PARTICIPANTS

Corporate Participants

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John A. Thain – Chairman & Chief Executive Officer, CIT Group, Inc.
Scott T. Parker – Chief Financial Officer, CIT Group, Inc.

Other Participants

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Mark C. DeVries – Analyst, Barclays Capital
Sameer Gokhale – Analyst, Janney Montgomery Scott
Chris C. Brendler – Analyst, Stifel, Nicolaus & Co.
David S. Hochstim – Analyst, Buckingham Research Group.
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to CIT's First Quarter 2013 Earnings Conference Call. [Operator Instructions]

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 of Investor Relations

Thank you, Maureen, and good morning. Welcome to CIT's First 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 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 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 the press release.

For more information on CIT, please visit the Investor Relations section of our website at www.cit.com.

I'd like to now turn the call over to John Thain.

John A. Thain, Chairman & Chief Executive Officer

Thank you, Ken. Good morning, everyone, and thank you all for joining our call this morning.

For the first quarter of 2013, we earned $163 million after tax. Our commercial assets grew 11% from a year ago. This is the sixth consecutive quarterly growth in commercial assets. Our net finance margin was 4.43%, which is well within our long-term targets.

Our funding costs continued to decline. Our deposits now represent about a third of our total funding. And virtually all of our newly originated U.S. assets are being funded in CIT Bank. Our pre-tax return on assets was in excess of 2%, which is also within our targets. The credit quality of our portfolio was stable, with charge-offs and non-accruals at cyclical lows.

We continue to focus on our expenses, which are above our long-term targets. And Scott will cover some of the things we're doing in more detail. But it's clear to us that we need to focus on our expenses and bring them down.

Our capital and our liquidity remain strong, and our book value per share grew in the quarter.

Our Transportation results were strong. Commercial aircraft were 100% utilized. Our rail utilization was down slightly, but still at 97%. And our new Maritime Finance business is off to a good start. We booked three loans, and we see a good pipeline going forward.

In our Corporate Finance business we originated just under $1 billion of funded volume. Our assets grew 11% from the prior quarter. We've closed almost all of the Flagstar purchase, which we announced at the end of 2012. And we continue to see positive momentum in Commercial Real Estate and Equipment Finance.

In our Trade Finance business our factoring volume was up 6% year-over-year. And in our Vendor Finance business, our assets were up 2% sequentially, 9% year-over-year.

So our businesses are growing, we're meeting our profitability targets, and we are focused on our expenses.

Although we continue to have constructive dialogue with both the New York and the Washington Fed, we have nothing new to report on that front. And on the U.S. economy, we see a continuation in the U.S. economy of modest growth.

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

Scott T. Parker, Chief Financial Officer

Thank you, John, and good morning, everyone.

We reported another quarter of GAAP earnings with a minimal net impact from FSA. As such, we have now transitioned our key metrics to a GAAP basis, which should make our results easier to analyze and understand.

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Here are some highlights from the quarter. Our commercial portfolio grew 11% from a year ago and 4% sequentially. Total average earning assets grew 2% from the fourth quarter. Net finance margin was well over 4%. Our credit metrics remain stable and near cycle lows and our pre-tax ROA was above 2%.

More specifically, as John mentioned, we reported net income of $163 million, which included $18 million in debt charges related to the redemption of retail notes. Excluding these charges, pre-tax earnings were $199 million, down from $334 million last quarter, primarily due to lower non-spread revenue. In addition, this quarter's results included $6 million of restructuring charges compared to $12 million last quarter.

Total financing and leasing assets increased $1.2 billion this quarter, reflecting growth in our commercial portfolio. Funded volume was slightly under $2 billion and included just one scheduled aircraft delivery of $36 million. We also had about $850 million in portfolio purchases, $700 million in Corporate Finance related to the Flagstar purchase and the remainder in Vendor Finance.

As John mentioned, we continue to fund essentially all of our U.S. business in CIT Bank, which now represents about a third of our commercial lending and leasing assets.

Net finance margin was 443 basis points this quarter. On a comparative basis, it is still important to adjust for the impact of debt redemptions. Therefore, excluding these items, adjusted net finance margin was 464 basis points, which compares to 488 basis points last quarter and 297 basis points in the first quarter of last year.

Finance margin continues to benefit from suspended depreciation on assets held for sale and yield-related prepayment fees. The sequential quarter decrease is largely explained by lower net FSA loan accretion, as lower operating lease revenue was largely offset by lower funding cost. You can see the trends and components on page 5 and page 6 of our presentation.

Other income was $70 million, down from the fourth quarter, which benefited significantly from some event-driven items we discussed last quarter. As you can see on page 7 of the presentation, factoring commissions, fee revenue and gains on equipment sales were about 90 basis points of AEA, or $73 million. This was down from $95 million in the fourth quarter, mainly due to lower gains on sale of leasing equipment and lower fee revenue, consistent with lending activity.

