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FINAL transcript

PARTICIPANTS

Corporate Participants

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Scott T. Parker – Executive Vice President, Chief Financial Officer, CIT Group, Inc.
Kenneth A. Brause – Executive Vice President, CIT Group, Inc.

Other Participants

Brad G. Ball – Analyst, Evercore Partners
Chris M. Kotowski – Analyst, Oppenheimer & Co
Christopher C. Brendler – Analyst, Stifel, Nicolaus
Sameer Gokhale – Analyst, Janney Montgomery
Mark C. DeVries – Analyst, Barclays
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to CIT's third quarter 2013 earnings conference call. My name is Amy, and I will be your operator today. At this time, all participants are in a listen-only mode. There will be a question-and-answer session later in the call. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the call over to Ken Brause, Director of Investor Relations. Please proceed sir.

Kenneth A. Brause, Executive Vice President

Thank you, Amy. Good morning, and welcome to CIT's third quarter 2013 earnings conference call. Our call today will be hosted by John Thain, our Chairman and CEO; and Scott Parker, our CFO. After their prepared remarks, we will have a question-and-answer session.

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'll 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 2012 Form 10-K that was filed with the SEC in March. Any references to non-GAAP financial measures are meant to provide meaningful insights and are reconciled with GAAP in our press release. For more information on CIT, please visit the Investor Relations section of our website, www.cit.com.

I'll now turn the call over to John Thain.

John A. Thain, Chairman & Chief Executive Officer

Thank you, Ken. Good morning everyone, and thank you for all of you for being on the call. This morning, we announced our third quarter results. We had net income of $200 million or $0.99 a share, and last night, we announced a quarterly dividend beginning at $0.10 a share. The dividend, combined with our share repurchase plan, will give us greater flexibility to return capital to our shareholders, but we will also continue to invest capital in our businesses.

Our commercial assets in the quarter increased 8% year over year, and were up sequentially for the eighth consecutive quarter. CIT Bank continued to grow, with assets of $14 billion and deposits of almost $12 billion. Our Transportation assets grew slightly quarter over quarter, and our commercial aircraft were 100% committed, and our railcars were 98% utilized.

Our Corporate Finance business originated funded volume of $1.1 billion in the quarter and assets grew to just under $10 billion. Our Vendor Finance business originated $761 million of new funded volume, and assets were essentially flat, due to the partial sale of our Dell European portfolio and the ongoing rationalization of our Vendor business in countries where we are subscale.

The factoring volume in our Trade Finance business was up year over year and sequentially. The credit quality of our portfolio remains stable, with credit metrics at cyclical lows. We remain well capitalized and very liquid.

Although our head count continued to decline, our expenses were impacted by legal costs and the costs of our international rationalization efforts. And despite the dysfunction in Washington, we see the U.S. economy continuing to grow at a modest space. Our Middle Market companies are generally optimistic about their businesses but are concerned about the level of economic activity in the U.S., about their healthcare costs, their taxes and the regulatory environment.

As Scott will cover in more detail, we do see pricing pressure in certain areas of our business, but our businesses continued to generate attractive risk-adjusted returns.

And with that, I'll turn it over to Scott.

Scott T. Parker, Executive Vice President, Chief Financial Officer

Thank you, John, and good morning, everyone. We reported another solid quarter while continuing to make progress on our strategic initiatives.

Here are some highlights. As John mentioned, net income was $200 million or $0.99 a share. Our commercial portfolio grew 8% from a year ago and 1% sequentially, and we continued to focus on returning capital to shareholders and we reinstated the dividend last night.

Pre-tax ROA was on the high end of the target range, benefiting from some noteworthy items. Core trends were generally as expected. Net finance margin reflected the sale of the Dell Europe portfolio and the competitive environment. Our credit metrics remain near cycle lows. Core non-spread revenue was similar to last quarter. And as John mentioned, operating expenses were higher this quarter due to some legal-related and platform rationalization costs.

We continue to build the franchise and make progress on our priorities. The environment remains competitive. I will focus my remaining comments on the key financial drivers and the business environment.

Commercial financing and leasing assets increased about 1% sequentially, despite over $700 million in asset sales. Total new business volume was $2.6 billion, including $285 million in scheduled aircraft deliveries. And we saw a more normalized level of loan prepayments in Corporate Finance this quarter as refinancing slowed.

We sold $365 million in Transportation assets, mostly aircraft, as part of our normal portfolio management activities. The remaining sales included about $200 million related to the first tranche of the Dell Europe portfolio, and additional asset sales from our Vendor Finance international rationalization efforts.

Asset sales will continue to be a headwind to overall balance sheet growth in the next few quarters. We closed on the sale of the remaining $300 million of Dell Europe assets on October 1st . In addition, we expect to make more progress on other subscale platforms, including the sale of our SBA loan portfolio that we moved into held for sale in the second quarter. That sale will reduce assets by just over $0.5 billion when it closes. While we are exiting this product, we continue to serve small business clients across our Vendor, Trade and Corporate Finance businesses.

