CIT GROUP INC
Form 10-Q
August 15, 2016

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

|X| Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016

| | Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 001-31369

CIT GROUP INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**65-1051192** (IRS Employer Identification Number)
11 West 42nd Street New York, New York (Address of Registrant s principal executive offices)	**10036** (Zip Code)
(212) 461-5200 (Registrant s telephone number)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes |X| No |_|

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of ‘large accelerated filer, ‘accelerated filer and ‘smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer |X| Accelerated filer |_| Non-accelerated filer |_| Smaller reporting company. |_|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes |_| No |X|

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes |X| No |_|

As of July 31, 2016 there were 201,992,080 shares of the registrant s common stock outstanding.

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Part One   Financial Information

Item 1. Consolidated Financial Statements

CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited) (dollars in millions   except share data)

	June 30, 2016	**December 31, 2015**

Assets		
Cash and due from banks, including restricted balances of $178.1 and $601.4 at June 30, 2016 and December 31, 2015[(1)], respectively (see Note 8 for amounts pledged)	$ 1,021.1	$ 1,481.2
Interest bearing deposits, including restricted balances of $626.1 and $229.5 at June 30, 2016 and December 31, 2015[(1)], respectively (see Note 8 for amounts pledged)	7,082.8	6,820.3
Investment securities, including securities carried at fair value with changes recorded in net income of $312.6 and $339.7 at June 30, 2016 and December 31, 2015, respectively (see Note 8 for amounts pledged)	3,229.1	2,953.8
Assets held for sale[(1)]	2,403.3	2,092.4
Loans (see Note 8 for amounts pledged)	30,456.8	31,671.7
Allowance for loan losses	(399.4)	(360.2)
Total loans, net of allowance for loan losses[(1)]	30,057.4	31,311.5
Operating lease equipment, net (see Note 8 for amounts pledged)[(1)]	16,864.6	16,617.0
Indemnification assets	375.5	414.8
Unsecured counterparty receivable	570.2	537.8
Goodwill	1,169.7	1,198.3
Intangible assets	168.9	176.3
Other assets, including $187.8 and $195.9 at June 30, 2016 and December 31, 2015, respectively, at fair value	3,288.6	3,297.6
Assets of discontinued operations	469.1	500.5
Total Assets	**$66,700.3**	**$67,401.5**
Liabilities		
Deposits	$32,879.1	$32,782.2
Credit balances of factoring clients	1,215.2	1,344.0
Other liabilities, including $262.3 and $221.3 at June 30, 2016 and December 31, 2015, respectively, at fair value	3,054.2	3,158.7
Borrowings, including $2,974.8 and $3,361.2 contractually due within twelve months at June 30, 2016 and December 31, 2015, respectively	17,510.1	18,441.8
Liabilities of discontinued operations	917.1	696.2
Total Liabilities	**55,575.7**	**56,422.9**
Stockholders Equity		
Common stock: $0.01 par value, 600,000,000 authorized		
Issued: 206,053,825 and 204,447,769 at June 30, 2016 and December 31, 2015, respectively	2.1	2.0
Outstanding: 201,990,271 and 201,021,508 at June 30, 2016 and December 31, 2015, respectively		
Paid-in capital	8,749.8	8,718.1
Retained earnings	2,656.9	2,557.4
Accumulated other comprehensive loss	(107.7)	(142.1)
Treasury stock: 4,063,554 and 3,426,261 shares at June 30, 2016 and December 31, 2015 at cost, respectively	(177.0)	(157.3)
Total Common Stockholders Equity	11,124.1	10,978.1
Noncontrolling minority interests	0.5	0.5
Total Equity	11,124.6	10,978.6
Total Liabilities and Equity	**$66,700.3**	**$67,401.5**

[(1)] *The following table presents information on assets and liabilities related to Variable Interest Entities (VIEs) that are consolidated by the Company. The difference between VIE total assets and total liabilities represents the Company s interests in those entities, which were eliminated in consolidation. The assets of the consolidated VIEs will be used to settle the liabilities of those entities and, except for the Company s interest in the VIEs, are not available to the creditors of CIT or any affiliates of CIT.*

Assets		
Cash and interest bearing deposits, restricted	$ 253.0	$ 314.2
Assets held for sale	212.5	279.7
Total loans, net of allowance for loan losses	1,945.8	2,218.6

Operating lease equipment, net	3,814.9	3,985.9
Other	11.0	11.2
Total Assets	**$ 6,237.2**	**$ 6,809.6**
Liabilities		
Beneficial interests issued by consolidated VIEs (classified as long-term borrowings)	$ 3,414.3	$ 4,084.8
Total Liabilities	**$ 3,414.3**	**$ 4,084.8**

The accompanying notes are an integral part of these consolidated financial statements.

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CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited) (dollars in millions except per share data)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest income				
Interest and fees on loans	$ 463.6	$ 274.8	$ 928.1	$ 547.2
Other interest and dividends	31.7	9.0	62.6	$ 17.6
Interest income	495.3	283.8	990.7	564.8
Interest expense				
Interest on borrowings	(183.1)	(193.0)	(370.0)	(395.3)
Interest on deposits	(99.4)	(72.2)	(198.9)	(141.2)
Interest expense	(282.5)	(265.2)	(568.9)	(536.5)
Net interest revenue	212.8	18.6	421.8	28.3
Provision for credit losses	(28.1)	(18.4)	(127.4)	(53.0)
Net interest revenue, after credit provision	184.7	0.2	294.4	(24.7)
Non-interest income				
Rental income on operating leases	569.3	531.7	1,144.7	1,062.3
Other income	104.3	63.5	205.2	149.9
Total non-interest income	673.6	595.2	1,349.9	1,212.2
Total revenue, net of interest expense and credit provision	858.3	595.4	1,644.3	1,187.5
Non-interest expenses				
Depreciation on operating lease equipment	(176.4)	(157.8)	(351.7)	(314.6)
Maintenance and other operating lease expenses	(64.9)	(49.4)	(121.1)	(95.5)
Operating expenses	(337.5)	(235.0)	(686.0)	(476.6)
Loss on debt extinguishment and deposit redemption	(4.1)	(0.1)	(5.7)	(0.1)
Total non-interest expenses	(582.9)	(442.3)	(1,164.5)	(886.8)
Income from continuing operations before provision for income taxes	275.4	153.1	479.8	300.7
Provision for income taxes	(94.3)	(37.8)	(147.0)	(81.8)