Excluding restructuring charges, operating expenses were $229 million, basically flat to last quarter after adjusting for the $10 million recovery of legal costs. As I previously mentioned, we had some seasonal headwinds in the first quarter from compensation-related items, such as FICA restart, 401(k) match and new equity grants, including the accelerated cost for retirement eligible employees.

I would like to update you on the key actions we have taken towards our goal to reduce the quarterly run rate of expenses by $15 million to $20 million. We have reduced headcount by a total of 140 since September of 2012, which is net of new hires in growth areas. We have reduced our use of third-party resources, and we modified several benefit plans at the end of last year.

Our focus during the first quarter was to address sub-scale operations and product lines. We decided to exit seven small platforms in Latin America and Asia. We are also evaluating our European vendor platforms, given the Dell portfolio sale expected to close later this year.

Addressing sub-scale operations will deliver additional cost savings later in the year and into 2014, as we work through the optimal strategy in each country. And we continue to look at additional opportunities to address product lines that do not meet our profitability targets.

And finally, our first-quarter income tax provision was $15 million, reflecting the mix of earnings, as well as some discrete items that reduced the provision by about $5 million. Our tax expense is mainly driven by international earnings, but also includes state taxes.

There are a number of our moving parts in our tax provision, and this quarter's provision of $20 million before discrete items, is at the lower end of our expectations for the balance of the year. Therefore, for 2013, it is still best to think about a dollar amount of quarterly tax expense rather than an effective tax rate.

Now, I'd like to turn to the segment results. My remarks will continue to focus on sequential trends. Given the impact from accelerated debt charges over the last two quarters was minimal, my remarks will now focus on pre-tax GAAP results. However, you can still find the impact of debt-related items in the non-GAAP tables in the press release.

Corporate Finance's pre-tax income was $25 million. The decrease from last quarter was primarily due to lower non-spread revenues and higher operating expenses, which were low last quarter due to the recovery of legal fees. We also had a credit provision this quarter related to portfolio growth and mix, compared to a benefit from reserve releases last quarter.

Assets increased 11% from year end and 24% from a year ago, reflecting growth in our core U.S. middle-market business, Real Estate and Equipment Finance businesses and the Flagstar portfolio acquisition.

New business activity in the U.S. middle-market lending was down from a strong fourth quarter, as many clients closed deals before year end. We still see competition, as refinancings and dividend recaps were the main drivers of cash flow lending activity for the quarter, with banks and funds looking for assets. This dynamic is putting pressure on structure and spread.

That said, we are maintaining our pricing and underwriting discipline and are focusing on industries and businesses with low-to-moderate risk where we have expertise, such as power, healthcare, specialty chemicals.

As John mentioned, in Real Estate Finance we continue to see good deal flow that meets our risk-adjusted returns. Recently, we've started to see some more liquidity coming back into that market.

Trade Finance's pre-tax income was $9 million, down from last quarter, reflecting a higher credit provision, as this quarter reflected a reserve build for asset growth. Factoring volume was $6.4 billion, down 7% from the fourth quarter, which is a typical seasonal pattern, but up 6% from the first quarter of last year.

Factoring commissions were down reflecting some pricing pressure and business mix. We continue to diversify our client base, resulting in more factoring volume in non-apparel industries and portfolio quality remains solid, with a low level of charge-offs and non-accruals.

Vendor Finance's pre-tax income was $5 million, down from last quarter, primarily due to lower non-spread revenue and higher operating expenses. Recall that last quarter we had a gain on a platform sale.

Portfolio assets grew 2% sequentially and 9% from a year ago. New business volume was seasonally down this quarter and also reflected lower sales in the technology sector. And we purchased $150 million portfolio of assets. New business margins remain relatively stable on a risk-adjusted basis.

The roadmap to achieving our target profitability in this segment is to generate positive operating leverage by growing assets and reducing costs. As I mentioned, we have recently taken actions

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that will streamline the number of countries in which we operate. The benefits of these actions will be realized later this year and into 2014.

While we will continue to have a presence in the major regions of the world, we are focused on our scalable and profitable platforms. Our actions should result in annual cost savings of up to $20 million, with a minimal impact on assets and revenues. And we continue to invest in areas of growth, broadening our customer relationships, diversifying industry segments and delivering best-in-class service.

Finally, on Transportation Finance, their pre-tax income was $143 million, down sequentially, reflecting higher depreciation, as well as lower rental income. Assets were flat sequentially and up 5% from a year ago. This quarter, our air delivery schedule was light, with only one aircraft added, while we sold three as part of our ongoing portfolio management. John mentioned we had 100% utilization of our aircraft and we have placed all but one of our scheduled deliveries over the next 12 months.

There has been some compression in the renewal lease rates for certain aircraft, driven mainly by supply-demand imbalances and while we have seen signs of stabilization, this has contributed to lower rental income this quarter. That said, our team has done a very good job placing both new deliveries, as well as planes coming off lease.

