CIT Group, Inc.

Q1 2017 Earnings Conference Call

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CORPORATE PARTICIPANTS

Barbara Callahan – *Head of Investor Relations*

Ellen Alemany – *Chairwoman, and Chief Executive Officer*

Carol Hayles – *Chief Financial Officer*

Rob Rowe – *Chief Risk Officer*

PRESENTATION

Operator
Good morning, and welcome to CIT's First Quarter 2017 Earnings Conference Call. My name is Anita, and I will be your operator today.

Operator Instructions

I would now like to turn the conference over to Miss Barbara Callahan, Head of Investor Relations. Please proceed, ma'am.

Barbara Callahan
Great thank you, Anita. Good morning, and welcome to CIT's First Quarter 2017 Earnings Conference Call. Our call today with be hosted by Ellen Alemany, Chairwoman, and CEO; and Carol Hayles, our CFO. After Ellen and Carol's prepared remarks, we will have a question and answer session. Also, joining us for the Q&A discussion is our Chief Risk Officer, Rob Rowe.

As a courtesy to others on the call, we ask that you limit yourself to one question and a follow up, and then return to the call queue if you have additional questions. We will do our best to answer as many questions as possible in the time we have this morning.

Elements of this call are forward-looking in nature and may involve risks, uncertainties, and contingencies that may cause actual results to differ materially from those anticipated. Any forward-looking statements relate only to the time and date of this call. We disclaim any duty to update these statements based on new information, future events, or otherwise. For information about risk factors relating to the business, please refer to our 2016 Form 10-K. Any references to non-GAAP financial measures are meant to provide meaningful insights and are reconciled with GAAP in our press release. Also, as part of the call this morning, we will be referencing a presentation that is available in the Investor Relations section of our website at www.cit.com.

Now, I'll turn the call over to Ellen Alemany.

Ellen Alemany
Thank you, Barbara. Good morning, everyone, and thank you for joining our call. I'm pleased to report that we are off to a solid start for 2017.

First, let me touch on the significant progress that was made on our strategic plan. We completed the sale of the Commercial Air business for $10.4 billion, and we immediately put those proceeds to work by initiating $5.8 billion in liability management actions. These efforts support the bank model we have been building, and when reflecting these actions, approximately 85% of our assets will be in the bank, and nearly 80% of our funding will be deposits.

Our organization simplification plan continued to gain traction. We have achieved about 40% of the expense goal thus far, up from about 33% at year-end. We remain on track to reduce operating expenses by $150 million in 2018.

We submitted our capital plan, which is subject to the CCAR quantitative assessment in the second quarter. This is our first time going through that process. Like other banks our size, we will also be going through a horizontal capital review in the third quarter which covers the qualitative aspects of our plan. As a reminder, we already have approval to return about $3 billion in capital to shareholders, and we expect to provide detail on the plan to return this capital in the coming days.

Turning to performance in the quarter, we posted net income of $180 million and income excluding noteworthy items of $163 million. Our operating trends were stable, and we remain focused on our strategic plan and improving returns.

The Commercial Finance business is nearing the completion of its strategic repositioning and has been laying the groundwork to take more lead positions and deals and create opportunities with clients to do more business with us across our product suite. In the first quarter, we had lead positions in 40% of new business and capital market fees continued to be strong. The Real Estate Finance core portfolio grew by 2.5% in the first quarter, and we continue to expect overall asset growth to be relatively flat this year as new business offsets the runoff in the legacy portfolio.

Railcar utilization is holding at about 94%, but as anticipated, yields are under pressure, and declining. We remain confident in our ability to manage the portfolio, and the service we provide to clients, as well as the quality of our fleet are key differentiators in the market.

Our Business Capital division experienced solid growth with Factoring volumes up 16% from the year ago quarter driven mainly by growth in the tech sector. Equipment Finance continued to see opportunities to gain share as a result of the disruption in this space. The approach we take with our business clients is centered on service and delivering solutions that help them be successful. We think this will continue to be a recipe that wins us more business over time.

For example, CIT was just recognized by our client, Konica Minolta, for receiving the highest net promoter score and best customer satisfaction performance among all of its leasing providers. Achieving this kind of relationship with our business clients is something we hold in high regard, and its evidence of the solutions-oriented approach we bring.