Turning to margin, the adjusted net finance margin declined 40 basis points to 4.22%. About half the decline related to three noteworthy items: lower interest recoveries, less benefit from suspended depreciation and lower FSA loan accretion. The remaining decline was primarily due to lower lease revenue, reflecting pressure on certain renewal rates in the commercial air portfolio, and the sale of Dell Europe assets, which had high yields. The fourth quarter will include a full impact of that portfolio sale, as the remaining assets were sold at the start of the fourth quarter.

In Corporate Finance, pricing seems to have stabilized in the core middle market lending business but at lower yields. Competitive pressures have shifted to more leverage than pricing, and we continue to maintain our underwriting discipline to achieve the appropriate risk adjusted margin on new business.

With respect to Transportation Finance, on average, lease renewal rates in the Rail portfolio are re-pricing up, while the commercial air portfolio is re-pricing slightly down, putting pressure on overall rental revenue in this segment. Our cost of funds was relatively flat this quarter and, going forward, any additional improvement will mainly result from a larger proportion of assets being funded with deposits. Given these factors, we expect the adjusted net finance margin will continue to move to the middle of the target range.

Our core non-spread revenue was relatively flat in the second quarter at about 100 basis points of average earning assets. We had a number of lead agency transactions this quarter that generated capital markets fees. We are pleased with the progress we are making on gaining market share and lead agency roles. And as I have previously mentioned, capital markets fees will vary based on M&A and buyout activity.

Gains on equipment sales this quarter primarily related to the sale of approximately $300 million of commercial aircraft. We continue to proactively manage the risk in our portfolio, but expect the level of gains to come down significantly, as there was strong demand for assets we sold earlier this year.

There are a number of transactions that were reflected in non-spread revenue this quarter, including a $21 million gain on the first tranche of the Dell Europe sale. Impairments we took on assets transferred to held for sale mainly related to our international rationalization strategy, which largely offset the Dell gain, and a $13 million gain recorded in other revenue related to a workout in commercial air.

The sale of the remaining Dell Europe assets will result in a similar gain in the fourth quarter, but we anticipate this gain will be partially offset by additional charges related to subscale platform exits. Also, the related impairment charge on the Dell Europe assets will go away in the fourth quarter, but will be offset by lower gain on equipment sales. In summary, overall non-spread revenue will likely be at the low end of the target range.

Now turning to operating expenses; excluding restructuring charges, operating expenses were up from the prior quarter, mainly due to higher costs related to certain legal matters and country exits. This quarter, we concluded our strategic review of the Vendor platform in Europe and decided our focus there will be solely on the UK, where we have scale, access to efficient funding and multiple product offerings.

In total, we plan to exit over 20 countries across Europe, Latin America and Asia, and we are progressing through the necessary regulatory, legal and other matters. While our normalized expense target remains about $215 million per quarter in 2014, given the complexities of exiting countries and platforms, restructuring and legal costs will likely stay elevated for another few quarters.

With respect to funding, we have $2.8 billion of debt maturities over the next two years that have an average cost of about 5%. We plan to pay them off in part through cash generating activities at the Holding Company, including proceeds from assets and platform sales.

In addition, we took advantage of strong market receptivity in July, and issued a 10-year, $750 million bond with a yield just over 5%, which will result in some negative carry until our next bond maturity in March of 2014. At the Bank, deposits are approaching $12 billion, and we continue to issue deposits to match our asset profile. Overall, our funding mix remain relatively unchanged this quarter, at 35% deposits, 38% unsecured and 27% secured debt.

So in summary, we continue to make progress on our priorities. Transportation Finance continues to invest in new equipment, while maintaining strong utilization and active portfolio management. And we're expanding our product offerings in Transportation Lending and Maritime Finance.

In Trade Finance, we are making progress winning new clients, particularly in non-apparel sectors while maintaining strong credit discipline.

Vendor Finance's U.S. platform is performing well as we manage through the complexities and cost of exiting over 20 countries.

In Corporate Finance, the team continues to grow market share and assets in our middle market lending business, as well as in our new initiatives in Real Estate and Equipment Finance as we maintain our discipline and focus on building relationships with customers.

Almost all new U.S. lending and railcar activity is in the Bank, which now represents just under 40% of total commercial assets. And we made more progress on our share repurchases this quarter and reinstituted a dividend, demonstrating confidence in our capital framework and commitment to return capital to shareholders.

With that, I'll turn the call back over to Amy, and we'll take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Brad Ball at Evercore.

<Q – Brad Ball – Evercore Partners>: Thanks. Scott, I wonder if you could clarify your comments on operating expenses. If we exclude the unusual expenses related to closing the international offices, would you expect to be inside of your target operating expense range of 2% to 2.5% of average earning assets next year? And if so, where are the cost savings generally coming from? Is it the head count reduction? Is it the elimination of those international offices? What are the main sources of cost savings? Thanks.

<A – Scott Parker – CIT Group, Inc.>: I would say that the target we put out there was based on expectations for asset growth and other factors. But our view is, given what we see right now, if we get down to that target that would put us in kind of the high end of the operating expense ratio. So I would tell you that we've had about 250 head count reductions since third quarter of last year, and another 40 in this quarter, so you see our compensation and benefit line is declining.