In our rail business, fleet utilization remains solid at 97%, but we are experiencing some weakness in demand for coal and steel cars. We still see strong demand for new tank cars and increased our order book by another 1,500 cars that will be delivered in 2014 and 2015. We have lease commitments for all remaining deliveries and most of these will be originated by CIT Bank. Rental rates remain attractive and have generally stabilized at higher levels, with a few areas of softness.

Turning to funding, we continue to access cost-efficient funding sources and advance towards our target funding mix. We grew deposits by $1 billion, which now represent about a third of our total funding and we introduced new IRA products and custodial accounts. We established a CAD250 million asset-backed facility in Canada and our weighted average coupon has declined 5 basis points from last quarter to 3.13%.

So in summary, our pre-tax ROA was within our target range. We continue to focus on growing assets, while maintaining underwriting and pricing discipline. We have taken actions that will improve our operating leverage and are focused on executing our plans to address subscale operations and product lines. Finally, our franchises are strong and we are investing in growth areas.

With that, I'll turn it back over to Maureen and we'll take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is Brad Ball, Evercore. Please go ahead, sir.

<Q – Brad Ball – Evercore >: Thanks. You had indicated that you had submitted a capital plan to the Fed in January, requesting a moderate capital return. I wonder if you could update us on the status of that request?

<A – Scott Parker – CIT Group, Inc.>: Hey, Brad, this is Scott. As John mentioned, we don't have any further updates at this time, but I think as we mentioned, given the priority of the CCAR process, I think our expectations would not have been that we would have an answer at this time.

<Q – Brad Ball – Evercore >: Okay. Scott, do you think there's a link between the written agreement and the response that they're likely to give to your capital plan?

<A – Scott Parker – CIT Group, Inc.>: Brad, I think it's hard to answer that question. I think we've submitted the plan, we went through the details that we've talked about in regards to making sure that plan was comprehensive, but we have to leave it up to the Fed in regards to how they evaluate that.

<Q – Brad Ball – Evercore>: Okay. And no sense as to the timing of when we'll get information from the Fed?

<A – Scott Parker – CIT Group, Inc.>: No. As John mentioned, we're having dialogues and we don't have anything further to talk about today.

<Q – Brad Ball – Evercore>: Okay. And just separately, I wonder if you could comment on the net finance margin? Just the outlook? Where you think it's headed, based on the trends in asset yields and funding cost? Is there a lot of room still to bring down your funding costs further?

<A – Scott Parker – CIT Group, Inc.>: As I mentioned, in regard to our funding costs, the coupon went down about 5 basis points on an AEA basis. On the chart that we provided, it was down more than that. I think as we said, the majority of the improvement we can make is really going to be on more deposit funding.

We called some of these InterNotes that had pretty high coupons, but they were small dollar amounts. So we took about $50 million of retail notes that had coupon of 6%. So there's some small things, but I don't think you should expect the funding costs to come down like they did in the past.

So the factors are the FSA accretion for the reported numbers will come down, as I mentioned. And our hope is to try to offset some of the yield compression from the new originations through both the funding cost as well as some operating expenses.

<Q – Brad Ball – Evercore>: But there will be further yield compression?

<A – Scott Parker – CIT Group, Inc.>: Based on the current environment, I think that's prudent to think so.

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

Operator: Our next question will be from Mark DeVries from Barclays. Please go ahead, sir.

<Q – Mark DeVries – Barclays Capital>: Yeah. Thank you. What led to the increase in the depreciation expense during the quarter, up about 10% quarter-over-quarter, given that average operating lease assets were only up about 1%?

<A – Scott Parker – CIT Group, Inc.>: Hey, Mark. If you look on a sequential trend, there was a positive adjustment in the fourth quarter. And so the depreciation numbers in the first quarter really are just a result of a little bit of maintenance-cost increase that we saw. So it's kind of a little bit more event-driven.

<Q – Mark DeVries – Barclays Capital>: Okay. Should we then look at the 4Q as a more representative run-rate?

<A – Scott Parker – CIT Group, Inc.>: No. I think 4Q was probably a little bit low, so the first quarter is probably more representative of a run rate.

<Q – Mark DeVries – Barclays Capital>: Okay. Great. And then, as you look at managing your operating lease portfolio going forward, how much growth are you targeting, given the current economic backdrop?

<A – Scott Parker – CIT Group, Inc.>: Well, when you say targeted, we have an order book on the aircraft side. So from a perspective of growing that, it would have to be more in the sale-leaseback spot market. So we've opportunistically played in that market, depending on what the pricing is.

So outside of the order book, that would be the main driver. And we continue to do our portfolio management in regards to selling certain aircraft.

So I think that we're seeing modest growth. So I would say that probably continues on the aircraft side.

On the railcar side, it's been growing, because of the new orders we placed starting back in 2011. And we continue to opportunistically buy railcars. So those are delivering faster than the order book. So I think the rail book is growing faster than the aircraft book right now, on the operating-lease basis.