Our small business digital platform, Direct Capital, continued to make strides in delivering a highly efficient digital lending experience for small business owners, backed by the stability of their deposit funding. Direct Capital is also gaining traction with major technology companies as a way for them to offer online financing options for small businesses to purchase tech products.

On the Consumer Banking front, we continue to grow our retail deposit base while also making progress in shifting our product mix and driving more efficiency in deposit costs despite a rising rate environment. The Direct bank continued to gain traction and acquired 2,000 new customers and increased high-yield savings accounts by approximately $375 million, which is about 10% since last quarter as we work towards balancing our product mix beyond CDs.

Overall, we are encouraged by the progress we have made to date and know there is still more to do. We remain committed to our plan and delivering on our operational targets, and intend to achieve our ROTCE goal of 10% towards the end of 2018, subject to the regulatory approvals needed to normalize our capital levels.

With that, I will turn it over to Carol for a more detailed account of results.

Carol Hayles
Thank you Ellen, and good morning, everyone. Turning to our results on slide 3, net income in the first quarter was $180 million which consisted of income from continuing operations of $78 million, and $102 million from discontinued operations. Our Commercial and Consumer Banking segments each reported stable operating results, and there were a few noteworthy items related to our strategic

initiatives that impacted other segments as well as discontinued operations.

Turning to slide 5, excluding noteworthy items, income from continuing operations was $109 million or $0.54 per share. The improvement from $57 million adjusted earnings in the year-ago quarter was predominately the result of lower credit costs as we built reserves related to the energy and maritime sectors last year and, to a lesser extent, a reduction in operating expenses. Return on assets, excluding noteworthy items, was 94 basis points, up from the year-ago quarter reflecting the improvement in income and lower asset levels.

Turning to slide 7, financing and leasing assets increased slightly over the prior quarter primarily driven by an increase in Factoring receivables, which was partially offset by lower assets in Commercial Finance and continued runoff in legacy Consumer Mortgages and Non-strategic Portfolios.

Turning to slide 8, net finance margin remained relatively steady at 3.57% which was slightly above our target range. There was a decline in purchase accounting accretion this quarter after several quarters of elevated levels due to prepayments; however, this reduction was offset by lower interest expense mostly related to the pay down of higher cost debt including the Canadian TRS. Net finance margin, excluding the effects of purchase accounting accretion, increased 15 basis points from the prior quarter to 3.1%.

The remaining accretable mark is $1.1 billion of which $150 million relates to the commercial businesses, and about half of which is expected to be realized in the next year. However, prepayments will result in some variability from quarter to quarter. The remaining $950 million relates to consumer, and it's running off at a rate consistent with the runoff of the underlying mortgages.

Given we received the proceeds from the Commercial Air sale on April 4th, but will not complete our liability management actions until early May, net finance margin in the second quarter will reflect the negative carry of approximately $20 million to $25 million on the excess cash.

Turning to slide 10, our credit metric continued to reflect the favorable credit environment, and we are seeing no substantive changes in credit trends. The provision for credit losses in the quarter was $50 million, or 43 basis points of AEA within the target range. The increase from $37 million in the prior quarter was primarily driven by a specific reserve on a single retail account in our Factoring business. Net charge-offs also remained low in the quarter at $28 million or 37 basis points of average finance receivables.

As we already noted, the credit provision was higher in the year-ago quarter, 75 basis points of AEA reflecting the establishment of incremental reserves for energy and maritime loans. Including the effect of the principal loss discount on acquired loans, the allowance for loan losses on our Commercial portfolio was 197 basis points, unchanged from last quarter.

Turning to slide 11, fee revenues and Factoring income remained steady compared to the prior and year-ago quarters. Although Factoring volume increased significantly compared to the year-ago quarter, commissions were flat as the benefit from the higher volume was offset by lower commission rates. Other income in the first quarter included an $8 million charge from a currency translation adjustment in our non-strategic portfolio related to the timing of closing of legal entities in Europe.

Turning to operating expenses on slide 12, excluding intangible amortization, and restructuring charges, operating expenses were $291 million. Compensation costs, while seasonally higher, were 9% lower than last year, and professional fees remained elevated. However, these items were more than offset by the timing of technology expenditures.

