FitchRatings

Fitch Affirms CIT Group Inc.'s Long-Term IDR at 'BB+'; Outlook Revised to Positive

Fitch Ratings-New York-20 November 2018: Fitch Ratings has affirmed the 'BB+' Long-Term Issuer Default Ratings (IDRs) and 'B' Short-Term IDRs for CIT Group Inc. (CIT) and CIT Bank, N.A. (CIT Bank). The Rating Outlook has been revised to Positive from Stable. A full list of ratings follows at the end of this release.

KEY RATING DRIVERS

IDRs, VRs, Senior Unsecured Debt and Revolving Credit Facility

Today's rating affirmations reflect the company's strong franchise position in middle market lending, equipment and real estate finance, rail leasing, and factoring. The rating also considers CIT's improving earnings, strong capital levels, and solid execution on selling non-core assets and reducing wholesale funding reliance.

The Positive Outlook reflects 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. Fitch believes that strategic actions taken by CIT, including completing the sale of Financial Freedom (the reverse mortgage servicing business), the reverse mortgage loan portfolio, and NACCO (the European rail leasing business), and related balance sheet actions should likely result in more consistent operating performance going forward.

CIT's ratings remain constrained by the company's higher risk appetite and limited company profile relative to higher-rated institutions. CIT's risk appetite is characterized by its exposure to middle market companies, historically a higher risk customer segment, and heightened asset risk associated with cyclical businesses such as railcar leasing and commercial real estate (CRE) lending.

Asset quality has been appropriate relative to current ratings, although asset quality metrics continue to lag higher-rated banks. CIT's non-performing asset ratio, including accruing troubled debt restructures, and net charge-offs of 2.2% and 40 basis points (bps), respectively, at 3Q18 year-to-date were above the medians in Fitch's mid-tier regional bank and large regional bank peer groups. Fitch considers the predominately secured nature of CIT's loan portfolio as offsets to the company's relatively weaker asset quality measures. Fitch does not expect material asset quality worsening for U.S. banks in 2019, but rather a gradual normalization back to long-run historical measures of nonperforming assets and credit costs.

Although CIT's capital ratios have come down meaningfully over the past year through increased dividends and share buybacks, capital ratios compare favourably to similarly sized Fitch-rated banks. Incorporated into the Positive Outlook is the expectation that capital ratios will be managed above peer medians over time due to the company's higher risk appetite. CIT's CET 1 capital ratio was 12.4% at

3Q18 and is expected to continue to converge towards the upper end of the company's 10% to 11% target range over the Outlook horizon. Fitch views these targets as adequate in the context of CIT's balance sheet risk and sound risk management framework. Fitch views the Federal Reserve's non-objections to CIT's 2017 Capital Plan and subsequent amendment to the plan positively, although CIT is no longer subject to CCAR.

CIT's ratings have historically been constrained by the heightened level of earnings volatility stemming from the volume of one-time charges relating to the company's strategic refocus. Incorporated into the Positive Outlook is the expectation that earnings volatility will moderate going forward.

Fitch expects that earnings measures, such as ROA and ROE, will remain below higher-rated mid-tier and large regional banks due to the company's relatively higher cost of funds and competitive pressures across CIT's major businesses. CIT's net finance margin (NFM), excluding noteworthy items, has decreased moderately to 3.36% in 3Q18 from 3.46% in 3Q17 as lower purchase accounting accretion, headwinds from the rail leasing business and higher funding costs were only partially offset by higher yields from deploying cash into securities. Fitch believes that the NFM may face headwinds due to increased competition for deposits in its online banking platform, which are typically more rate sensitive and less sticky than other core deposits, as many large U.S. banks are experimenting with the online bank model.

Fitch believes CIT's funding profile is weaker relative to higher-rated banks; however, there has been notable improvement in the company's funding profile. CIT's deposit mix contains a larger portion of time deposits and lacks a sizeable base of non-interest bearing deposits than higher-rated banks, resulting in a higher cost of funds. Deposits made up 78% of total funding at 3Q18, up from 67% at 4Q15, and brokered deposits now comprise approximately 9% of total deposits from 18% at 4Q15. Additionally, CIT has executed a number of actions over the past year including refinancing near-term debt maturities, which has resulted in a more laddered maturity profile, and terminating the total return swap associated with the sale of the European rail leasing business, which Fitch views positively.

Since the OneWest Bank acquisition in August 2015, CIT has focused on building long-term deposit relationships with customers that are not highly rate sensitive. Much of the deposit growth has come from CIT's online banking platform, which now makes up 47% of total deposits. At the same time, deposits from the branch bank (37% of total deposits) have remained relatively stable while commercial deposits (6% of total deposits) have declined. Fitch's opinion of CIT's commercial deposits is limited by the relatively weak credit quality and the constrained liquidity profiles of CIT's middle market customers.