<Q – Mark DeVries – Barclays Capital>: Okay. That's helpful. Thanks.

Operator: Our next question will be from Sameer Gokhale, Janney Capital. Please go ahead.

<Q – Sameer Gokhale – Janney >: Hi. Thank you. Just a few questions.

First, in your factoring business, the volumes being up a little over 6% year-over-year – I think that trend has been better than we've seen in the year-over-year comps, if you look at what happened in 2012. So is that just an improvement in the overall environment? Or are you signing on more customers in Q1? Can you just shed a little bit of light on that?

<A – Scott Parker – CIT Group, Inc.>: Yeah, Sameer, I think it's a combination of both. I think the team has done a good job of signing new accounts, and also some new accounts outside of the apparel sector, which have different growth rates than the apparel side.

And then, number two, I think there's been a reduction in regards to the accounts that we had lost in the previous year. Overall economy, too.

<Q – Sameer Gokhale – Janney >: Okay. And then, in terms of growth in your volume in the Corporate Finance business, I think you said there was some part of that growth came from Commercial Real Estate. Can you just talk about how much of that growth was from CRE, versus maybe other types of businesses within Corporate Finance?

<A – Scott Parker – CIT Group, Inc.>: As we called out, Sameer, I think the Real Estate as well as the Equipment Finance business, are again, additional industry verticals that help us in the overall market.

So my sense would be as those markets are a little bit more specialized, and we have more competitive advantage with respect to the broad kind of corporate lending area, but the overall growth in that business has been, on a sequential basis, that we've been growing the assets in line with or above the market.

So we feel good about where we are in that business. And we will be price disciplined in regards to some of the markets that we don't feel the risk/return is there.

<Q – Sameer Gokhale – Janney >: Okay.

<A – Scott Parker – CIT Group, Inc.>: But the asset growth is more reflective. Some of the volume is, as I mentioned, more on the refinancing side, dividend recaps versus true new volume from M&A or buyouts.

<Q – Sameer Gokhale – Janney >: But wait. Are you playing in the dividend recaps or not? Because my impression was that historically, you have not done as much work in the dividend recap activity, just because that tends to be riskier. Maybe I just don't understand. So have you been doing more of that? Or you're not participating in that market?

<A – Scott Parker – CIT Group, Inc.>: I think in the first quarter, as I mentioned, that was a lot of the (market) activity.

<Q – Sameer Gokhale – Janney >: Okay.

<A – Scott Parker – CIT Group, Inc.>: So you're asking about the volume. So we do, again, as I mentioned before, Sameer, we do that selectively.

<Q – Sameer Gokhale – Janney >: Okay.

<A – Scott Parker – CIT Group, Inc.>: But it's not one of our core focuses. You're correct.
<Q – Sameer Gokhale – Janney >: Okay. Got it. Okay. And then, just the last question, on the dollar taxes. How should we model that going forward? Any specific dollar amount we should be thinking of on a quarterly basis?

<A – Scott Parker – CIT Group, Inc.>: It's hard for me, Sameer, to give you an exact amount. I think as I mentioned that if you take out the discrete items, which was a settlement that we had of $5 million, you're at $20 million. And I think that, based on the outlook for the year, I would say that's on the low end of our expectation.

<Q – Sameer Gokhale – Janney >: Okay. Okay. Thanks a lot, Scott.

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

Operator: Our next question will be from Chris Brendler, Stifel. Please go ahead.

<Q – Chris Brendler – Stifel>: Hi. Thanks. Good morning.

Scott, I actually have two areas of focus. One would be on just the volumes this quarter. Can you in any way give us an estimate of how much of that is just what's happened to the economy and the downshift we've seen in the first quarter? Or how much of it is competition picking up?

I'd like to look at these numbers and say, yeah, you had a good fourth quarter. Things have obviously slowed here a little bit in the first, but could pick up throughout the rest of the year. Can you talk about the pipeline right now and where you sit? And I have a follow-up.

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

My general sense – we were just talking with Sameer about the Corporate Finance area. I think that versus fourth quarter, it was clear that there was definitely activity that was pulled into the fourth quarter, as we mentioned before.

But I think our general tone is that we continue to grow at a multiple of the economy's growth. So as long as the economy continues to grow, we feel that we're positioned to grow at or better than the market in the Corporate Finance area.

I think on the Vendor side, it's growing in line with the industry. And as I think you might have seen in the first quarter, there was a little bit of CapEx reduction, or slowdown. So if that picks up, that would also benefit us.

And then on the operating lease businesses, as we mentioned before, most of that is just delivery of new equipment that we've already ordered. And then what's the balance of the assets that we sell.

<Q – Chris Brendler – Stifel>: Any comments on the pipeline? Like are things picking up as you went through the quarter?

<A – Scott Parker – CIT Group, Inc.>: Chris, my only hesitation on that one is every month gives you a different signal.