As Ellen mentioned, we continue to make progress towards the operating expense goals through organizational streamlining, technology and operations improvement, and third-party initiatives. We have achieved approximately 40% of the $150 million target, and the benefits related to the restructuring charge we took in the first quarter should further contribute to our progress against the target.

The income tax provision was $56 million which included $14 million in deferred tax expense related to the restructuring of legal entities in preparation for the Commercial Air sale. Excluding discrete items, the effective tax rate was 33% for the quarter, slightly lower than our expectations for the year. The effective tax rate excluding discrete items in the year-ago quarter was 53% as a result of dividends from foreign subsidiaries that negatively impacted the rate.

Moving to funding, total deposits remained steady at $32.3 billion. The weighted average rate increased 2 basis points from the prior quarter-end to 121 basis points, as the impact of higher interest rates was mostly offset by a shift from higher cost broker deposits, and longer term of CDs, to lower cost non-maturity deposits.

We continue to grow our liquidity investment portfolio. While the level of investment securities reported at the end of the first quarter was flat to year-end, growth in the Bank was offset by the liquidation of securities at the holding company in order to repay some secured debt in advance of the Commercial Air sale. The yield on new investment securities was 2.8% bringing the yield on the portfolio to approximately 2.1% with a duration of around three and a half years.

Earlier this month, we announced actions to reduce our unsecured debt by a total of $5.8 billion which will significantly improve our debt maturity profile as our next meaningful maturity is not until 2019. After the debt repayment, deposits will constitute nearly 80% of total funding compared to 69% at the end of the first quarter.

We submitted our capital plan earlier this month, the result of which will become public by the end of June. This was our first submission subject to the quantitative review. Therefore, consistent with other first-time filers, our proposed actions for the four quarters beginning Q3 2017 provide for a payout ratio below 100%. The plan defers to 2018 cycle any capital return designed to bring our ratios closer to our targets, all, of course, subject to regulatory approval.

Turning to our business segments on slide 13, Commercial Banking reported pre-tax income of $156 million and a pre-tax ROA of 2.1% reflecting lower net finance revenue and higher credit costs partially offset by lower operating expenses compared to the prior quarter. Within Commercial Banking commercial finance assets decreased 3% sequentially to $10 billion.

We continued to execute on our portfolio management strategies to improve risk-adjusted returns. However, new business volume in the quarter was negatively impacted by a lower level of market activity and was not sufficient to offset pre-payments in asset sales. Portfolio yields declined 38 basis points sequentially driven by lower purchase accounting accretion and prepayment benefits, which masked the impact of higher LIBOR rates.

Rail assets remain steady at $7.2 billion and utilization also remained unchanged at 94%. Net finance margin increased as a result of lower interest expense but rental rates continued to decline as average lease renewal rates re-priced down 20% to 30% in many cases from historical highs. We expect this rate to fluctuate depending upon the number and type of cars renewing, and while there are signs of stabilization in certain car types, for instance sand cars, demand for energy-related tank cars remains weak. Given current market conditions we expect to see continued deterioration in portfolio yield through 2017 and average renewal rates to continue to re-price down in the same 20% to 30% range.

Real Estate finance assets of $5.7 billion increased 2% sequentially reflecting growth in our core asset partially offset by runoff of the legacy portfolio. Portfolio yields decreased 34 basis points as a benefit from higher rates was mitigated by lower purchase accounting accretion and pre-payment benefit, as well as the runoff of the higher yielding legacy portfolio.

In Business Capital, total assets increased 7% to $7.9 billion driven by our Factoring business. Portfolio yields and margin increased in the quarter primarily due to an interest recovery on a non-accrual loan.

Turning to slide 14, Consumer Banking generated pre-tax income of $18 million and a pre-tax ROA of 1%. Financing and leasing assets of $6.9 billion declined 2% reflecting the expected runoff in legacy consumer mortgages and lower new business volume. Net finance margin decreased from the prior quarter on lower purchase accounting accretion.

Discontinued operations results include income of $111 million from Commercial Air and Business Air which included several noteworthy items that aggregated to $48 million, and a loss on Financial Freedom of $9 million. We have updated the estimated financial impact of the Commercial Air sale on slide 15, and expect the remaining impact of the transaction to be recorded in the second quarter. Of these amounts the gain on sale, net of other settlement items and certain of the transaction costs will be recognized in discontinued operations and approximately $185 million, largely related to our liability management action, will be recognized in continuing operations.