	Quarters Ended June 30,		Six Months Ended June 30,	
Income from continuing operations, before attribution of noncontrolling interests	181.1	115.3	332.8	218.9
Net loss attributable to noncontrolling interests, after tax				0.1
Income from continuing operations	181.1	115.3	332.8	219.0
Discontinued Operations				
Loss from discontinued operation, net of taxes	(167.0)		(171.8)	
Total loss from discontinued operations, net of tax	(167.0)		(171.8)	
Net Income	$ 14.1	$ 115.3	$ 161.0	$ 219.0
Basic income per common share				
Income from continuing operations	$ 0.90	$ 0.66	$ 1.65	$ 1.25
Loss from discontinued operation	(0.83)		(0.85)	
Basic income per share	$ 0.07	$ 0.66	$ 0.80	$ 1.25
Diluted income per common share				
Income from continuing operations	$ 0.90	$ 0.66	$ 1.65	$ 1.24
Loss from discontinued operation	(0.83)		(0.85)	
Diluted income per share	$ 0.07	$ 0.66	$ 0.80	$ 1.24
Average number of common shares (thousands)				
Basic	201,893	173,785	201,647	175,019
Diluted	202,275	174,876	202,208	175,971
Dividends declared per common share	$ 0.15	$ 0.15	$ 0.30	$ 0.30

The accompanying notes are an integral part of these consolidated financial statements.

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CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited) (dollars in millions)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Income before attribution of noncontrolling interests	$ 14.1	$ 115.3	$ 161.0	$ 218.9
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(2.7)	3.7	18.5	(24.7)
Net unrealized gains (losses) on available for sale securities	12.1	0.5	14.7	0.1
Changes in benefit plans net gain (loss) and prior service (cost)/credit	0.3	0.1	1.2	(0.3)
Other comprehensive income (loss), net of tax	9.7	4.3	34.4	(24.9)
Comprehensive income before noncontrolling interests	23.8	119.6	195.4	194.0
Comprehensive loss attributable to noncontrolling interests				0.1
Comprehensive income	$ 23.8	$ 119.6	$ 195.4	$ 194.1

The accompanying notes are an integral part of these consolidated financial statements.

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CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Unaudited) (dollars in millions)

	Common Stock	Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Minority Interests	Total Equity
December 31, 2015	$ 2.0	$ 8,718.1	$ 2,557.4	$ (142.1)	$ (157.3)	$ 0.5	$ 10,978.6
Net income			161.0				161.0
Other comprehensive income, net of tax				34.4			34.4
Dividends paid			(61.5)				(61.5)
Amortization of restricted stock, stock option and performance shares expenses		30.5			(19.7)		10.8
Issuance of common stock	0.1						0.1
Employee stock purchase plan		1.2					1.2
June 30, 2016	$2.1	$8,749.8	$2,656.9	$(107.7)	$ (177.0)	$ 0.5	$11,124.6
December 31, 2014	$2.0	$8,603.6	$1,615.7	$(133.9)	$(1,018.5)	$(5.4)	$9,063.5
Net income			219.0			(0.1)	218.9
Other comprehensive loss, net of tax				(24.9)			(24.9)
Dividends paid			(53.6)				(53.6)
Amortization of restricted stock, stock option and performance shares expenses		37.5			(21.6)		15.9
Repurchase of common stock					(392.7)		(392.7)
Employee stock purchase plan		1.0					1.0
Purchase of noncontrolling interest and distribution of earnings and capital		(26.5)				6.0	(20.5)
June 30, 2015	$2.0	$8,615.6	$1,781.1	$(158.8)	$(1,432.8)	$ 0.5	$ 8,807.6

The accompanying notes are an integral part of these consolidated financial statements.

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CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (dollars in millions)

	Six Months Ended June 30,	
	2016	2015
Cash Flows From Operations		
Net income	$ 161.0	$ 219.0
Adjustments to reconcile net income to net cash flows from operations:		
Provision for credit losses	127.4	53.0
Net depreciation, amortization and (accretion)	397.2	388.5
Net gains on asset sales	(40.6)	(45.6)
Provision for deferred income taxes	83.1	53.0
(Increase) decrease in finance receivables held for sale	244.3	(148.8)
Reimbursement of OREO expense from FDIC	4.4	
(Increase) decrease in other assets	(4.3)	54.6
Increase (decrease) in other liabilities	43.3	(169.4)
Net cash flows provided by operations	1,015.8	404.3
Cash Flows From Investing Activities		
Changes in loans, net	(47.4)	(720.7)
Purchases of investment securities	(1,852.8)	(5,061.6)
Proceeds from maturities of investment securities	1,624.1	4,814.6
Proceeds from asset and receivable sales	838.5	781.9
Purchases of assets to be leased and other equipment	(899.0)	(973.6)
Net decrease in short-term factoring receivables	(129.1)	91.7
Purchases of restricted stock		(2.7)
Proceeds from redemption of restricted stock	2.2	
Payments to the FDIC under loss share agreements	(2.1)	
Proceeds from the FDIC under loss share agreements and participation agreements	59.8	
Proceeds from sale of OREO, net of repurchases	72.7	
Net change in restricted cash	26.7	167.4
Net cash flows used in investing activities	(306.4)	(903.0)
Cash Flows From Financing Activities		
Proceeds from the issuance of term debt	4.2	956.8
Repayments of term debt	(905.2)	(3,020.0)
Proceeds from FHLB advances	1,645.5	64.1
Repayments of FHLB debt	(1,768.0)	(3.5)
Net increase in deposits	102.6	1,412.5
Collection of security deposits and maintenance funds	168.5	137.7
Use of security deposits and maintenance funds	(58.3)	(69.0)