So I would say that the pipeline is okay. But I think that could always change, since we're only a couple weeks into April.

<Q – Chris Brendler – Stifel>: Sure. Okay. And the other question would be on the aircraft business. I was wondering if you could give a little more color on the weakness? What's driving some of the rental-rate decline?

I previously viewed your order book as a valuable asset. Those plane deliveries tended to be at higher rates, and drive some of the franchise value of CIT.

Is this something that's mostly macro? Is it temporary? Just give a little more color on the aircraft business. Thank you.

<A – Scott Parker – CIT Group, Inc.>: Yes, I just want to clarify, Chris, so the order book is not the driver of that. So the order book, as you said, is a valuable asset. And we place those usually up to 12 months in advance.

The main driver is really on some of the renewals of aircraft coming off lease, and some of the pricing pressure that there has been in certain aircraft, related to supply/demand imbalances. So you're seeing that come through the P&L.

<Q – Chris Brendler – Stifel>: Okay.

<A – Scott Parker – CIT Group, Inc.>: But there's no issue with the order book.

<A – John Thain – CIT Group, Inc.>: Chris, it's really in the A320 and particularly A319 class of aircraft, and it's just supply/demand.

<Q – Chris Brendler – Stifel>: Okay. And what percent of your book are those type of aircraft?

<A – Scott Parker – CIT Group, Inc.>: Well, I guess it's really with respect to what is coming off lease at the different time. So we've experienced – in 2012 and 2013, I would say, some proportion of those were the aircraft that John mentioned.

<A – John Thain – CIT Group, Inc.>: It's not a huge percentage of the overall aircraft portfolio, but it's just what's renewing in this current environment.

<Q – Chris Brendler – Stifel>: Got it. All right. Thanks, gentlemen.

Operator: Our next question is from David Hochstim, Buckingham Research. Please go ahead.

<Q – David Hochstim – Buckingham Research>: Hi. Thanks. I wondered, could you just help us think about provisioning and reserves going forward? You have very low level of charge-offs. You still have a pretty conservative reserve coverage, it looks like, relative to charge-offs and non-accruing loans. And I just wondered can you maintain this level of reserves?

<A – Scott Parker – CIT Group, Inc.>: Hey, David. Yeah. So I'd say, on the reserve side, we go through a rigorous analysis of the portfolio. And so from a perspective of that analysis, the coverage, on a commercial basis, has come down, but it still is north of 2%.

And my expectation would be, as we continue to grow the Commercial portfolio, we will provide for that. It's very hard, depending on the mix, to give you the exact impact that'll be on the reserve.

But we are very happy with some of the performance on the non-accruals, as well as the charge-offs. But as we've said, this is at cyclical lows. And it's very hard to give you any forecast of expectation for charge-offs going forward, other than they're pretty low.

<Q – David Hochstim – Buckingham Research>: Right.

<A – John Thain – CIT Group, Inc.>: Yeah, I think the only other comment I'd make is that our long-term targets for provisioning are 50 basis points to 75 basis points, and we're obviously significantly below that. That's reflective of the economic environment we're in right now, where we're still at the relatively early stages of a recovery, where you have very low interest rates and very high amounts amount of liquidity. That's keeping those credit statistics very low and very attractive. Over the economic cycle, they almost certainly cannot stay where they are.

<Q – David Hochstim – Buckingham Research>: Right. But I guess I'm just wondering – so for this year, it could be that provisioning for new loans is offset by the credit benefit?

<A – Scott Parker – CIT Group, Inc.>: It could be, in regards to the growth of the portfolio.

<Q – David Hochstim – Buckingham Research>: Yeah. Okay. And then could you just give us some color on the three maritime loans that you closed? What are those like? How big are they? What kinds of craft and pricing?

<A – John Thain – CIT Group, Inc.>: We could, but we're not going to.

<Q – David Hochstim – Buckingham Research>: Okay. Thank you. [laughter] How about the size, even?

<A – John Thain – CIT Group, Inc.>: The sizes are consistent with the size of loans that we make. So they're not outsized in any ways. The typical hold size for us is between $20 million and $50 million.

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

Operator: The next question will be from Moshe Orenbuch, Credit Suisse. Please go ahead.

<Q – Moshe Orenbuch – Credit Suisse>: Great. Thanks. Just, yeah most of my questions actually have been asked and answered. But I was struck by the comment that the ROA is in your target range. Could you maybe, Scott or John, comment on as we look forward you could talk about some expense reductions and some pressure potentially on asset yields? What other things and maybe flush out how much that ROA could change? And what the drivers should be as you go through 2013 into 2014?

<A – Scott Parker – CIT Group, Inc.>: Yeah. Sure. I think the piece would be, as we said, just start off on credit. So credit is below our target and so I think in terms of the drivers that we need to focus on, really the biggest one is operating expense. And so that's why we mentioned some of the actions that we're taking and that will continue to improve and drive down our operating expense ratio.

