

Bulletin:

CIT Group To Deploy Capital In Acquisition Of Mutual Of Omaha Bank, Adding To Its Deposit Funding And Banking Business

August 14, 2019

NEW YORK (S&P Global Ratings) Aug. 14, 2019--S&P Global Ratings said today that its ratings on CIT Group Inc. (BB+/Stable/B) are unchanged following its announcement that its banking subsidiary, CIT Bank N.A. (BBB-/Stable/--) will acquire Mutual of Omaha Bank (unrated), adding \$8.3 billion of total assets and \$6.8 billion in deposits. Although CIT's capital adequacy will be somewhat reduced as a result of this transaction, we believe its funding profile and profitability could benefit in the long-run. We believe Mutual of Omaha Bank's commercial banking business complements CIT's commercial franchise by boosting exposure in new and overlapping markets. We note the target portfolio has had relatively good credit performance in line with the industry, with reported net charge-offs of 8 basis points on an annualized basis in the second quarter. Our ratings on CIT are unchanged and reflect our expectation that CIT will maintain a level of risk-adjusted capitalization commensurate with our current assessment, despite the temporary decline associated with the transaction. We also expect that CIT will continue to report low net charge-offs amid currently benign economic conditions, although net charge-offs may rise somewhat above those of more traditional bank peers over the next few years.

The \$6.8 billion of acquired deposits include \$4.5 billion of long-duration homeowners association (HOA) deposits with the opportunity to grow in this segment. CIT expects its deposit costs to improve by approximately 20 basis points upon closing. By adding a new relatively low-cost deposit HOA channel, we believe CIT will temper its reliance on online deposits, which are targeted to decline on a pro forma basis to 45% of deposits from 54% currently.

We view Mutual of Omaha bank's loan portfolio as complementary to CIT's commercial banking business. The \$6.1 billion Mutual of Omaha loan portfolio is comprised of 35% commercial real estate, 26% correspondent 1-4 family, 20% commercial & industrial, 10% homeowners association, and 9% other consumer. Over time, CIT intends to replace the correspondent mortgage loans, which had been held to satisfy qualified thrift lender status, with higher yielding commercial loans. Mutual of Omaha Bank's 26 commercial centers and retail branches complement its existing commercial lending business and supplement CIT's market presence.

The transaction will somewhat weaken CIT's capital position, although we expect its S&P Global Ratings risk-adjusted capital ratio will remain at the lower end of our "strong" category over the longer term. CIT expects its common equity tier one (CET1) ratio to decline to about 10.0% at closing from 11.6% as of June 30, 2019. Positively, CIT expects its CET1 ratio to improve to 10.5%

PRIMARY CREDIT ANALYST

Matthew T Carroll, CFA
New York
(1) 212-438-3112
matthew.carroll
@spglobal.com

SECONDARY CONTACT

Rian M Pressman, CFA
New York
(1) 212-438-2574
rian.pressman
@spglobal.com

within a year of closing through retained earnings. (Management has suspended share repurchases until its CET1 ratio returns to that level.) Also, CIT plans to issue \$200 million of preferred stock, which is eligible to receive intermediate equity credit under our hybrid capital methodology, thus further bolstering its RAC ratio. We therefore expect that its RAC ratio (11.4% as of Dec. 31, 2018), will generally follow a similar trajectory as CIT's regulatory capital ratios.

The \$1 billion purchase price will be comprised primarily of cash and up to \$150 million of CIT common stock, with the transaction expected to close in the first quarter of 2020. CIT plans to finance the acquisition with approximately \$550 million of senior unsecured debt, \$200 million of preferred stock, \$100 million of subordinated debt, and up to \$150 million of common stock.

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