Our professional fees were elevated this quarter, as I mentioned, due to some of the legal matters and exit costs. So it will be a combination across multiple expense lines because some will be people costs, some will be lower professional fees, as they were smaller platforms, as well as some of the occupancy costs that will go away.

<Q – Brad Ball – Evercore Partners>: Okay. And my quick follow-up; similarly on the credit side you've actually been running better than your long-term target and expectation. Do you see returning or getting back up above the roughly 50 basis point credit loss rate in the foreseeable future? Or is the credit picture just very clean as far as the eye can see?

<A – Scott Parker – CIT Group, Inc.>: I don't think we want losses to go up, so as you see in the industry, I think we're at a point where the loss rates at all financial institutions, are kind of at cyclical lows. And I think we don't see any signs in the portfolio that would change that outlook for the next quarter or so. But that's all subject to the market environment. But we don't see anything in the short-term that would change where we're at.

<A – John Thain – CIT Group, Inc.>: And, Brad, let me just add one thing, which is that those metrics are for the average over the credit cycle. Right now we're in a very good part of the credit cycle. And the combination of still growth in the U.S. economy in particular and very low levels of interest rates and very high levels of liquidity, really I think as long as that continues, it's likely you're going to see very low credit metrics.

<Q – Brad Ball – Evercore Partners>: Okay. Fair enough. Thank you.

Operator: Our next question comes from Chris Kotowski at Oppenheimer.

<Q – Chris Kotowski – Oppenheimer & Co.>: Good morning. I wonder if you can give a bit more color on the slippage between the growth in loans and average loans and gross interest income. Loans were up, average loans were up $324 million linked quarter, and interest income is down $15 million. How much of that is due to Dell Europe with those higher yielding loans, and how much is just basic margin compression? And how should we think about that dynamic going forward?

<A – Scott Parker – CIT Group, Inc.>: Chris, I think there are a couple things going on there. One is the lower interest recoveries that we've been talking about. The Dell Europe assets are higher yielding assets, so you'll see that pressure. You saw it in the third quarter; you'll see more of that in the fourth quarter, and so in the Vendor business we need to build back that ~$450 million of assets. So we have to build back those assets over time to make up for that revenue. And those were kind of the key pieces and again, in the business we talked a little bit about the aircraft business, but there is competitive pressure in the other segments, but it's not the main driver in the quarter.

<Q – Chris Kotowski – Oppenheimer & Co. >: Okay. And then as a follow-up on the interest expense side. Given the growth and your deposit capability, deposit taking capability, is it time for you to adjust that target mix of assets that you've been talking about for the last couple of years? I mean wouldn't it make sense to be more deposit funded than what you've laid out and where you are?

<A – Scott Parker – CIT Group, Inc.>: Of course. So as we've talked about, we've put the targets out there. If we were more deposit funding, it's not that we're not going to go do that. And then we have a couple dynamics that I tried to call out, Chris, were really around what's going on with the debt maturities at the parent company.

So if you look at the deposits, they stayed at 35% of total. We had $750 million of additional debt we issued to help with those maturities, and we had $750 million growth in our deposits. So as we get through the maturity in 2014, you'll see the parent company debt go down and you'll see deposits become a bigger proportion of our portfolio. So we're not going to stop growing our deposits and our assets in the Bank, but that is all dependent on the growth that we have.

<Q – Chris Kotowski – Oppenheimer & Co.>: Okay. And you said you expected to pay off $2.8 billion just from cash, so we'll see...

<A – Scott Parker – CIT Group, Inc.>: No, I said it's going to be partially paid off with cash. The more we can pay off with cash versus issuing new debt the more it is beneficial to us. But that's all dependent on the growth environment and if we have attractive assets to finance at the Holding Company.

<Q – Chris Kotowski – Oppenheimer & Co. >: Okay. Thank you.

Operator: Our next question comes from Chris Brendler at Stifel.

<Q – Chris Brendler – Stifel, Nicolaus & Co., Inc.>: Hi. Thanks. Good morning. I wanted to start with the margin a little bit. I don't know if you quantified on the call the impact from suspended depreciation this quarter, but the impairment that shows up in the other line looks to be increasingly negative. It went $22 million to $45 million this quarter. So that suggests that the suspended depreciation on the top line actually got more of a benefit sequentially. Can you help me understand what's going on with the suspended depreciation since some of the Dell assets were sold this quarter? Thanks.

<A – Scott Parker – CIT Group, Inc.>: Chris, so I would say that the majority of the impairment for the quarter, the increase was driven by certain platforms we moved into held for sale. So that was the driver of that. In the Dell portfolio and also some of the aircraft sales, suspended depreciation did decline in the third quarter and will further decline in the fourth quarter as the remaining portfolio is exited.