I think on the margin, where we are right now, because of suspended depreciation in some of the yield related fees, we are at the higher end and so I think that will come down. And then, I think the other one is our other income, once we get the suspended depreciation out of that number, it gets into the target range. So I think the key drivers are, as the operating expenses provide a buffer over time for both the increase in the credit line, as well as any price pressure we feel in the portfolio.

<Q – Moshe Orenbuch – Credit Suisse>: So just to flesh that out, you're saying roughly stable from here from an ROA perspective as the expense reductions get used essentially to fund those items?

<A – Scott Parker – CIT Group, Inc.>: I'll let you say that. It's a matter of the timing of all those items really to be the same. But if you talk about long term, over the next foreseeable future, I think that's reasonable.

<Q – Moshe Orenbuch – Credit Suisse>: Great. Thank you.

Operator: Our next question is Chris Kotowski, Oppenheimer and Company. Please go ahead.

<Q – Chris Kotowski – Oppenheimer Securities>: Yeah. I have a couple of things. First of all, you mentioned a weakness in coal and steel railcars and I'm curious; does the weakness in the coal, does that reflect the gas revolution? And are some of these coal cars, are those becoming impaired?

And then secondly, in the steel, how sensitive is that historically to economic activity? Is it a leading indicator? Is it a lagging indicator? How quickly does that normally flow-through?

<A – John Thain – CIT Group, Inc.>: So, on the coal cars, yes, it's directly related to natural gas prices and the ability of industries and power generators to switch out of coal and into natural gas. I think we've seen most of that already. So although the rates that we're getting on coal cars are

lower, as they renew, I think that we've seen most of that adjustment take place already. And we are renewing our coal cars, they're just being renewed at lower levels, so they're not impaired.

In terms of steel, it is a measure, or an indicator of economic activity, but it's a global economic indicator, not just a U.S. economic indicator. And I do think that some of that, although, because the U.S. does export steel both to Europe and to Asia, I think that's reflective of the economic slowdown in other parts of the world.

<Q – Chris Kotowski – Oppenheimer Securities>: Okay. And then separately, you've got $1.5 billion valuation allowance against your DTA and now that you've been profitable on a GAAP basis for two consecutive quarters, at what time do you revisit that valuation allowance? And would one expect that to come in ratably over time as you're profitable? Or would it be just that you make a single determination at some point in the future and recapture the whole thing?

<A – Scott Parker – CIT Group, Inc.>: Okay. Chris, first point I'll make, is that on the decision it's a binary decision, so it's all or nothing.

<Q – Chris Kotowski – Oppenheimer Securities>: Okay.

<A – Scott Parker – CIT Group, Inc.>: Two, you're correct, we are profitable on a book basis and in the quarter, we were marginally profitable on a tax basis. So it's really the taxable income that is the driver of the valuation allowance reversal, not book income.

And as I've mentioned on previous calls, the largest difference between our book and tax is really depreciation. So I think when we look at this thing, it's that given the size of our valuation allowance, we would have to have a multi period of time of sustainability in that taxable income in order to evaluate the ability to reverse that valuation allowance. That's not a near-term activity based on what we know today.

<Q – Chris Kotowski – Oppenheimer Securities>: Okay. And it's primarily a North American valuation allowance as I understand it, right? And the aircraft leasing revenues are booked overseas, so is that an issue that the geography of your earnings makes it harder to chew through that?

<A – Scott Parker – CIT Group, Inc.>: Well, you're right. A lot of our aircraft are in Ireland, not all, so we have the railcars, as well as some aircraft in the U.S. that creates the depreciation. But the focus for the valuation allowance, the majority of the valuation is U.S. taxable income. You are correct.

<Q – Chris Kotowski – Oppenheimer Securities>: Okay. All righty. Thank you.

Operator: Our next question is from Mike Turner, Compass Point. Please go ahead, sir.

<Q – Mike Turner – Compass Point >: Hi, good morning. It doesn't sound like this is really a large part of your business, but I'm curious if you have any comments regarding the Federal Reserve's recent guidance on leveraged loans that came out in late March?

<A – Scott Parker – CIT Group, Inc.>: Yeah, Mike. As you know, this guidance is not new, it's just something where the regulators have spent time and made it more comprehensive and they've added some additional guidance around stress testing and also reporting on leveraged-lending activity. But based on what we've been doing in our credit organization, we feel comfortable that what we do is in line with the guidance that is being talked about.

<Q – Mike Turner – Compass Point >: Do you think most of the industry's already been up to speed with this, since the initial proposal or the final guidance was really unchanged from the initial proposal?

<A – Scott Parker – CIT Group, Inc.>: I am not sure what do you mean?

<Q – Mike Turner – Compass Point >: Overall, I guess I'm just trying to see, do you think there's any – do you think the industry will have to adapt? Or really no change?