As you can see on the slide, the aggregate reduction on tangible book value is expected to be lower than the original estimate provided in October, predominately as a result of lower estimated taxes.

With that, I'll turn the call back to Ellen for some closing remarks.

Ellen Alemany
Thanks, Carol. To sum it up we're pleased with the progress thus far in our plan and we have our sights set on continued momentum. We remain focused on continuing to grow our core operations in Commercial Banking and broadening our relationships with existing clients across the specialty verticals to deliver more products and services, leveraging our digital platforms in Consumer Banking and Small Business Lending which are scalable, on trend with how customers want to interact, addressing the remaining strategic opportunities to simplify the company such as the goal of exiting the Financial Freedom Reverse Mortgage servicing business, continuing to make progress on our expense targets, reducing our funding costs and growing our deposits with greater efficiency, maintaining strong capital and risk management processes and returning capital to shareholders.

I know there may be questions around our capital actions. We expect to share those plans in the coming days once we are past the black-out period. We will not be answering questions with respect to the capital return on this call.

Before I turn it back to Barbara, I want to extend my thanks to Carol and all she has helped us to accomplish during this transformational period. As we have previously said, Carol will be departing CIT in early May, at which point, John Fawcett will assume the role of CFO. Carol has been a true driving force at CIT for the last seven years and on behalf of the entire team I want to say thank you.

With that, let me turn it back to Barbara for Q&A.

Barbara Callahan
Thanks, Ellen. And, actually, I'll turn it back over to Anita to start the Q&A session.

QUESTIONS AND ANSWERS

Operator
Operator Instructions

Our first question comes from Mark DeVries with Barclays. Please go ahead.

Mark DeVries
Thank you. I just wanted to ask about what's implied in the timing of the target for 2018 of the 10% ROE on slide 16. Because, by our calculation just using the $3 billion to $3.3 billion of capital returns you're going to do related to the air leasing sale, it would appear to get to the 10% to 11% CET1 target you'd need to have an incremental $1 billion to $1.3 billion of capital returns. I think you indicated that you're only going to do about 100% payout for the next CCAR year.

Can you just talk about what that implies in the back half of 2018 in terms of incremental capital returns and/or asset growth?

Carol Hayles
I think, really, what we're saying is that we're deferring the right-sizing of the capital stack, as you pointed out, to the second half of 2018. It wasn't part of this period request for a variety of reasons. We are a first-time quantitative filer and taking that into consideration and experience of other first-time filers, the board decided that that was the prudent approach. So, it is the back half of 2018 that we would look to right-size the capital stack.

Mark DeVries
Okay. Does that number sound ballpark that it would take, absent robust loan growth, somewhere between an incremental $1 billion to $1.3 billion to get to that ratio in the back half of 2018?

Carol Hayles
Based on the information today, that's kind of in the range.

Mark DeVries
Okay. Thank you.

Operator
Our next question comes from Arren Cyganovich with D.A. Davidson. Please go ahead.

Arren Cyganovich
Thanks. I guess in terms of following up on that question, 10% ROTCE, you could also achieve that from looking at other asset purchases or other M&A type of portfolio purchases. Are you at all considering that aspect of achieving your right-size capital or are you purely focused on capital return?

Ellen Alemany
Hi, Arren, this is Ellen. I'll take that question. We are actively looking for portfolio purchase opportunities in the franchise. I would say that our strategy to get to the 10% return on tangible common equity really has five components to it. One is we're looking at opportunities to grow, optimize, and cross-sell all of our businesses in the company which would include opportunities for

portfolio purchases. Secondly, it's through the expense reduction which we said on the call, we think we're about 40% there through the expense reduction. The third would be, really, returning the excess capital subject to regulatory approvals. The fourth is around reducing our funding costs through really growing and reducing the cost of our deposits, repaying debt. And then lastly, additional revenue from our investment book. So, that's simply our plan and any one of these combinations is going to get us there.