So I mentioned about 20 basis points of the change was related to that, the interest recoveries that we have talked about before and a little bit on FSA. When we moved some of the loan portfolios into held for sale in the second quarter, that FSA gets eliminated as part of that transfer, so those are things that happened. The other 20 basis points was due to the fact that the assets that we're selling in Europe are very high yielding assets, so we're going to have some pressure on that until we build back those asset bases. And then we also mentioned part of the impact was due to lower lease revenue due to some of the renewals we've had during the year on certain aircraft.

<Q – Chris Brendler – Stifel Nicolaus >: Okay. I was under the understanding that once you've moved assets into held for sale that are operating leases, you get a suspended depreciation in the depreciation line, but you also get a pretty equal offset in impairments to assets held for sale. When you move new assets in, is there an offset in suspended depreciation in that case or no?

<A – Scott Parker – CIT Group, Inc.>: No, because the assets we're moving into held for sale are platforms, so you won't have that same phenomenon.

<Q – Chris Brendler – Stifel Nicolaus >: So there was a net – could be a net negative this quarter if you look at suspended depreciation plus impairment?

<A – Scott Parker – CIT Group, Inc.>: Correct.

<Q – Chris Brendler – Stifel Nicolaus >: Okay. Second question, and I'll get off, is just can you give us an update on capital strategy? I think not terribly surprised to see the pace of the buyback, but I think your comments recently was suggesting that you're taking a slow pace. What's the philosophy around the slow pace of the buyback? I think some people were hoping you could get the $200 million done relatively quickly.

<A – Scott Parker – CIT Group, Inc.>: Yeah. Well, I think, Chris, I just put it in the context of what we announced last night. I think we were focused on looking at multiple sources of returning capital to our shareholders. I think a combination of both a dividend and share buyback is a good approach, and we spent a lot of time in the third quarter on that.

We did buy back shares in the third quarter, but we're staying disciplined in regards to those repurchases, and we'll continue to do that through the fourth quarter. And so I think we feel good at where we're at. Being out of the written agreement only for four months or five months, I think the capital activity we've been able to demonstrate, I think, is a positive.

<Q – Chris Brendler – Stifel Nicolaus >: Thank you, Scott.

Operator: Our next question comes from Sameer Gokhale at Janney Capital.

<Q – Sameer Gokhale – Janney Montgomery>: Hi. Good morning. I had a couple of questions. The first question was just thinking a little bit big picture. When you look at your deferred tax asset and then the valuation allowance, I know you've talked about some of the near-term strategic priorities, but where does this fall within your thinking of strategic priorities over the next 12 months to 24 months? I know on previous calls we talked about buying portfolios to generate more U.S. taxable income, but are there other things you can do, like transfer pricing between U.S. and international or other things you can do to try to increase your taxable income? And can you give us a timeframe over which you can maybe realize more the value of the NOLs? Simply because it's a big asset, it's a hidden asset and there's clearly an NPV associated with the use of the asset, so can you talk about that a little bit?

<A – Scott Parker – CIT Group, Inc.>: Sure, Sameer. I would say that, as we've mentioned before, we're very focused on this. So I'm very focused on finding ways to utilize the NOL, and then in regard to what happens to the Valuation Allowance, that's kind of more of a technical evaluation process. So we continue to grow assets in the Bank; if we can grow faster in the U.S. and U.S. assets, that would be beneficial. I think two is we've gone through what you mentioned in regards to transfer pricing. We have gone through that over the last 18 months to shore up and be in compliance with that process.

I think the other piece would be as we continue to kind of reduce the cost of funds at the Holding Company, I think that will kind of play through. If we can pay off more of the debt at the Holding Company with cash, cash generation versus issuing new debt, that will be beneficial. So we're looking at all avenues in order to realize the value of that hidden asset, but it's $5 billion. So it'll take some time in order to do that.

<A – John Thain – CIT Group, Inc.>: And, Sameer, all three of our new business activities, so the Maritime Finance, the Real Estate Finance and the Equipment Finance, all three of those are generating U.S. income.

<Q – Sameer Gokhale – Janney Montgomery>: Okay. That's helpful because there clearly is lot of trapped value there. The other question is on your SBA portfolio. I mean it sounds like that's been shrinking for quite some time, but at one point CIT used to have, I think, one of the biggest SBA lending businesses. So can you just remind us what changed there? Is it just that the market got too competitive for that asset? Or why do you feel that that's a business that you decided to eventually divest? Just some of your thought process that would be helpful.

<A – Scott Parker – CIT Group, Inc.>: Yeah. A couple of things, Sameer; one is I think the business model historically has been through brokers and agents versus a lot of other businesses that originate through their branch network. Two, the assets are at the Holding Company, and the yields on the portfolio have half caps on them. So it kind of is very challenging given our cost of capital at the Holding Company to make those profitable.

And three, as you mentioned around scale, it's a very process intensive business, and without having the scale it makes it very challenging to have an acceptable return on equity. So based on just that product line, we thought it was the right thing to exit it, free up cash and improve the overall returns for the Company.

<Q – Sameer Gokhale – Janney Montgomery>: Okay. And then just my last question; with the 13 Embraer aircraft deliveries that you canceled, were there any cost associated with that cancellation? I'm assuming not, but were there any costs there?

