

19 Nov 2019 | Upgrade

## Correction: Fitch Upgrades CIT Group Inc. to 'BBB-'; Outlook Revised to Stable

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Fitch Ratings-New York-19 November 2019:

This is a correction of a press release published on Nov. 12, 2019. It includes CIT's Support Rating and Support Floor Rating, which were omitted from the rating table in the original release.

Fitch Ratings has upgraded CIT Group Inc.'s (CIT) and CIT Bank, N.A.'s (CIT Bank) Long-Term Issuer Default Ratings (IDRs) and to 'BBB-' from 'BB+'. The Viability Ratings (VRs) for both entities were also upgraded to 'bbb-' from 'bb+'. The Rating Outlook has been revised to Stable from Positive. A full list of ratings follows at the end of this release.

The upgrade reflects CIT's stabilized operating performance and strong execution against its objective of refocusing on national commercial lending and transitioning its funding profile to be more bank-like. The upgrade also reflects Fitch's view that the Mutual of Omaha Bank (MOH) acquisition will benefit and diversify CIT's funding profile while lowering the company's funding costs. Prior to today's upgrade, CIT's Rating Outlook was Positive since November 2018.

CIT Bank, N.A.; Long Term Issuer Default Rating; Upgrade; BBB-; RO:Sta  
 ; Short Term Issuer Default Rating; Upgrade; F3  
 ; Viability Rating; Upgrade; bbb-  
 ; Support Rating; Affirmed; 5  
 ; Support Rating Floor; Affirmed; NF  
 ----long-term deposits; Long Term Rating; Upgrade; BBB  
 ----senior unsecured; Long Term Rating; Upgrade; BBB-  
 ----subordinated; Long Term Rating; Upgrade; BB+  
 ----short-term deposits; Short Term Rating; Affirmed; F3  
 CIT Group Inc.; Long Term Issuer Default Rating; Upgrade; BBB-; RO:Sta  
 ; Short Term Issuer Default Rating; Upgrade; F3  
 ; Viability Rating; Upgrade; bbb-  
 ; Support Rating; Affirmed; 5  
 ; Support Rating Floor; Affirmed; NF  
 ----senior unsecured; Long Term Rating; Upgrade; BBB-

---preferred; Long Term Rating; Affirmed; B  
---subordinated; Long Term Rating; Upgrade; BB+

## Key Rating Drivers

### IDRs, VRs, Senior Unsecured Debt and Revolving Credit Facility

CIT's ratings reflect its solid franchise position in middle market lending, equipment and real estate finance, rail leasing, and factoring, evidenced by good market positions in its core businesses. Offsetting this strength is the company's funding profile, albeit improved, which Fitch considers weaker relative to higher-rated banks as it relies on relatively higher-cost deposits.

Today's action and CIT's rating consider its strong execution on multiple strategic actions that have reduced expected earnings volatility going forward. Over the last few years management has sold its reverse mortgage portfolio and servicing business, its reverse mortgage loan portfolio, and its European rail leasing business. Fitch believes the MOH acquisition, which is expected to close in 1Q20, has sound strategic rationale and should result in an improved funding profile while lowering the company's funding costs. CIT expects deposit costs to fall by approximately 20 bps immediately following the close of the transaction, a credit positive. This is largely due to the meaningfully sized, low-cost homeowners' association (HOA) deposit portfolio that CIT expects to gain.

These actions, along with related balance sheet actions have already resulted in more consistent operating performance, which supporting today's upgrade. Still, Fitch expects that earnings measures, such as ROA and ROE, will remain below higher-rated 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, decreased significantly to 3.06% in 3Q19 from 3.36% in 3Q18 largely due to higher funding costs that were only partially offset by reductions in the cost of other borrowings. As mentioned previously, Fitch expects that the lower-cost deposits from the MOH acquisition should help offset some of the costs of its' online deposit platform. This expectation is incorporated into today's action and the Stable Outlook.

Fitch continues to consider CIT's funding profile to be weaker relative to higher-rated banks as it lacks a sizable portion of noninterest bearing deposits and mostly consists of high yield online deposits. There has been notable improvement in the company's funding profile over the last several years evidenced by core deposits becoming a greater portion of overall funding, which should continue to improve with the MOH acquisition. Moreover, while CIT's HOA deposit growth targets are ambitious, growth in this new deposit channel could help reduce overall funding costs. Fitch also expects the reduction in reliance on online deposits to be incrementally positive to the

bank's funding costs and funding profile.