	Six Months Ended June 30,	
Repurchase of common stock		(392.7)
Dividends paid	(61.5)	(53.6)
Purchase of noncontrolling interest		(20.5)
Payments on affordable housing investment credits	(8.1)	
Net cash flows used in financing activities	(880.3)	(988.2)
Decrease in unrestricted cash and cash equivalents	(170.9)	(1,486.9)
Unrestricted cash and cash equivalents, beginning of period	7,470.6	6,155.5
Unrestricted cash and cash equivalents, end of period	$ 7,299.7	$ 4,668.6
Supplementary Cash Flow Disclosure		
Interest paid	$ (579.9)	$ (538.3)
Federal, foreign, state and local income taxes (paid) collected, net	$ (6.4)	$ (17.7)
Supplementary Non Cash Flow Disclosure		
Transfer of assets from held for investment to held for sale	$ 1,528.3	$ 397.7
Transfer of assets from held for sale to held for investment	$ 76.8	$ 43.5
Deposits on flight equipment purchases applied to acquisition of flight equipment purchases, capitalized interest, and buyer furnished equipment	$ 179.9	$ 176.1
Transfers of assets from held for investment to OREO	$ 45.3	$

The accompanying notes are an integral part of these consolidated financial statements.

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CIT Group Inc., together with its subsidiaries (collectively CIT or, the Company), has provided financial solutions to its clients since its formation in 1908. The Company provides financing, leasing and advisory services principally to middle market companies in a wide variety of industries primarily in North America, and equipment financing and leasing solutions to the transportation industry worldwide. CIT is a bank holding company (BHC) and a financial holding company (FHC). Through its bank subsidiary, CIT Bank, N.A., CIT provides a full range of commercial and consumer banking and related services to customers through 70 branches located in Southern California and its online bank, bankoncit.com.

CIT is regulated by the Board of Governors of the Federal Reserve System (FRB) and the Federal Reserve Bank of New York (FRBNY) under the U.S. Bank Holding Company Act of 1956, as amended. CIT Bank, N.A. is regulated by the Office of the Comptroller of the Currency, U.S. Department of the Treasury (OCC).

BASIS OF PRESENTATION

Basis of Financial Information

These consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial information and accordingly do not include all information and note disclosures required by generally accepted accounting principles in the United States of America (GAAP) for complete financial statements. The financial statements in this Form 10-Q, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of CIT s financial position, results of operations and cash flows in accordance with GAAP. These consolidated financial statements should be read in conjunction with our Form 10-K for the year ended December 31, 2015, which is on file with the U.S. Securities and Exchange Commission. Effective March 31, 2016, CIT

re-organized its reportable operating segments to Commercial Banking, Transportation Finance, Consumer and Community Banking and Non-Strategic Portfolios. Refer to *Note 17 Business Segment Information* for further discussion.

The accounting and financial reporting policies of CIT Group Inc. conform to GAAP and the preparation of the consolidated financial statements requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates and assumptions. Some of the more significant estimates include: allowance for loan losses, loan impairment, fair value determination, lease residual values, liabilities for uncertain tax positions, realizability of deferred tax assets, purchase accounting adjustments, indemnification assets, goodwill, intangible assets, and contingent liabilities, including amounts associated with the discontinued operation. Additionally where applicable, the policies conform to accounting and reporting guidelines prescribed by bank regulatory authorities.

Principles of Consolidation

The accompanying consolidated financial statements include financial information related to CIT Group Inc. and its majority-owned subsidiaries and those variable interest entities (VIEs) where the Company is the primary beneficiary.

In preparing the consolidated financial statements, all significant inter-company accounts and transactions have been eliminated. Assets held in an agency or fiduciary capacity are not included in the consolidated financial statements.

The results for the quarter and six months ended June 30, 2016 contain activity of OneWest Bank, National Association (OneWest Bank), acquired on August 3, 2015, whereas no OneWest Bank activity for the comparable periods in 2015 are included. See *Note 2 Acquisition and Disposition Activities* for details. The current period s results of operations do not necessarily indicate the results that may be expected for any other interim period or for the full year as a whole.

Discontinued Operations

The Financial Freedom business, a division of CIT Bank, N.A. (formerly a division of OneWest Bank) that services reverse mortgage loans, was acquired as part of the OneWest Transaction. Pursuant to ASC 205-20, the Financial Freedom business was reflected as discontinued operations as of the August 3, 2015 OneWest Transaction and in the subsequent periods. The business includes the entire third party servicing of reverse mortgage operations, which consist of personnel, systems and servicing assets. The assets of discontinued operations primarily include Home Equity Conversion Mortgage (HECM) loans and servicing advances. The liabilities of discontinued operations include reverse mortgage servicing liabilities, which relates primarily to loans serviced for third party investors, secured borrowings and contingent liabilities. Unrelated to the Financial Freedom business, continuing operations includes a portfolio of reverse mortgages, which is reported in the Consumer and Community Banking segment.

In addition to the mortgage servicing rights, discontinued operations reflect HECM loans, which were pooled and securitized in the form of GNMA HMBS and sold into the secondary market with servicing retained. These HECM loans are insured by the Federal Housing Administration (FHA). Based upon the structure of the GNMA HMBS securitization program, the Company has determined that the HECM loans transferred into the program had not met all of the requirements for sale accounting and therefore, has accounted for these transfers as a financing transaction. Under a financing transaction, the transferred loans remain

on the Company s statement of financial position and the proceeds received are recorded as a secured borrowing.