<A – Scott Parker – CIT Group, Inc.>: No, not that I'm aware of.

<Q – Sameer Gokhale – Janney Montgomery>: Okay. Great. Thank you.

Operator: Our next question comes from Mark DeVries at Barclays.

<Q – Mark DeVries – Barclays>: Yeah. Thanks. I had a follow-up on capital. Is the 30% payout ratio implied by this quarter's buyback activity and the recently announced dividend, is that an indication of kind of a level at which you feel comfortable returning capital? Or is there a potential to meaningfully go above that in the near term?

<A – Scott Parker – CIT Group>: We're getting started in the process, so I think there is upside potential over time. You see kind of what the industry parameters that are out there in regards to dividends and buybacks, and it's something that we're focused on; getting to those type of peer group ratios over time.

<Q – Mark DeVries – Barclays>: Okay. But no limitations on your ability other than just the ones you're imposing on yourself to go above that?

<A – Scott Parker – CIT Group>: I mean in general on these items you take into consideration a lot of factors, and so we continue to look at those different factors and it's part of our thinking around how we return capital to our shareholders. But as John mentioned, we're very focused on growing assets that meet our return hurdles and are good for creating shareholder value and then also returning capital. So those are both the key focuses.

<Q – Mark DeVries – Barclays>: Okay. Got it. And can you update us on whether you've seen any improvement in opportunities to deploy capital through asset purchases?

<A – Scott Parker – CIT Group>: That's pretty competitive, as I think you've heard that we continue to look at them. We see certain activities. We've been buying portfolios over the last three quarters. Some are smaller that we don't mention them, so we did a few small portfolios in the third quarter. So we continue to look around. There hasn't been anything the size of like Flagstar that we did at the end of the year, but we continue to look for opportunities.

<Q – Mark DeVries – Barclays>: Okay. Thanks.

Operator: Our next question comes from Ken Bruce of Bank of America Merrill Lynch.

<Q – Ken Bruce – Bank of America Merrill Lynch>: Thank you. Good morning.

<A – Scott Parker – CIT Group>: Good morning Ken.

<Q – Ken Bruce – Bank of America Merrill Lynch>: Good morning. My first question relates specifically to the Aerospace business. You had mentioned the deal with American Airlines. I'm wondering, could you maybe just identify whether that would be done within the bank sub or at the holding company if this will help to offset some of the margin pressure that you're seeing elsewhere in the business, please?

<A – Scott Parker – CIT Group>: Yeah. So we're looking at different alternatives for that portfolio, but because it is a U.S. carrier, it gives us that opportunity with respect to potentially putting that in the Bank. But I think in general growing the portfolio and putting on good yielding assets in the Transportation business is a key priority.

<Q – Ken Bruce – Bank of America Merrill Lynch>: Right. And I guess I'm trying to understand just in terms of some of the comments around margin if you're anticipating that being funded at the bank, which it obviously has a much better cost of funds relative to the holding company, and how that might work its way into the margin overall? And if you could remind us, you'd indicated kind of the middle of the range is what you believe that the margin's biased towards; if you can just remind us what that range is?

<A – Scott Parker – CIT Group>: I would say that we're looking to put a portion of those assets into the Bank. So as you mentioned, that would help in regard to the improvement on the net finance margin going forward. From a perspective of what the target we put out there on the net finance margin, we had 3.5% to 4.5% as the target. So that's when we mentioned, as I did a couple months ago at the Barclays, that we would be moving towards the middle of the range.

<Q – Ken Bruce – Bank of America Merrill Lynch>: Thank you. Any update on Maritime Finance please?

<A – John Thain – CIT Group>: We continue to see, very, very attractive opportunities in that business, and we expect to see significant growth opportunities and the ability to put capital to work there.

<Q – Ken Bruce – Bank of America Merrill Lynch>: Great. Thank you very much.

Operator: Our next question comes from Moshe Orenbuch at Credit Suisse.

<Q – Moshe Orenbuch – Credit Suisse>: Great. Thanks. I was hoping you could kind of discuss in the context of the discussion that you've been having about margins either what the spread on new business that you're putting on in the quarter is compared to the existing margin? And kind of how that might relate to where the margin ends up?

<A – Scott Parker – CIT Group>: So as I mentioned on the Corporate Finance business, we've seen some stabilization in the last few quarters, but it is at lower levels than it was for the overall portfolio that was originated over the last couple years. So that is just the nature of the competitive environment, but we continue to focus our originations on those areas that we get the appropriate risk adjusted margins for the business.

I think on the Vendor business, I'd say in the U.S., funding in the Bank we've seen some yield pressure there, but it's not as dramatic because of the funding we have for that. And the international platforms have a higher yield, given the cost base, but as we exit those countries you'll have some impact on the mix side.

And then in Transportation Finance, I mentioned in my earlier comments that on Rail overall the pricing is up for the portfolio and the aircraft is slightly down because we have some positives and some that are below what they came off the expiring rate was. So I think it's nothing dramatic. It's the confluence of some of the new business versus the portfolio.