CIT's capital ratios have come down meaningfully over the past couple of years through increased dividends and share buybacks. However, this trend has accompanied reductions in balance sheet risk through the sale of non-core businesses. Fitch expects capital levels to temporarily fall to the low end of its 10% to 11% CET1 target range immediately following the MOH acquisition. While creditor negative, Fitch also views the enhanced internal capital generation capacity stemming from lower funding costs and likely more consistent operating performance as adequate offsets to the reduction in capital ratios. Fitch expects that CIT will manage its capital ratios back towards the middle of its target range over time, which is considered adequate in the context of CIT's balance sheet risk and sound risk management framework.

Asset quality is in line with the current ratings, although asset quality metrics continue to lag higher-rated banks. CIT's non-performing asset ratio, including accruing troubled debt restructures, of 1.9% at 2Q19 remains above the medians in Fitch's mid-tier regional bank and large regional bank peer groups. However, net charge-offs of 41 basis points (bps) through the first half of the year, were roughly in line. Fitch considers the predominately secured nature of CIT's loan portfolio as a mitigant to the company's relatively weaker asset quality measures. Fitch does not expect material asset quality worsening for U.S. banks in 2020 but rather a gradual normalization back to long-run historical measures of nonperforming assets and credit costs.

CIT's ratings remain constrained over the longer term 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 lower credit quality middle market companies, historically a higher risk customer segment, and heightened asset risk associated with cyclical businesses such as railcar leasing, commercial real estate (CRE) and construction lending.

#### 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 and CIT Bank's subordinated debt ratings are one notch below the respective entities' VRs for loss severity. With today's upgrade, the notching on CIT's preferred stock is five levels below its VR, two times for loss severity and three times for non-performance. These ratings are in accordance with Fitch's criteria and assessment of the instruments non-performance and loss severity risk profiles and have thus been upgraded due to the upgrade of the VR.

## LONG- AND SHORT-TERM DEPOSIT RATINGS

CIT Bank's long-term deposits are rated one notch higher than the bank's IDR and senior unsecured debt because U.S. uninsured deposits benefit from depositor preference. U.S. depositor preference 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

With today's upgrade, Fitch considers CIT's ratings to be comfortably situated over the near to medium term.

Negative rating pressure could arise if CIT's core earnings performance deteriorates or if earnings volatility increases significantly from current levels (notwithstanding one-time charges from the MOH acquisition). Conversely, positive rating pressure could develop over the long term should CIT's operating performance, measured by ROA and core net finance margin, converge with higher rated mid-tier and large regional bank peers. This would likely be contingent upon decreasing its usage of online and brokered deposits over time. Positive momentum could also result from profitable growth in fee revenue that results in a more diversified revenue mix over time.

Negative rating pressure could develop should CIT consistently manage its capital ratios towards the bottom end of its target range that is not offset by stronger internal capital generation and/or a reduced risk appetite. Fitch expects that CIT will manage its capital ratios above the median for the large regional peer group over time. Although CIT's capital ratios are 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 following the MOH acquisition.

While not expected, CIT's ratings could come under pressure should CIT experience challenges with integrating the MOH acquisition such that the expected benefits to CIT's funding costs and sustained, improved operating performance do not come to fruition.

Expansion into new business verticals outside CIT's core commercial lending and leasing expertise or outsized growth in new commercial businesses could result in negative rating pressure.

#### 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 and CIT Bank's subordinated debt ratings are sensitive to any change in the respective entities' VRs.

CIT's preferred stock rating is primarily sensitive to upward changes in CIT's VR. A downward change in CIT's VR would not necessarily lead to a change in the preferred stock rating, as downward notching for preferred stock decreases to four from five for issuers with VRs of 'bb+' and lower.

#### LONG- AND SHORT-TERM DEPOSIT RATINGS

CIT Bank's long-term deposit rating is primarily sensitive to changes in the company's IDR. An upgrade of CIT Bank's long-term deposit rating would result in an upgrade of CIT Bank's short-term IDR; however a downgrade of CIT Bank's long-term deposit rating would not necessarily result in a downgrade of the company's short-term deposit rating.

#### 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 these credit facilities 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.

## ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3, which indicates ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

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## **Applicable Criteria**

[Bank Rating Criteria \(pub. 12 Oct 2018\)](#)

[Short-Term Ratings Criteria \(pub. 02 May 2019\)](#)

## **Additional Disclosures**

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