Discontinued Operations are discussed in *Note 2 Acquisition and Disposition Activities.*

Revisions of Previously Issued Statements of Cash Flows

In preparing the financial statements for the six months ended June 30, 2016, the Company discovered and corrected immaterial errors impacting the classification of certain balances between line items and categories presented in the Consolidated Statements of Cash Flows. The most significant of these errors related to classification issues between the operating and investing sections. The Company has evaluated the impact of

the errors and has concluded that individually and in the aggregate, the errors were not material to any previously issued Statement of Cash Flows. However, the Company has elected to revise the Statements of Cash Flows for the six months ended June 30, 2015, in this filing, and will revise previously issued balances in the Statements of Cash Flows when they are next filed in the Company s Form 10-Q for the quarters ended September 30, 2016 and March 31, 2017, and in the Form 10-K for the year ended December 31, 2016.

The amounts presented comparatively for the six months ended June 30, 2015 have been revised for these misclassifications. For the six months ended June 30, 2015, the misclassifications resulted in an overstatement of net cash flows provided by operations of $26 million, an understatement of net cash flows used in investing activities of $17 million, and an overstatement of net cash flows used in financing activities of $43 million.

These revisions had no impact on the Company s reported net income, shareholders equity, net change in cash, total assets, or total liabilities for any period.

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are included with the current Form 10-K on file. There were no material changes to these policies during the six months ended June 30, 2016 except for applicable updates to reflect the change in segment and classes.

Accounting Pronouncements Adopted

During the first quarter of 2016, the Company adopted the following Accounting Standards Updates (ASU) issued by the Financial Accounting Standards Board (FASB):

- ASU 2014-12, *Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*;
- ASU 2015-01, *Income Statement Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*;
- ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*;
- ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*; and
- ASU 2015-15, *Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting*.

Stock Compensation

ASU 2014-12 directs that a performance target that affects vesting and can be achieved after the requisite service period is a performance condition. That is, compensation cost would be recognized over the required service period if it is probable that the performance condition would be achieved. The total amount of compensation cost recognized during and after the requisite service period would reflect the number of awards that are expected to vest and would be adjusted to reflect those awards that ultimately vest. The ASU does not require additional disclosures.

CIT adopted this ASU, effective January 1, 2016, to all awards granted or modified after the effective date. Adoption of this guidance did not have a significant impact on CIT s financial statements or disclosures.

Extraordinary and Unusual Items

ASU 2015-01 eliminates the concept of extraordinary item and the need for entities to evaluate whether transactions or events are both unusual in nature and infrequently occurring.

The ASU precludes (1) segregating an extraordinary item from the results of ordinary operations; (2) presenting separately an extraordinary item on the income statement, net of tax, after income from continuing operations; and (3) disclosing income taxes and earnings-per-share data applicable to an extraordinary item. However, the ASU does not affect the reporting and disclosure requirements for an event or transaction that is unusual in nature or that occurs infrequently. Consequently, although the Company will no longer need to determine whether a transaction or event is both unusual in nature and infrequently occurring, CIT will still need to assess whether items are unusual in nature or infrequent to determine if the additional presentation and disclosure requirements for these items apply.

CIT adopted this ASU effective January 1, 2016. Adoption of this guidance did not have a significant impact on CIT s financial statements or disclosures.

Consolidation

ASU 2015-02 amended the current consolidation guidance to change the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity (VIE), and (c) variable interests in a VIE held by related parties

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of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities.

The Board changed the way the voting rights characteristic in the VIE scope determination is evaluated for corporations, which may significantly impact entities for which decision making rights are conveyed though a contractual arrangement.

Under ASU 2015-02:

- More limited partnerships and similar entities will be evaluated for consolidation under the revised consolidation requirements that apply to VIEs.
- Fees paid to a decision maker or service provider are less likely to be considered a variable interest in a VIE.
- Variable interests in a VIE held by related parties of a reporting enterprise are less likely to require the reporting enterprise to consolidate the VIE.
- There is a new approach for determining whether equity at-risk holders of entities that are not similar to limited partnerships have power to direct the entity s key activities when the entity has an outsourced manager whose fee is a variable interest.
- The deferral of consolidation requirements for certain investment companies and similar entities of the VIE in ASU 2009-17 is eliminated.

The impacts of the update include:

- A new consolidation analysis is required for VIEs, including many limited partnerships and similar entities that previously were not considered VIEs.
- It is less likely that the general partner or managing member of limited partnerships and similar entities will be required to consolidate the entity when the other investors in the entity lack both participating rights and kick-out rights.
- Limited partnerships and similar entities that are not VIEs will not be consolidated by the general partner.
- It is less likely that decision makers or service providers involved with a VIE will be required to consolidate the VIE.
- Entities for which decision making rights are conveyed through a contractual arrangement are less likely to be considered VIEs.
- Reporting enterprises with interests in certain investment companies and similar entities that are considered VIEs will no longer evaluate those entities for consolidation based on majority exposure to variability.

CIT adopted ASU 2015-02, effective January 1, 2016, under the modified retrospective approach. Based on CIT s re-assessment of its VIEs under the amended guidance, the adoption of this ASU did not have a significant impact on CIT s financial statements or disclosures.

Debt Issuance Costs

ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount.

Debt issuance costs are specific incremental costs, other than those paid to the lender, that are directly attributable to issuing a debt instrument (*i.e.,* third party costs). Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as a deferred charge (*i.e.,* an asset).

ASU 2015-15 clarified ASU 2015-03, which did not address the balance sheet presentation of debt issuance costs that are either (1) incurred before a debt liability is recognized (*e.g.,* before the debt proceeds are received), or (2) associated with revolving debt arrangements. ASU 2015-15 states that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing deferred debt issuance costs ratably over the term of the LOC arrangement, regardless of whether there are outstanding borrowings under that LOC arrangement.

In accordance with the new guidance, CIT reclassified deferred debt costs previously included in other assets to borrowings in the first quarter of 2016 and conformed prior periods. The adoption of this guidance did not have a significant impact on CIT s financial statements or disclosures.