<Q – Moshe Orenbuch – Credit Suisse>: I guess I'm just having difficulty because you've only got like 20 basis points to that midpoint of kind of your range, and it sounds like the things you're outlining are things that are likely to continue for several quarters, particularly as the portfolio grows and some of the old assets either sold or refinanced. So I guess how do you feel confident that it kind of levels out at somewhere in that middle of that range.

<A – Scott Parker – CIT Group>: Well, Moshe, as you know, there's a lot of things that happen. I'm not going to give you forward guidance, but it's a matter of the middle which is kind of plus or minus there, given some of the factors that we have to look at. But as we originate certain assets, we just talked about some of the aircraft and also I think as you get into next year as we address some of these kind of debt maturities that could also have an impact. So from a quarter-to-quarter point of view, it's more of kind of where we're going to be as an overall as kind of a more of a steady state through the year versus a particular quarter.

<A – John Thain – CIT Group>: Moshe, the other thing I would say is that when we look at adding new assets even in places where the absolute yields may be lower, when we look at the economic capital that we're assigning to those, we're still generating good economic returns on our capital and good risk adjusted returns. And so the risk-reward balance is still attractive to us.

<Q – Moshe Orenbuch – Credit Suisse>: Right. And I'm not disputing that in the least and I think you should actually do any of those, even if it does drive them lower. It's just a question of factoring it into the guidance and kind of working it from that direction, that's all. Thanks.

<A – Scott Parker – CIT Group>: Yeah. It's a fair point. I think as we go through this, a part of it's going to be some of the exits we're going through; some of the portfolios that we're exiting will impact the mix over the next couple quarters, depending on timing of that. And then two is the next debt maturity is in March of 2014. So you won't see that impact until the second quarter of next year.

<Q – Moshe Orenbuch – Credit Suisse>: Got it. Thanks very much.

<A – Scott Parker – CIT Group>: Because we have cash now we're taking, as I mentioned, we have the negative carry. So that to me is the fact that over the next couple quarters you may not see that.

<Q – Moshe Orenbuch – Credit Suisse>: Gotcha.

Operator: Our next question comes from David Hochstim at Buckingham Research.

<Q – David Hochstim – Buckingham Research>: Thanks. I wonder, could you talk a little bit more about the, I guess, the reengineering of Vendor Finance and kind of how much you think profitability of the business could improve returns maybe? And how much smaller it might be in a year, two years, do you think?

<A – Scott Parker – CIT Group>: Yeah. David, I would say that we mentioned part of this is kind of a shift in the model for the overall marketplace. The old model was to be in pretty much every country. That was very costly, as well as subscale. So the impact of all the assets that we have moved into held for sale was $200 million for those countries we're exiting. So the core business won't be impacted, but the costs associated with those platforms was very high, and so that's really the focus that we have in the Vendor business.

It's a high net finance margin business and the operating expense is what we're trying to right size. So as we get through these, the faster we can get through them you'll see that come through. But if you look at the platforms in the U.S. and the other international platforms we're in, the profitability there is very good.

<Q – David Hochstim – Buckingham Research>: So at the end of this process where would most, besides the U.S. and the UK, where will most of the rest of the business be?

<A – Scott Parker – CIT Group>: Yeah. So we have the U.S., Canada and the UK, China and then in Latin America we have Brazil and Mexico.

<Q – David Hochstim – Buckingham Research>: Thanks. And then could you just talk about the potential eventually if we're seeing loan sales by European banks; is there any sign that that situation might be improving for you?

< A – John Thain – CIT Group, Inc.>: Well this is now probably a year ago the European banks showed around a lot of portfolios of assets that we were interested in. They all generally had relatively low yields. And so when we bid on them we bid them at discounts to par, and then the European banks wouldn't sell them because they wouldn't take the losses.

If anything, I think the pressure has come off the European banks, and so I think there's less pressure for them to sell. The assets themselves haven't really changed, so I think the willingness of the European banks to actually sell and take losses is probably not any better today than it was when they wouldn't sell them before.

<Q – David Hochstim – Buckingham Research>: Okay. All right. Thanks.

Operator: Our next question comes from Eric Wasserstrom at SunTrust Robinson Humphrey.

<Q – Eric Wasserstrom – SunTrust Robinson>: Thanks. Good morning. My question is you've obviously announced these actions with respect to the SBA portfolio and now with Vendor Finance. So more broadly, sort of what inning are we in with respect to business line reviews and exits? And is this something that we should expect to continue over the next several quarters? Or are we sort of getting to more the end of this where the core business of CIT will be most evident?

<A – Scott Parker – CIT Group>: Yeah. I think we're fairly complete with that, given the Vendor activity that we've had and, as you mention, really the focus has been at the assets at the parent company, given the cost of capital there. So I think there could be some additional, but it's not going to be the same scale that we've been experiencing.