Arren Cyganovich
Got it, that's helpful. Thank you. In terms of the expense savings target of $150 million, I believe there was $25 million that was related to Air, will that drop off immediately after this quarter, and then, also, maybe just the overall expected pace of decline in expenses. And, I guess—sorry to add too many questions, but the press release indicated additional investment or the timing or investments, so it sounded almost as though the expenses were a bit lower than expected in 1Q '17 as well.

Ellen Alemany
When we initially set our expense targets, we had said early last year that we would take out roughly 130 from the discontinued businesses and then 125 from the core businesses. After the Air transaction we had, really, 25 left in stranded costs that we move, then, on top of the 125 to make it a 150 target. And, on the 150 target we're 40% of the way there.

We had some additional investments for CCAR and what we, in the first quarter, we had some technology spend that we didn't spend in the first quarter, so we just wanted to signal that we may be spending more on technology later on in the year.

Carol Hayles
I think with respect to the question on Air, those costs actually will run off over the next year or so. We do have a transition services agreement, so certain of the people, and platforms, and everything, we need to retain to be able to maintain the work there.

Arren Cyganovich
Okay. Thank you very much.

Operator
Our next question comes from Moshe Orenbuch with Credit Suisse. Please go ahead.

Moshe Orenbuch
Great. I just wanted to get a little clarity on the outlook for net finance income as we go forward, I mean, you had the benefit in Rail this quarter that helped offset the lower yields, but you have that lower yield and then you have purchase accounting, and then at the same time you're doing things to optimize liability costs. Excluding what you had mentioned as a one-time impact in Q2, how do you see the trend over the next couple of quarters in finance income?

Carol Hayles
As you indicate there are several factors that are influencing our net finance margin. As I talked about, we have the purchase accounting accretions which is running off, and I tried to give you a little bit of color about the timing of that this quarter, and we have the headwinds in Rail on the yield there. But, the benefits of the yield curve, and LIBOR, and ongoing benefits from the deposit cost mix, I think will offset that. And then, we have our—the range that we've put out there, and we've been above that high end of the range but we're still expecting in the near term to be towards the high end of the range.

Moshe Orenbuch
As a little bit of a follow-up, any thoughts on the Factoring business? In retail you had mentioned a single account. Are there issues that could drive other accounts in there or is it something that you're kind of confident—how should we think about that?

Rob Rowe
Moshe, it's Rob. There's always a few accounts in the retail space that we're working. And, as you know, this is 60 to 90-day paper so either we're trying to work it down if it's a substandard exposure or we're getting some form of protection. In this particular case we had been working it down, we just didn't get all the way down. There are always a few accounts, though, so I don't want to ever say never again, because there are a few accounts in the retail space that we're actively watching and actively managing.

Moshe Orenbuch
Thanks very much.

Operator
Our next question comes from Ken Zerbe with Morgan Stanley. Please go ahead.

Ken Zerbe
Great. Thanks. I just wanted to dive a little bit deeper in terms of the loan yields on slide 8. If I'm reading this right it looks like it was down about 22 basis points sequentially. I get that lower PAA which hit at, I guess 15 and lower pre-pays, but it still doesn't, I guess, quite explain the full drop and I'm just thinking, also comparing it to other banks where we've seen a fair bit of margin expansion, I'm just trying to reconcile the two. Thanks.

Carol Hayles
I'm just looking at the page that you're talking about, Ken. I guess it's down 20 basis points sequentially and, as we said, a significant amount of that is the purchase accounting accretion and there was a pre-payment benefit on top of that last quarter. So, underneath that we have the benefits coming in from our investment securities portfolio and LIBOR but there is a bit of a shift in mix as well. I think I'm going to actually ask you to spend a bit of time with the IR team because there are some pre-payments in the prior quarter. There are quite a few ups and downs and I think it would be easier if you could just speak to IR after the call.

Ken Zerbe
Not a problem at all. Maybe a separate question. Just in terms of the Rail yields, is there anything that you guys can do to help stem the tide of the downward pressure there and, I guess, very broadly speaking, how committed are you guys to maintaining a presence in Rail over the long-term?

Carol Hayles
I'll take the first and then I'll let Ellen answer the second. I think the key thing we've been focused on with Rail is maintaining utilization. We've seen some of the car types come back in demand, but especially tank cars, there's quite a bit of over capacity so that's going to continue to pressure rates. The key thing is to keep the cars moving so you don't add to the issue by incurring storage costs and other things like that. I think that is something the team has been very good at, but it is something they're going to have to continue to work.