Recent Accounting Pronouncements

The following accounting pronouncements have been issued by the FASB but are not yet effective:

- ASU 2014-09, *Revenue from contracts with customers (Topic 606;)*
- ASU 2014-15, *Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern;*
- ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date;*
- ASU 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*;
- ASU 2016-02, *Leases (Topic 842)*;
- ASU 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*;
- ASU 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments*;
- ASU 2016-07, *Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*;

- ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*;
- ASU 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting;*
- ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*;
- ASU 2016-11: *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC guidance because of ASU 2014-09 and ASU 2014-16 pursuant to staff announcements at the March 3, 2016 EITF meeting;*
- ASU 2016-12: *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients; and*
- ASU 2016-13: *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.*

Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern

ASU 2014-15 describes how entities should assess their ability to meet their obligations and sets disclosure requirements about how this information should be communicated. The standard will be used along with existing auditing standards, and provides the following key guidance:

1. Entities must perform a going concern assessment by evaluating their ability to meet their obligations for a look-forward period of one year from the financial statement issuance date (or date the financial statements are available to be issued).
2. Disclosures are required if it is probable an entity will be unable to meet its obligations within the look-forward period. Incremental substantial doubt disclosure is required if the probability is not mitigated by management s plans.

3. Pursuant to the ASU, substantial doubt about an entity s ability to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations as they become due within one year after the date the annual or interim financial statements are issued or available to be issued (assessment date).

The new standard applies to all entities for the first annual period ending after December 15, 2016. Company management is responsible for assessing going concern uncertainties at each annual and interim reporting period thereafter. The adoption of this guidance is not expected to have a significant impact on CIT s financial statements or disclosures.

Financial Instruments

ASU 2016-01 addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The main objective is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments to current GAAP are summarized as follows:

- Supersede current guidance to classify equity securities into different categories (*i.e.,* trading or available-for-sale);
- Require equity investments to be measured at fair value with changes in fair value recognized in net income, rather than other comprehensive income. This excludes those investments accounted for under the equity method, or those that result in consolidation of the investee;
- Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment (similar to goodwill);
- Eliminate the requirement to disclose the method(s) and significant assumptions used to estimate fair value that is required to be disclosed for financial instruments measured at amortized cost;
- Require the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes;
- Require an entity to present separately in other comprehensive income the portion of the change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with fair value option for financial instruments;
- Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (*i.e.,* securities, or loans and receivables) on the balance sheet or accompanying notes to the financial statements;
- Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity s other deferred tax assets.

For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. CIT is currently evaluating the impact of adopting this amendment on its financial instruments.

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Leases

ASU 2016-02, which is intended to increase transparency and comparability of accounting for lease transactions, will require all leases to be recognized on the balance sheet as lease assets and lease liabilities.

Lessor accounting remains similar to the current model, but updated to align with certain changes to the lessee model (*e.g.,* certain definitions, such as initial direct costs, have been updated) and the new revenue recognition standard. Lease classifications by lessors are similar; operating, direct financing, or sales-type.

Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit thresholds. The ASU will require both quantitative and qualitative disclosures regarding key information about leasing arrangements.

The standard is effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. CIT is currently evaluating the effect of this ASU on its financial statements and disclosures.

Derivatives and Hedge Accounting

ASU 2016-05 clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. An entity will, however, still need to evaluate whether it is probable that the counterparty will perform under the contract as part of its ongoing effectiveness assessment for hedge accounting. Therefore, a novation (replacing one counterparty to a derivative instrument with a new counterparty) of a derivative to a counterparty with a sufficiently high credit risk could still result in the dedesignation of the hedging relationship. The new guidance, which may be applied either on a prospective basis or a modified retrospective basis, is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. CIT is currently reviewing the impact of adopting this guidance on CIT s financial statement or disclosures.

ASU 2016-06 clarifies that in assessing whether an embedded contingent put or call option is clearly and closely related to the debt host, an entity is required to perform only the four-step decision sequence in ASC 815, as amended by the ASU. Accordingly, when a call (put) option is contingently exercisable, there is no requirement that an entity must assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. The new guidance is effective for public business entities in interim and annual periods in fiscal years beginning after December 15, 2016. Early adoption is permitted in any interim period for which the entity s financial statements have not been issued but would be retroactively applied to the beginning of the year that includes that interim period. CIT is currently evaluating the effect of this ASU on its financial statements and disclosures.

Equity Method and Joint Ventures

ASU 2016-07 eliminates the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting.

For available-for-sale securities that become eligible for the equity method of accounting, any unrealized gain or loss recorded within accumulated other comprehensive income should be recognized in earnings at the date the investment initially qualifies for the use of the equity method.

The new standard should be applied prospectively for investments that qualify for the equity method of accounting after the effective date. For all entities, public and nonpublic, the new standard is effective for interim and annual periods beginning after December 15, 2016. Early adoption is permitted. CIT is currently evaluating the effect of this ASU on its financial statements and disclosures.

Revenue Recognition

ASU 2014-09 will supersede virtually all of the revenue recognition guidance in GAAP, except as it relates to lease accounting. The core principle of the five-step model is that a company will recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. In doing so, many companies will have to make more estimates and use more judgment than they do under current GAAP. The five-step

analysis of transactions, to determine when and how revenue is recognized, includes:

1. Identify the contract with the customer.
2. Identify the performance obligations in the contract.

3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations.
5. Recognize revenue when or as each performance obligation is satisfied.

Companies can choose to apply the standard using either the full retrospective approach or a modified retrospective approach. Under the modified approach, financial statements will be prepared for the year of adoption using the new standard, but prior periods will not be adjusted. Instead, companies will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the company and disclose all line items in the year of adoption as if they were prepared under today s revenue guidance.

ASU 2015-14 deferred the effective date one year for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period, which means CIT would apply the standard in their SEC filings for the first quarter of 2018. Public companies that choose full retrospective application will need to apply the standard to amounts they report for 2016 and 2017 on the face of their full year 2018 financial statements.