<A – John Thain – CIT Group>: And remember, it's not just businesses that we're exiting. It's also businesses that we're entering. And so while we're rationalizing the businesses that we have, we've also, as we mentioned before, re-entered Commercial Real Estate and kind of re-emphasized Maritime Finance, and also reentered the Equipment Finance business. So we're both growing attractive return businesses as well as shrinking or selling lower return businesses.

<Q – Eric Wasserstrom – SunTrust Robinson>: Yeah. So that's actually a very fair point. So I guess maybe my follow-on then is are there other business lines that you're not in currently that are potentially compelling to you?

<A – Scott Parker – CIT Group>: So we're always looking at that, and that's an ongoing dialog here. So there's new industries, there's new products that we continue to look at, as John mentioned.

<Q – Eric Wasserstrom – SunTrust Robinson>: Okay. Great. Thanks very much.

Operator: Our next question comes from Bill Carcache at Nomura.

<Q – Bill Carcache – Nomura Securities>: Thanks. Good morning. Looking back at the last couple of years, we saw you guys move very quickly to get the FSA accounting noise behind you, and today you have a much cleaner P&L as a result. Looking at your balance sheet, you still have the non-core consumer loans that create a bit of noise to your overall loan growth. Can you talk a little bit about how you're thinking about the consumer loans here, and why you wouldn't redeploy them into more attractive commercial financing and leasing assets, particularly given the strong growth that you're generating there?

<A – Scott Parker – CIT Group>: Yeah. I think, Bill, the way we think about student loans; we sold these student loans that we had in the Bank and replaced those with good commercial assets. And so strategically that was the right move to do. The remaining assets we have are at the parent company, and they're older tranches of student loans that are pretty seasoned and are fully financed. So there's no cash generation out of that; low economic capital, so they're not bad for where we are in the cycle in regards to a low-risk yield to the portfolio. But long term they don't fit with the business, and we have to continue to look at how they play into our long-term strategy.

<Q – Bill Carcache – Nomura Securities>: Okay. So it's possible that they won't necessarily just – you won't let them run off, but there may be a point where you look to kind of redeploy that capital?

<A – Scott Parker – CIT Group>: Correct.

<Q – Bill Carcache – Nomura Securities>: Right. Okay. And then finally, I have a question on the effective tax rate. Scott, my understanding is that your ability to drive down on your NOLs is going to enable you to not have to pay cash taxes for years. But wouldn't you still have to recognize income tax expense on current period income as your U.S. profitability increases so that basically your cash tax rate is 0%, but that you're still recognizing income tax expense on a GAAP basis?

<A – Scott Parker – CIT Group>: No.

<Q – Bill Carcache – Nomura Securities>: Can you address that?

<A – Scott Parker – CIT Group>: Yeah. In the U.S. business you wouldn't have a tax provision because of the valuation allowance that we have. So there are state taxes, as we've called out, that you have to pay. There are some technical AMT, but generally you would not provide on your GAAP books for that.

And then internationally you provide on the GAAP basis but, again, in certain of our operations the taxable income is different than the book income just like the U.S. So in general, the tax provision we've talked about, the book tax provision is mainly from the international earnings, predominantly the aircraft business that's outside the U.S.

<Q – Bill Carcache – Nomura Securities>: Got it. Thanks very much.

Operator: Our next question comes from Daniel Furtado at Jefferies.

<Q – Daniel Furtado – Jefferies>: Thanks for taking my questions. The first is just can you help me recall, I know that you had guided in the $15-ish million per quarter in GAAP tax expense for this year. Does that carry through to 2014 as well or have you not said anything about 2014 yet?

<A – Scott Parker – CIT Group>: We haven't got to 2014 yet. So in 2013, outside of discrete items, we've been kind of running in that kind of $15 million range. And so we will have to re-look at that as we go into 2014 based on mix of business and other factors that we'll talk about, I guess, next year.

<Q – Daniel Furtado – Jefferies>: Understood. Okay. Thank you. And then the other question is, would you mind updating us on your retail deposit strategy, kind of how that's progressing? I know at one point in the recent past there was talk of you kind of trying to figure out if this should a buy or a build type of strategy. Could you just kind of update us there, please?

<A – Scott Parker – CIT Group>: Yeah. I think the retail deposit strategy is doing very well. So we continue to add new products, grow our customer base, so those continue to grow every quarter. As I mentioned, deposits grew about another $750 million for the quarter. And as we go through that process, our whole key point is making sure that we have a great customer experience and provide multiple services for them.

And that's kind of our focus. What we've talked about is in addition to that is ways to complement the online banking strategy maybe with a branch network, small branch network that could also provide core deposits and a different source of funding over time. So we are in the process of having a branch opening in Utah, and that will be our entry into looking at that as another alternative.

<Q – Daniel Furtado – Jefferies>: Gotcha. Thank you.

Operator: Our next question comes from Cheryl Pate at Morgan Stanley.

<Q – Cheryl Pate – Morgan Stanley>: Hi. Good morning. Just touching on capital management again, and understand the sort of balancing the dividend and the buyback drove maybe a little bit more caution on the buyback than some of us were expecting this quarter. Can you talk about what type of environment or scenario you'd have to see to deploy the full $200 million buyback this year?