<A – Scott Parker – CIT Group, Inc.>: I guess in general, my sense would be probably not. But I'm not close enough to some of the other institutions in regards to their practices. But as I said, it's been out there, so it's just an enhancement. So my general feel would be, is that they should be able to adapt to it in due course.

<Q – Mike Turner – Compass Point >: Okay. Thanks. And then also on expenses, I guess you talked about – it sounds like another $20 million in targeted savings. What's the base that we would be working off of for that $20 million, the expense base?

<A – Scott Parker – CIT Group, Inc.>: Well, that $20 million is an annualized. So when we set out the $15 million to $20 million [quarterly target], it was based on our third quarter expense numbers.

<Q – Mike Turner – Compass Point >: Okay. So about $920 million or so annually-ish?

<A – Scott Parker – CIT Group, Inc.>: Yeah. And so that's where we're trying to reduce from that level.

<Q – Mike Turner – Compass Point >: Okay. Thank you.

Operator: Our next question is Cheryl Pate, Morgan Stanley. Please go ahead.

<Q – Cheryl Pate – Morgan Stanley >: Hi. Good morning. Just a question on the deposit side. With the online deposits now making up more than 50% of your deposit base, is there a specific target you're looking to get to? Or are you looking to replace the bulk of the brokered CD portfolio? And can you talk about the pricing differentials between the online offering and what you're getting?

<A – Scott Parker – CIT Group, Inc.>: I think it's just continued diversification of our funding. So our view point is that the brokered CDs offer a good ALM avenue to get duration on the portfolio, especially as we're putting in railcars and other longer-lived assets, we believe that that's a good match for that asset class. And so, I think what's happened is the brokered level has kind of stayed fairly flat and we've been growing the online, which we believe is a good mix for our portfolio.

The pricing differential between those two, I think, because the online is much more retail are shorter duration, so it's not something we really would do on the brokered CD side. So we're looking for five-plus years in the brokered CD market and the online is more of a one-year to three-year type product. But we feel good about the growth in the online and continue to diversify the product offering that we have, as well as getting multiple accounts within our current customer base.

<Q – Cheryl Pate – Morgan Stanley >: Great. Thanks. And then, just on the net finance margin. Can you give us a sense on how much the suspended depreciation and the prepayment penalties added in the quarter?

<A – Scott Parker – CIT Group, Inc.>: Yeah. Suspended depreciation really hasn't changed over the last couple of quarters, so that's still in line with what we've had before. And the prepayments were about the same as last quarter.

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

Operator: [Operator Instructions] Our next question is from Ken Bruce, Bank of America Merrill Lynch. Please go ahead.

<Q – Ken Bruce – Bank of America Merrill Lynch>: Thank you. Good morning. Can you hear me okay?

<A – Scott Parker – CIT Group, Inc.>: Yes, we can.

<A – John Thain – CIT Group, Inc.>: Yes, we can, Ken.

<Q – Ken Bruce – Bank of America Merrill Lynch>: Great. I'm hoping you could provide a little bit more context for some of the competitive pressure that you were mentioning, specifically in the Commercial Finance and the Transportation Finance? Is this broad based? If you could give any sense as to where you're seeing the competition, whether that be regional banks, large money centers? If structured finance is beginning to have an impact on some of the active players in those areas?

And you mentioned that term and pricing is under pressure. Is it your thought that some of these competitors are becoming a little undisciplined in terms of how they're going about the lending in those areas? And give us any sense as to how you're looking at that evolving over the course of the year please?

<A – Scott Parker – CIT Group, Inc.>: Okay, Ken, so let's separate the two. So on the Transportation side, I would say that that's not really driven by competition. I think in the aerospace, it's really supply and demand as we have aircraft coming off lease. And instead of sitting on the asset, we will release that asset at the market rates, because economically that's the better trade.

And John also mentioned what we're doing in Rail. So it's really when you have some of this softness, it's really around the market lease rates at that point in time. And so the team manages how to continue to keep the asset out there and then, manage the duration so that we can manage through those supply/demand cycles that we continue to have. So that one's not really a competitive aspect.

On the Corporate Finance, it's really not a lot different than what we've been talking about, it's that there's the more plain vanilla-type credits, there's a lot of appetite and a lot of folks looking for that paper, which puts pressure on the spreads, as well as on the structures. That's not our core market. So our dynamic is in the middle-market area, that impacts the overall pricing on a comparative basis. But we do see, as people are continuing to look for asset growth and yield, that does backup into our core market. But it's not a phenomenon that we haven't talked about last couple of quarters, it's just something we wanted to continue to give guidance on.

<Q – Ken Bruce – Bank of America Merrill Lynch>: Yes, I understand. I guess I'm trying to just get a better sense as to whether you're able to move out of areas that are becoming maybe a little frothy and lean on some of your core verticals with sufficient amount of pricing and volume expectation to, if you will, continue to grow the balance sheet in the manner that has been? Or if it's something where maybe the growth is ultimately got to slow because the market's getting a little in front of itself for the reasons that you mentioned?