ASU 2016-08 clarifies that when another party, along with the entity, is involved in providing a good or service to a customer, the entity must determine if the nature of its obligation is to provide a good or service to a customer (that is, to be a principal) or is to arrange for the good or service to be provided to the customer (that is, to act as an agent). When (or as) an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified good or service to be provided by the other party. ASU 2016-08 also amends the principal-versus agent implementation guidance and illustrations in ASU 2014-09.

ASU 2016-10 clarifies identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. For identifying performance obligations, the ASU specifies that an entity is not required to assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract. In addition, an entity is permitted to account for shipping and handling activities that occur after the customer has obtained control of a good as an activity to fulfill the promise to transfer the good rather than as an additional promised service. The ASU also improves the guidance on assessing whether promises to transfer goods or services are separately identifiable. For licensing implementation, the ASU clarifies the timing of revenue recognition from a license to intellectual property. In addition, a sales-based or usage-based royalty is promised in exchange for a license and, therefore, the royalty s recognition constraint applies whenever a license is the sole or predominant item to which the royalty relates.

ASU 2016-11 rescinds certain SEC guidance from the FASB Accounting Standards Codification in response to announcements made by the SEC staff at the EITF s March 3, 2016, meetings. Specifically, the ASU supersedes SEC observer comments upon the adoption of ASU 2014-09 on topics related to revenue and expense recognition for freight services in process, and accounting for shipping and handling fees and costs, consideration given by a vendor to a customer, and gas-balancing arrangements.

ASU 2016-12 amends certain aspects of ASU 2014-09, which includes the following:

- Collectability ASU 2016-12 clarifies the objective of the entity s collectability assessment and contains new guidance on when an entity would recognize as revenue consideration it receives if the entity concludes that collectability is not probable;
- Presentation of sales tax and other similar taxes collected from customers Entities are permitted to present revenue net of sales taxes collected on behalf of governmental authorities (*i.e.,* to exclude from the transaction price sales taxes that meet certain criteria);
- Noncash consideration An entity s calculation of the transaction price for contracts containing noncash consideration would include the fair value of the noncash consideration to be received as of the contract inception date. Further, subsequent changes in the fair value of noncash consideration after contract inception would be subject to the variable consideration constraint only if the fair value varies for reasons other than its form;
- Contract modifications and completed contracts at transition The ASU establishes a practical expedient for contract modifications at transition and defines completed contracts as those for which all (or substantially all) revenue was recognized under the applicable revenue guidance before the new revenue standard was initially applied;
- Transition technical correction Entities that elect to use the full retrospective transition method to adopt the new revenue standard would no longer be required to disclose the effect of the change in accounting principle on the period of adoption; however, entities would still be required to disclose the effects on pre-adoption periods that were retrospectively adjusted.

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The effective date and transition of ASU 2016-08, 2016-10, 2016-11 and 2016-12 aligns with ASU 2014-09, as amended by ASU 2015-14, effective for fiscal years beginning after December 15, 2017.

CIT is currently reviewing the impact of adoption of these ASUs and has not determined the method of adoption or the effect of the standard on its ongoing financial reporting.

Stock Compensation

ASU 2016-09 simplifies several aspects of the accounting for share-based payment award transactions to employees, including:

- Require companies to record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement; a Company would account for excess tax benefits and deficiencies as discrete items in the period in which they occur (i.e., they would be excluded from the estimated annual effective tax rate).
- Eliminate the requirement that excess tax benefits be realized (*i.e.,* reduce income taxes payable) before being recognized, and to require excess tax benefits to be presented as an operating activity in the statement of cash flows.
- Use employee s shares to satisfy the employers statutory income tax withholding obligation. The threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions. Cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity.
- An entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur.

For the amendments that change the recognition and measurement of share-based payment awards, the new guidance requires transition under a modified retrospective approach, with a cumulative-effect adjustment made to retained earnings as of the beginning of the fiscal period in which the guidance is adopted. Prospective application is required for the accounting for excess tax benefits and tax deficiencies and for use of the practical expedient for estimating the expected term.

An entity should apply the new guidance retrospectively for all periods presented related to the classification of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirements. It can elect to apply the new guidance either prospectively or retrospectively, however, to the presentation of excess tax benefits on the statement of cash flows.

The guidance would be effective for public entities for annual reporting periods beginning after December 15, 2016. Early adoption would be permitted. CIT is currently evaluating the effect of this ASU on its financial statements and disclosures.

Credit Losses

ASU 2016-13 introduces a forward-looking expected loss model (the Current Expected Credit Losses (CECL) model) to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale (AFS) debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination.

CECL Model

The CECL model will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes loans, held-to-maturity debt securities, loan commitments, financial guarantees, and net investments in leases, as well as reinsurance and trade receivables. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure. The estimate of expected credit losses should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. Financial instruments with similar risk characteristics should be grouped together when estimating expected credit losses. The ASU does not prescribe a specific method to make the estimate so its application will require significant judgment. Generally, the initial estimate of the expected credit losses and subsequent changes in the estimate will be reported in current earnings. The expected credit losses will be recorded through an allowance for loan and lease losses (ALLL) in the statement of financial position.

AFS Debt Securities

The FASB made targeted improvements to the existing other-than-temporary impairment (OTTI) model in ASC 320 for certain AFS debt securities to eliminate the concept of other-than-temporary from that model. The new model will require an estimate of expected credit losses only when the fair value is below the amortized cost of the asset. The notable changes under the ASU include:

- Use of an ALLL approach (versus permanently writing down the security s cost basis) for impairment;
- Limit the ALLL to the amount at which the security s fair value is less than its amortized cost basis;
- Removing the consideration for the length of time fair value has been less than amortized cost when assessing credit loss;
- Removing the consideration for recoveries in fair value after the balance sheet date when assessing whether a credit loss exists.