SUPPORT RATING AND SUPPORT RATING FLOOR

The Support Ratings of '5' reflect Fitch's view that external support cannot be relied upon. The Support Rating Floors of 'No Floor' reflect Fitch's view that there is no reasonable assumption that CIT will receive sovereign support.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

CIT's subordinated debt rating is one notch below CIT's VR for loss severity. CIT's preferred stock is rated four notches lower than CIT's VR; two times for loss severity and two times for non-performance. These ratings accord with Fitch's criteria and assessment of the instruments non-performance and loss severity risk profiles and have thus been affirmed due to the affirmation of the VR.

LONG- AND SHORT-TERM DEPOSIT RATINGS

CIT Bank's uninsured deposit ratings are rated one notch higher than the bank's IDR and senior unsecured debt because U.S. uninsured deposits benefit from depositor preference. Fitch believes depositor preference in the U.S. gives deposit liabilities superior recovery prospects in the event of default.

HOLDING COMPANY

CIT's VR is equalized with that of CIT Bank, reflecting its role as the financial holding company, which is mandated in the U.S. to act as a source of strength for its bank subsidiaries. The ratings are also equalized, reflecting the very close correlation between holding company and subsidiary failure and default probabilities. Fitch's analysis of CIT's holding company liquidity incorporates availability under the holding company's credit lines with other banks.,

RATING SENSITIVITIES

IDRs, VRs, Senior Unsecured Debt and Revolving Credit Facility

The Outlook revision to Positive from Stable reflects Fitch's view that there is more upside to CIT's ratings than downside over the outlook horizon. Fitch expects to resolve the outlook toward the later end of the outlook horizon.

CIT's ratings could be upgraded if operating performance, measured by ROA and core net finance margin, stabilize at or near current levels over the outlook horizon. A ratings upgrade will also be contingent on CIT's ability to retain online deposit customers in a cost-effective manner in a rising rate environment amid increasing competition.

A positive rating action would also depend on management of capital ratios above the medians for the mid-tier and large regional peer groups. Furthermore, a positive rating action would also be contingent upon not significantly increasing wholesale funding usage from current levels. Demonstrated credit performance in line with expectations could also contribute to positive rating momentum over the longer term.

The Outlook could be revised back to Stable from Positive if earnings volatility remains materially elevated relative to higher rated banks. Additionally, the Outlook could be revised back to Stable should CIT experience funding cost pressures well in excess of peer banks, resulting in operating performance deteriorating meaningfully from current levels.

Expansion into new business verticals outside CIT's core commercial lending and leasing expertise or outsized growth in new commercial businesses, though not expected by Fitch, could result in negative rating pressure. Unsuccessful management of regulatory requirements would also be viewed negatively.

SUPPORT RATING AND SUPPORT RATING FLOOR

CIT's Support Rating and Support Rating Floor are sensitive to Fitch's assumptions around CIT's capacity to procure extraordinary support in case of need.

CIT Bank's uninsured deposit ratings are rated one notch higher than the company's IDR, and therefore are sensitive to any changes in CIT Bank's IDR. The deposit ratings are primarily sensitive to any change in CIT Bank's Long- and Short-term IDRs.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

CIT's subordinated debt rating is sensitive to any change in CIT's VR.

CIT's preferred stock rating is primarily sensitive to downward changes in CIT's VR. An upward change in CIT's VR would not necessarily lead to a change in the preferred stock rating, as downward notching for preferred stock increases to five from four for issuers with VRs of 'bbb-' and higher.

LONG- AND SHORT-TERM DEPOSIT RATINGS

CIT Bank's uninsured deposit ratings are rated one notch higher than the company's IDR, and therefore are sensitive to any changes in CIT Bank's IDR. The deposit ratings are primarily sensitive to any change in CIT Bank's Long- and Short-term IDRs.

HOLDING COMPANY

While not currently expected, if CIT became undercapitalized or management increases the level of double leverage significantly, Fitch could potentially notch the holding company IDR and VR from the CIT Bank's rating. Additionally, the holding company's IDR and VR could be notched off of CIT Bank should the holding company experience financial stress arising from business activities, such as railcar leasing or factoring, conducted out of the holding company that are distinct from CIT Bank.

As noted above, Fitch considers CIT's credit lines when looking at holding company liquidity. Should CIT lose access to this credit facility that is not offset with on-balance sheet liquidity, Fitch could notch the holding company's IDR down from CIT Bank. Additionally, upward rating momentum at the holding company could be constrained should bank credit lines comprise a significant portion of its contingency funding plan, which would be considered unique for an institution of CIT's size.

Fitch has affirmed the following ratings and revised the Outlook to Positive from Stable:

CIT Group Inc.
--Long-term IDR at 'BB+';
--Short-term IDR at 'B';
--Viability Rating at 'bb+';
--Senior Unsecured Debt at 'BB+';
--Revolving Credit Facility at 'BB+';
--Subordinated debt at 'BB';
--Preferred stock at 'B';
--Support Rating at '5';
--Support Rating Floor at 'NF'.

CIT Bank, N.A.
--Long-term IDR at 'BB+';
--Short-term IDR at 'B';
--Viability Rating at 'bb+';
--Long-Term Deposit Rating at 'BBB-';
--Short-Term Deposit Rating at 'F3';
--Support Rating at '5';
--Support Rating Floor at 'NF'.

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Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018) (https://www.fitchratings.com/site/re/10044408)

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