Ellen Alemany
Ken, one is I just want to welcome you, by the way. But, in terms of Rail, we're still very committed to our Rail business. We're at a point now where 40% of the assets are in the bank, we have a relatively

young fleet, we have really deep customer relationships, and excellent customer service, and we have a really experienced management team that has been doing a great job navigating this cycle. Unlike Air, the order book doesn't attract a significant amount of regulatory capital, and also there's a unique DTL situation here where a sale would reduce regulatory capital.

That being said, though, we did say last year that our primary goal here is to reduce the concentration of Rail assets and we are committed, we're still continuing to explore alternatives to help us reduce our exposure to Rail assets.

Rob Rowe
Ken, it's Rob. The other thing, it is a cyclical business, as you know, and what you do in that situation is you tend to go shorter on the leases so the energy-related assets we would go a little bit shorter because we're starting to see the rig count pickup and as that picks up that will help the sand cars, and then to the extent, oil prices, as we've discussed before, if they can get to $60 a barrel then the Bakken will start having growth in its production and that will start the process of the tank cars being more in demand. So, you go shorter in this situation than you would do typically.

Ken Zerbe
Alright, great. I appreciate it. Thank you.

Operator
Our next question comes from Eric Wasserstrom with Guggenheim Securities. Please go ahead.

Eric Wasserstrom
Thanks very much. I just want to maybe follow-on to some of the questions that have been asked, just thinking about the earnings power from the go-forward business mix. In the period it was about $109 million and given some of the—I'm just trying to understand the puts and takes. It sounds like on the upside it's going to be the benefits from the cost base and although it looks like the go-forward tax rate might be a little bit higher, but as I look at the 2018 consensus, that number looks to run about around $120 million to $125 million on a run rate basis quarterly, and I just want to get the sense from you of whether that bridge from the current level to that run rate level is a reasonable one.

Carol Hayles
I think that's pretty consistent with what the walk said last year and I think were still think that's a reasonable track. You're right, the majority of our improvement that we said before was coming from the operating expense targets. There are revenue initiatives, as Ellen described, across the franchise, but I think otherwise it's still a fairly consistent story.

Eric Wasserstrom
Great, thanks, very much.

Operator
Our next question comes from David Ho with Deutsche Bank. Please go ahead.

David Ho
Hi. Good morning. I just wanted to talk about the asset growth trajectory. I know you highlighted a mid-single-digits on the core basis, I just wanted to see, gauge, your timing on when you can return to that growth and an update on the pipeline and what you're seeing in the market on core commercial.

Ellen Alemany
Sure, David, this is Ellen. We really had a lackluster quarter in Commercial Finance for the first quarter,

but, I do believe that we're through our strategic repositioning over the past year where we've reduced our leverage lending book, we've reduced some of our energy exposure. We're really focused around the growth in, really, seven core industry groups in Commercial Finance.

The focus now is really on leading deals as opposed to participating in deals. We're focused on risk-adjusted returns and we're focused on selling other products to our customers. We've made tremendous progress getting deposits from our commercial customers, it's up about 34% from first quarter last year, and we are also through rationalizing the OneWest and CIT sales forces against this customer base. So, we're optimistic about the second half of the year in Commercial Finance.

In terms of Business Capital, I think this is one of our largest opportunities. There's been a lot of disruption in the marketplace. If you think about EverBank, DLL, Wells, GE, Element, this has all been opportunity for us. And, our business is focused around five industry groups, office imaging, technology, healthcare, industrial, and franchise, and we have some real key differentiators in this market, especially technology. We're only one of two companies that has API integration, accounts payable integration, from application entry to funding. If you think about a vendor coming in for a vendor program, it's completely automated from the time they submit that sales application until we fund it.

We're continuing to invest in Direct Capital which is our digital platform for small business lending. We're known in the market to have good industry coverage, expertise, speed, reliability of service. We're focused on building new dealers, and just this last quarter we signed three new vendor programs and we're also now cross-selling our customer base, which we didn't before. Just this last quarter we had one customer, a deal that was originated in the Capital Equipment Finance group that was actually a Supply Chain Finance group that was referred over to the Commercial Services group which would have never happened before in this company.