Purchased Financial Assets with Credit Deterioration

The purchased financial assets with credit deterioration (PCD) model applies to purchased financial assets (measured at amortized cost or AFS) that have experienced more than insignificant credit deterioration since origination. This represents a change from the scope of what are considered purchased credit-impaired (PCI) assets in ASC 310-30 under current GAAP. The initial estimate of expected credit losses for a PCD would be recognized through an ALLL with an offset to the cost basis of the related financial asset at acquisition (*i.e.,* increases the cost basis of the asset, the gross-up approach with no impact to net income at initial recognition). Subsequently, the accounting will follow the applicable CECL or AFS debt security impairment model with all adjustments of the ALLL recognized through earnings. Beneficial interests classified as held-to-maturity or AFS will need to apply the PCD model if the beneficial interest meets the definition of PCD or if there is a significant difference between contractual and expected cash flows at initial recognition.

This guidance also expands the disclosure requirements regarding an entity s assumptions, models, and methods for estimating the ALLL. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination (i*.e.,* by vintage year).

Entities will apply the standard s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted (modified-retrospective approach). A prospective transition approach is required for debt securities for which an OTTI had been recognized before the effective date. A prospective transition approach should be used for PCD assets where upon adoption; the amortized cost basis should be adjusted to reflect the addition of the allowance for credit losses.

The ASU will be effective in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption of the guidance will be permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. CIT is currently evaluating the effect of this ASU on its financial statements and disclosures.

NOTE 2 ACQUISITION AND DISPOSITION ACTIVITIES

ACQUISITIONS

During 2015, the Company completed the following significant business acquisition.

OneWest Transaction

Effective August 3, 2015, CIT acquired IMB HoldCo, LLC (IMB), the parent company of OneWest Bank. CIT Bank, a Utah-state chartered bank and a wholly owned subsidiary of CIT, merged with and into OneWest Bank, with OneWest Bank surviving as a wholly owned subsidiary of CIT with the name CIT Bank, National Association. CIT paid approximately $3.4 billion as consideration, comprised of approximately $1.9 billion in cash proceeds, approximately 30.9 million shares of CIT Group Inc. common stock (valued at approximately $1.5 billion at the time of closing), and approximately 168,000 restricted stock units of CIT (valued at approximately $8 million at the time of closing). Total consideration

also included $116 million of cash retained by CIT as a holdback for certain potential liabilities relating to IMB and $2 million of cash for expenses of the holders representative. The acquisition was accounted for as a business combination, subject to the provisions of ASC 805-10-50, Business Combinations.

The acquisition added approximately $21.8 billion of assets, and $18.4 billion of liabilities to CIT s Consolidated Balance Sheet and 70 branches in Southern California. Primary reasons for the acquisition included advancing CIT s bank deposit strategy, expanding the Company s products and services offered to small and middle market customers, and improving CIT s competitive position in the financial services industry.

DISCONTINUED OPERATION

Reverse Mortgage Servicing

The Financial Freedom business, a division of CIT Bank (formerly a division of OneWest Bank) that services reverse mortgage loans, was acquired in conjunction with the OneWest Transaction. Pursuant to ASC 205-20, the Financial Freedom business is reflected as discontinued operations. The business includes the entire third party servicing of reverse mortgage operations, which consist of personnel, systems and servicing assets. The assets of discontinued operations primarily include Home Equity Conversion Mortgage (HECM) loans and servicing advances. The liabilities of discontinued operations include reverse mortgage servicing liabilities, which relates primarily to loans serviced for third party investors, secured borrowings and contingent liabilities. In addition, continuing operations includes a portfolio of reverse mortgages, which are recorded in the Legacy Consumer Mortgage division of the Consumer and Community Banking segment, and are serviced by Financial Freedom. Based on the Company s continuing assessment of market participants costs to service and contemplation of recent industry servicing practice changes, the Company s value for the reverse MSRs was a negative $10 million at June 30, 2016, which is unchanged from December 31, 2015.

As a mortgage servicer of residential reverse mortgage loans, the Company is exposed to contingent liabilities for breaches of servicer obligations as set forth in industry regulations established by the Department of Housing and Urban Development (HUD) and the Federal Housing Administration (FHA) and in servicing agreements with the applicable counterparties, such as third party investors.

Under these agreements, the servicer may be liable for failure to perform its servicing obligations, which could include fees imposed for failure to comply with foreclosure timeframe requirements established by servicing guides and agreements to which CIT is a party as the servicer of the loans. The Company has established reserves for contingent servicing-related liabilities associated with discontinued operations.

As disclosed in CIT s Form 10-K for fiscal year 2015, CIT determined that there was a material weakness related to the HECM interest curtailment reserve included in the contingent servicing-related liability associated with this business. During the quarter ended June 30, 2016, as a result of the ongoing review to remediate the material weakness and taking into consideration the investigation being conducted by the Office of Inspector General (OIG) for the HUD, the Company recorded additional reserves, due to a change in estimate, of approximately $230 million, which is net of a corresponding increase in the indemnification receivable from the FDIC noted in the paragraph below. While the Company believes that such accrued liabilities are adequate, it is reasonably possible that such liabilities could ultimately exceed the Company s reserve for probable and reasonably estimable losses by up to $10 million as of June 30, 2016, which decreased by $30 million from December 31, 2015.

A corresponding indemnification receivable from the FDIC of $91 million and $66 million at June 30, 2016 and December 31, 2015, respectively, was recognized for the loans covered by indemnification agreements with the FDIC reported in continuing operations. The indemnification receivable is measured using the same assumptions used to measure the indemnified item (contingent liability) subject to management s assessment of the collectability of the indemnification asset and any contractual limitations on the indemnified amount.