<A – Scott Parker – CIT Group>: I don't know, Cheryl. I think we'll just, as we mentioned, we'll just continue to stay disciplined and work towards returning capital to our shareholders, and there's not a lot of guidance I can give you on that.

<Q – Cheryl Pate – Morgan Stanley>: Okay. And then on the deposit side, can you talk to us a little bit about sort of the market on the brokered CD side and sort of what type of pricing you're seeing there and what type of duration or terms are sort of the key ones that you're focusing on adding to the book at this point?

<A – Scott Parker – CIT Group>: Yeah. In brokered CDs, as I mentioned I think at the Barclays conference, because of the increase in the ten year, it did increase the cost for some of the longer duration brokered CDs we're issuing, so our main focus in the brokered CD market is really on the five, seven and 10 year. And we've seen good progress over the last several quarters of continuing to do that. Some weeks are up and down, but in general we're originating what we need to support our business growth. And we think that's attractive, given the railcar assets and some of the other longer duration loans that we're putting into the Bank.

<Q – Cheryl Pate – Morgan Stanley>: Right. Understood. And can you just give us a sense on sort of what the mix of online versus brokered CDs were in terms of the deposit growth in the quarter?

<A – Scott Parker – CIT Group>: I'd say it's probably fairly balanced; probably a little bit more on the online than it would be on the brokered CD side.

<Q – Cheryl Pate – Morgan Stanley>: Okay. Great. Thanks so much.

Operator: [Operator Instructions] Our next question comes from Chris Kotowski at Oppenheimer.

<Q – Chris Kotowski – Oppenheimer & Co.>: Yeah. I'm sure you're going to say that your regulators are always fully aware of what you're planning on doing, but I'm wondering, was there a process for the additional dividend approval or was this part of the original request? And going forward can you describe what the process would be for additional capital returns?

<A – Scott Parker – CIT Group>: Well, it looks like you answered your question, but I would say that we have ongoing conversation with all our regulators. And we'll continue to do that. I would say that's part of the normal process that we go through. There's nothing that I would say is special, but it is something that we continue to ensure that we have good communications and open dialogs about our expectations and what we're trying to do.

<Q – Chris Kotowski – Oppenheimer & Co.>: But it's not an annual process?

< A – John Thain – CIT Group >: Well, it's an ongoing process.

<Q – Chris Kotowski – Oppenheimer & Co.>: Okay. All right. Thank you.

Operator: Our next question comes from the Sameer Gokhale at Janney.

<A – Scott Parker – CIT Group>: Hey, Sameer.

<Q – Sameer Gokhale – Janney Montgomery>: I love talking about this NOL and DTA, so I just want to follow up on that. The question I had was I know that accelerated depreciation on the leasing assets has been kind of a large contributor to kind of putting downward pressure on U.S. taxable income. And I was thinking that as it may take maybe through 2016 for some of that pressure to alleviate, from the outside when we look at it we clearly don't have access to your depreciation schedules and the like. And I know it's mostly the Rail assets in the U.S. that are causing the downward pressure on U.S. taxable income. So is it fair to think of it as when we just look at the depreciation schedule in a vacuum and we look at how much accelerated depreciation we've had in the past; you recently became kind of marginally profitable in the U.S.; when you look at the next three years or so, do you think it's reasonable to assume it'll take about that long for the pressure caused by the accelerated depreciation kind of play out, and then beyond that then you start seeing more benefits. I mean is that kind of a reasonable timeframe to think about it from just a purely depreciation standpoint?

<A – Scott Parker – CIT Group>: Yeah. Sameer, maybe I'll answer it in a different way. I think the depreciation, as you mentioned, is based on some of the new railcars we're purchasing, but just assume that depreciation doesn't grow as fast as our earnings. So the faster we can grow assets in the Bank and the margins that we're getting on the new originations in the Bank that if pre-tax grows faster, the depreciation rate probably won't grow at the same rate.

<A – John Thain – CIT Group>: Sameer, the other way to think about it is when we're looking at our mix of businesses, we're deliberately trying to add more loan assets into the U.S. into the Bank. And so if you look at the Transportation side, we've been adding loans. If you look at the Maritime Finance, those are loans, so those are all generating income in the U.S. without this depreciation effect.

<Q – Sameer Gokhale – Janney Montgomery>: Yeah. No, that makes sense and I appreciate that color. That's one of the reasons why I thought you might be trying to look at more portfolio acquisitions, and I think if those opportunities arise you might pull the trigger, but that does make sense. So thank you for taking my follow-up question on this.

<A – Scott Parker – CIT Group>: Okay. Thanks, Sameer.

<A – John Thain – CIT Group>: Thanks, Sameer.

Operator: And at this time, we show no further questions, and I'd like to turn the conference back to Ken Brause for any closing remarks.

Kenneth A. Brause, Executive Vice President

Well, we thank you all for joining us this morning, and as always if you have any follow-up questions, please call me, Barbara or Rahul in Investor Relations, and we'll be happy to answer them. Thank you very much.

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

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