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Fitch Rtgs: CIT's Positive Outlook Unchanged on Mutual of Omaha Bank Acquisition

Fitch Ratings-New York-16 August 2019: CIT Group Inc.'s (CIT) Positive Outlook remains unchanged following the announcement that CIT intends to acquire Mutual of Omaha Bank, according to Fitch Ratings. The transaction makes strategic sense and is expected to diversify CIT's funding profile while lowering the company's funding costs, which Fitch considers a relative weakness compared with higher-rated banks. The transaction is expected to close in the first quarter of 2020.

CIT expects that its deposit costs will benefit by approximately 20 bps immediately following the close of the transaction, largely due to the $4.5 billion in homeowners' association (HOA) deposits that it expects to gain from the transaction at a cost of 63 bps. Overall, the transaction is expected to add $6.8 billion in deposits, which is expected to diversify CIT's deposit mix away from its online deposit platform that pays higher interest rates. Online deposits are expected to comprise 45% of total deposits up the close of the transaction, down from 54% at second-quarter 2019.

Fitch previously affirmed CIT's Issuer Default Rating (IDR) at 'BB+' and revised its Rating Outlook to Positive in November of 2018. The Positive Outlook was predicated on Fitch's view that CIT has made notable progress against its objective of refocusing on national commercial lending and transitioning its funding profile to be more bank-like, which is further supported by this transaction.

Fitch highlighted CIT's funding profile as a relative weakness, and indicated that an upgrade would be contingent upon contained funding costs in its November press release. Although CIT's HOA deposit growth targets are ambitious, growth in this new deposit channel would help reduce funding costs. While Fitch noted management of capital ratios above peer medians as a rating sensitivity and CIT's proforma CET1 capital ratio is expected to fall to the lower end of its 10%-11% CET1 target range, Fitch expects that CIT's CET1 capital ratio will rebuild to 10.5% within a year. Fitch views the enhanced internal capital generation capacity stemming from lower funding costs as an offset to the reduction in capital ratios.

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