We feel we have—it's still early days, but we have some good momentum. And then, in Consumer Banking, we've now put strict targets in place for rules around portfolio purchases of mortgages. So, we didn't do any purchases in the first quarter, but our direct mortgage origination, and we have been building our sales force, direct mortgage originations around the branches, we've had a good quarter.

David Ho
Great. That's helpful. As a follow-up, the core deposit growth in the retail business, now, I understand it's been pretty strong on the corporate side, but on the core retail bank, you know you've been rationalizing that and optimizing that, how much competition are you seeing and what's your confidence in staving off competition as the rates rise just given your limited product set in that group?

Ellen Alemany
Sure. One is I just want to preface this by saying that reducing the costs on deposits, etc., it's kind of like turning a ship. But, we have a strategy in place which is really we want to be a customer's other primary bank. Which means, we want to be their secondary bank and we're competing on convenience, service, and pricing.

We also gave the Consumer Banking group some marketing dollars so they're investing—we ran two promotions in the quarter, we ran a HYSA promotion that was really successful with the direct bank as supporter. We've already put in the technology to improve the pricing models in the business, and I would say that we're just really remaining disciplined here, but we are showing good progress in deposits.

David Ho
Great. Thank you.

Operator
Our next question comes from Chris York with JMP Securities. Please go ahead.

Chris York
Good morning. Most of my questions have been asked, but I'm curious whether the Boston Consulting Group review is now complete and if so what specific suggestions or recommendations did BCG make to improve revenue optimization.

Ellen Alemany
Sure. The Boston Consulting work is complete and as I had said in the last couple of quarters that we were using Boston Consulting Group for opportunities to grow, optimize, and cross-sell. A lot of their recommendations were focused around the revenue base. I talked about some of those initiatives earlier when I talked about the Commercial Finance business and Business Capital business.

Boston Consulting Group was also helpful for us in implementing some of the expense initiatives as well, in terms of, especially on the human capital front. We've made good progress reducing our sales force and compensation expenses by about 5% from the first quarter of last year.

Chris York
Okay. That's it for me. Thank you.

Operator
Our next question comes from Vincent Caintic with Stephens. Please go ahead.

Vincent Caintic
Hi. Thanks very much. Good morning. I guess I'll avoid the question on the share buybacks, but maybe if I could ask, maybe a broader question, it's more like a State of the Union question. But, the stock price has been flat for the past several quarters, really for the past several years and that's after you've taken actions to right-size the business, you've seen—you've executed on the aircraft leasing sale, you've got this $3 billion-plus excess capital on the balance sheet, and then we've also seen banks rally in the past six months in stock prices, as well as some M&A above 1.5x book and your stock is trading at 0.9x book. I'm just wondering what you think it takes and what you plan to do to maximize shareholder value and drive the shares higher. Thanks.

Ellen Alemany
Sure, thanks for that question, Vincent. I think we're making tremendous progress against the strategic plan we set out a year ago. The team is really executing, we're delivering on every single aspect of the plan. We have the full support of our board to continue executing the plan, and I would say that as long as we show progress we're really optimistic about our ability to meet our return hurdles and ultimately exceed them. So, that's the current status.

Vincent Caintic
Got it. Maybe just one quick follow up. You mentioned a couple of the operational improvements that you're making and maybe the best-in-class technology that you have, for example, the vendor APIs. Is there anything else that you're working on in the operational side that would be return enhancing?

Ellen Alemany
Sure. If you think about the expense program we laid out a lot of the—there's a big piece component of

that is just still centralizing operations where we may have five or six centers where we collect cash around the US or whatever, centralizing into one. So, there's a whole series of operational efficiencies and process re-engineering efforts that we're going through to achieve our plan.

Vincent Caintic
Okay, great. Thank you.

Ellen Alemany
You're welcome.

Operator
At this time there are no further questions. I would like to turn the conference back over to management for any closing remarks.

Barbara Callahan
Thank you, Anita, and thank you, everyone, for joining us this morning. If you have any follow-up questions, please feel free to contact me or any member of the Investor Relations team. You can find our contact information along with other information on CIT in the Investor Relations section of our website at www.cit.com. Thanks, again, for your time this morning and have a great day.

Operator
This concludes today's call. Thank you for participating. You may now disconnect.