<A – Scott Parker – CIT Group, Inc.>: Yeah. I would say in general, as you've talked about, on our ABL book, we have gone into the more structured area versus the retail ABL. So yes, we have done that and pricing there has been stable, or is still within our target returns. I think on the cash flow lending, it's some of the verticals I talked about in some of the industries where we're doing

most of our activity. And that's really where the Equipment Finance and Real Estate markets are very attractive, because that's a more structured product and it's an area where we can get the growth, as well as acceptable returns to offset some of that pressure.

So you are correct. That's what we've been doing. And that's an area that we'll continue to focus on. And then Maritime is also an additional complement to our existing capabilities and we'll continue to look at other opportunities where we can get the price and returns that we want to continue the asset growth.

<Q – Ken Bruce – Bank of America Merrill Lynch>: Good. Thank you very much for your comments.

Operator: Our final question will be from Daniel Furtado from Jefferies. Please go ahead.

<Q – Dan Furtado – Jefferies >: Good morning. Thank you for the opportunity. Can you please talk about the dynamics, competition and opportunity you do see in the Maritime Finance space? And also, is the plan here to eventually lease equipment in this space? Or is it solely to be thought of as a loan portfolio? Thank you.

<A – John Thain – CIT Group, Inc.>: Sure, Dan, I'll take that. So first of all, we have been in the maritime space for a long time. So we have provided maritime financing in the past. But when we looked at the marketplace, we actually, quite similar to Commercial Real Estate, many, if not all, of the European banks have pulled back from lending into that marketplace, asset prices were severely depressed, operating lease rates were very low. And so it is not a space that there appeared to be a lot of competitive pressure right now. And it's a space that we thought that our expertise, both in terms of asset management and in transportation assets, as well as having a history in that business, all of that made sense to us. And so we really have increased our focus on this space and really, right now, are looking at some very attractive opportunities to make loans against assets at good risk return profiles.

And so we are intending to start with loans, all the deals that we've done are in fact loans. But I would not rule out, at some point in time, us also owning assets to lease.

<Q – Dan Furtado – Jefferies >: Excellent. Thank you for the color there.

<A – John Thain – CIT Group, Inc.>: Sure.

Operator: We do have a final question, Henry Coffey, Sterne, Agee. Please go ahead, sir.

<Q – Henry Coffey – Sterne, Agee & Leach>: Yeah, Henry Coffey with Sterne, Agee. Thank you for taking my question. The $20 million of overhead reduction, I know we've bounced around this a little bit. How much of it was realized in the first quarter? And how much do we have to go?

<A – Scott Parker – CIT Group, Inc.>: Okay, Henry, this is Scott. So I think the $20 million I mentioned was really go forward based on some of the actions we've taken in the first quarter. Then we had some actions that we took in the fourth quarter. So I think we saw some of that benefit coming through in the first quarter was offset by some of the comp-related items I mentioned.

<Q – Henry Coffey – Sterne, Agee & Leach>: Right.

<A – Scott Parker – CIT Group, Inc.>: So the actions we did take, we're seeing that come through, but it was not evident in our reported numbers in the first quarter. And then, the second actions, those will come in later in the year because of the the difficulties of working through that.

<Q – Henry Coffey – Sterne, Agee & Leach>: So if you subtract $6 million from your current overhead, you should have a sense of where you are today?

<A – Scott Parker – CIT Group, Inc.>: You're talking about the restructuring charge?

<A – John Thain – CIT Group, Inc.>: Yeah, restructuring.

<Q – Henry Coffey – Sterne, Agee & Leach>: Yeah, yeah.

<A – Scott Parker – CIT Group, Inc.>: Well, the comp-related items are not in the restructuring, those are in the comp and benefit line and those are just the seasonal first quarter, as other institutions have had, when we issued our third year of the RSU grants, we had the restart of FICA and 401(k) for many of our employees.

<Q – Henry Coffey – Sterne, Agee & Leach>: All right. And then on the buyback situation, obviously a frustrating point. Is it simply a question that you're in queue and the queue is moving very slowly? We've seen that with a lot of the companies we follow in the mortgage sector? Or is it that there's an active dialogue going on and obviously, you can't talk about that till the process is completed?

<A – John Thain – CIT Group, Inc.>: Well, I guess, I would say, we don't really know whether there's a queue or not. There is an active dialogue, but as far as the timing of getting a response, I don't think we have any information on that.

<Q – Henry Coffey – Sterne, Agee & Leach>: Great. Thank you very much.

<A – Ken Brause – CIT Group, Inc.>: Thanks, Henry.

Operator: Having no further questions, this concludes our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

Kenneth A. Brause, Executive Vice President of Investor Relations

Thank you, all, for joining this morning and as always, if you have follow-up questions, please call me or anybody else on the Investor Relations team. Thank you very much.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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