionally, Mutual's commercial banking franchise serving middle-market clients in attractive locations complements CIT's well-established commercial lending franchise and its business expansion strategy.

While DBRS recognizes the integration risk associated with the acquisition, these concerns are mitigated by the significant advantages brought by the transaction if executed successfully. The Company's pro-forma lower cost of deposits should benefit the bottom line, potentially bringing returns more in line with U.S. regional bank peers. Furthermore, while the transaction will be financed via a combination of cash, common stock and debt issuance, DBRS expects the Company's balance sheet to remain sound. CIT expects its common equity tier 1 (CET1) ratio to decline to 10% at closing, and then plans to build capital through suspended share repurchases and retained earnings to reach 10.5% within a year.

RATING DRIVERS

If CIT is successful in integrating Mutual and delivering on transaction assumptions, resulting in a sustainable improvement in CIT's overall earnings and returns, the ratings could be upgraded. Conversely, a failure to sustain the Company's profitability and credit metrics, or if the merger integration is poorly executed, there could be negative ratings implications.

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RATING RATIONALE

CIT's well-established commercial lending franchise is a key factor in its 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. The acquisition of Mutual will include \$8.3 billion of total assets, or 16% of CIT's total assets. DBRS sees Mutual's commercial banking business as providing a strong complement to CIT's existing franchise with financial centers that supplement CIT's presence. Mutual's \$3.9 billion commercial loan portfolio is highly diversified by loan type and geography with a low loss history.

CIT's earnings generation has lagged peers, though it is closing the gap with improving returns. A lower cost deposit base should contribute further to an improving bottom line. Mutual's returns are solid with a return on average assets (ROAA) of 1.1% and a return on tangible common equity (ROTCE) of 12.8% over the last 12 months. This compares to an ROAA of 1.1% and an ROTCE of 10.3% for CIT in 2Q19. If expected cost synergies are achieved, the Company estimates that ROTCE will improve by 80 basis points (bps) by the end of 2020 and increase by more than 100 bps by the end of 2021.

CIT's acquisition of Mutual will add \$6.8 billion in deposits, of which \$4.5 billion are HOA deposits from more than 31,000 community associations nationwide. A further \$2.3 billion of deposits are sourced from Mutual's 26 commercial and consumer financial centers in key markets. DBRS sees these relationship-based deposits as enhancing CIT's funding profile and providing a platform for growth. Furthermore, the low cost of these deposits is expected to reduce pro-forma deposit costs by 20 bps.

CIT continues to maintain sound levels of capital. CIT reported a CET1 ratio of 11.6% as of 2Q19. While the Company is expecting its CET1 ratio to decline to 10% upon closing the transaction, CIT has agreed with regulators to suspend share repurchases and build capital through retained earnings to reach a 10.5% CET1 ratio within 12 months. This range is in line with U.S. regional bank peers.

Notes:

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

The applicable methodology is Global Methodology for Rating Banks and Banking Organisations (June 2019), which can be found on our website under Methodologies.

The primary sources of information used for this rating include company documents and S&P Global

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

For more information on this credit or on this industry, visit www.dbrs.com.

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
CIT Group Inc.	Long-Term Issuer Rating	Confirmed	BBB (low)	Stb	Aug 13, 2019
CIT Group Inc.	Long-Term Senior Debt	Confirmed	BBB (low)	Stb	Aug 13, 2019
CIT Group Inc.	Short-Term Issuer Rating	Confirmed	R-2 (low)	Stb	Aug 13, 2019
CIT Group Inc.	Short-Term Instruments	Confirmed	R-2 (low)	Stb	Aug 13, 2019
CIT Group Inc.	Subordinated Debt	Confirmed	BB (high)	Stb	Aug 13, 2019
CIT Group Inc.	Preferred Stock	Confirmed	BB (low)	Stb	Aug 13, 2019
CIT Group Inc.	Revolving Credit Facility	Confirmed	BBB (low)	Stb	Aug 13, 2019
CIT Bank, N.A.	Long-Term Issuer Rating	Confirmed	BBB	Stb	Aug 13, 2019
CIT Bank, N.A.	Long-Term Senior Debt	Confirmed	BBB	Stb	Aug 13, 2019
CIT Bank, N.A.	Long-Term Deposits	Confirmed	BBB	Stb	Aug 13, 2019
CIT Bank, N.A.	Short-Term Issuer Rating	Confirmed	R-2 (high)	Stb	Aug 13, 2019
CIT Bank, N.A.	Short-Term Instruments	Confirmed	R-2 (high)	Stb	Aug 13, 2019

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