Condensed Balance Sheet of Discontinued Operation (dollars in millions)

	June 30, 2016	December 31, 2015

Net Finance Receivables[1]	$413.5	$449.5
Other assets[2]	55.6	51.0
Assets of discontinued operations	$469.1	$500.5
Secured borrowings[1]	$405.8	$440.6
Other liabilities[3]	511.3	255.6
Liabilities of discontinued operations	$917.1	$696.2

(1) *Net finance receivables include $404.8 million and $440.2 million of securitized balances at June 30, 2016 and December 31, 2015, respectively, and $8.7 million and $9.3 million of additional draws awaiting securitization respectively. Secured borrowings relate to those receivables.*

(2) *Amount includes servicing advances, servicer receivables and property and equipment, net of accumulated depreciation.*

(3) *Other liabilities include contingent liabilities, reverse mortgage servicing liabilities and other accrued liabilities.*

The results from discontinued operations for the quarter and six months ended June 30, 2016 is presented below. There was no activity from discontinued operations in the prior year quarter.

Condensed Statements of Operations (dollars in millions)

	June 30, 2016	
	Quarter Ended	**Six Months Ended**
Interest income[1]	$ 3.0	$ 5.9
Interest expense[1]	(2.7)	(5.7)
Other income	8.7	17.5
Operating expenses[2]	(245.3)	(261.5)
Loss from discontinued operation before benefit for income taxes	(236.3)	(243.8)
Benefit for income taxes[3]	69.3	72.0
Loss from discontinued operation, net of taxes	$(167.0)	$(171.8)

(1) *Includes amortization for the premium associated with the HECM loans and related secured borrowings.*

(2) *For the quarter and six months ended June 30, 2016, operating expense is comprised of $5.1 million and $5.9 million, respectively, in salaries and benefits, $5.7 million and $9.5 million, respectively, in professional and legal services, and $3.6 million and $7.1 million, respectively, for other expenses such as data processing, premises and equipment, and miscellaneous charges. In addition, operating expenses includes the current quarter s increase to the servicing-related reserve of approximately $230 million, which is net of a corresponding increase in the indemnification receivable from the FDIC.*

(3) *The Company s tax rate for discontinued operations is 30% for the quarter ended June 30, 2016.*

Condensed Statement of Cash Flows (dollars in millions)

	Six Months Ended June 30, 2016
Net cash flows used for operations	$(20.6)
Net cash flows provided by investing activities	45.8

NOTE 3 LOANS

The following tables and data as of June 30, 2016 include the loan balances acquired in the OneWest Transaction, which were recorded at fair value at the time of the acquisition (August 3, 2015). See *Note 2 Acquisition and Disposition Activities* in the Company s Annual Report filed on Form 10-K for the year ended December 31, 2015 for details of the OneWest Transaction.

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Finance receivables, excluding those reflected as discontinued operations, consist of the following:

Finance Receivables by Product (dollars in millions)

	June 30, 2016	December 31, 2015
Commercial loans	$ 20,538.2	$ 21,380.9
Direct financing leases and leveraged leases	3,154.4	3,427.5
Total commercial	23,692.6	24,808.4
Consumer loans	6,764.2	6,863.3
Total finance receivables	30,456.8	31,671.7
Finance receivables held for sale[(1)]	2,223.6	1,985.1
Finance receivables and held for sale receivables[(1)]	$ 32,680.4	$ 33,656.8

(1) *Assets held for sale on the Balance Sheet at June 30, 2016 includes finance receivables and operating lease equipment primarily related to portfolios in Canada, China, and Business Air. As discussed in subsequent tables, since the Company manages the credit risk and collections of finance receivables held for sale consistently with its finance receivables held for investment, the aggregate amount is presented in this table.*

The following table presents finance receivables by segment, based on obligor location:

Finance Receivables (dollars in millions)

	June 30, 2016			December 31, 2015		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Transportation Finance	$ 653.3	$1,959.8	$ 2,613.1	$ 815.1	$2,727.0	$ 3,542.1
Commercial Banking	20,374.3	335.5	20,709.8	20,607.9	321.3	20,929.2
Consumer and Community Banking[(1)]	7,133.9		7,133.9	7,200.4		7,200.4
Total	$28,161.5	$2,295.3	$30,456.8	$28,623.4	$3,048.3	$31,671.7

(1) *The Consumer and Community Banking segment includes certain commercial loans, primarily consisting of a portfolio of Small Business Administration (SBA) loans. These loans are excluded from the Consumer loan balance and included in the Commercial loan balances in the tables throughout this note.*

The following table presents selected components of the net investment in finance receivables:

Components of Net Investment in Finance Receivables (dollars in millions)

	June 30, 2016	December 31, 2015
Unearned income	$ (841.2)	$ (870.4)

	June 30, 2016	December 31, 2015
Unamortized premiums / (discounts)	(44.9)	(34.0)
Accretable yield on Purchased Credit-Impaired (PCI) loans	1,274.8	1,294.0
Net unamortized deferred costs and (fees)[1]	46.6	42.9

[1] *Balance relates to Commercial Banking and Transportation Finance segments.*

Certain of the following tables present credit-related information at the class level in accordance with ASC 310-10-50, *Disclosures about the Credit Quality of Finance Receivables and the Allowance for Credit Losses*. A class is generally a disaggregation of a portfolio segment. In determining the classes, CIT considered the finance receivable characteristics and methods it applies in monitoring and assessing credit risk and performance.

Credit Quality Information

Commercial obligor risk ratings are reviewed on a regular basis by Credit Risk Management and are adjusted as necessary for updated information affecting the borrowers ability to fulfill their obligations.

The definitions of the commercial loan ratings are as follows:

- Pass finance receivables in this category do not meet the criteria for classification in one of the categories below.
- Special mention a special mention asset exhibits potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects.

- Classified a classified asset ranges from: (1) assets that exhibit a well-defined weakness and are inadequately protected by the current sound worth and paying capacity of the borrower, and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected to (2) assets with weaknesses that make collection or liquidation in full unlikely on the basis of current facts, conditions, and values. Assets in this classification can be accruing or on non-accrual depending on the evaluation of these factors.

The following table summarizes commercial finance receivables by the risk ratings that bank regulatory agencies utilize to classify credit exposure and which are consistent with indicators the Company monitors. The consumer loan risk profiles are different from commercial loans, and use loan-to-value (LTV) ratios in rating the credit quality, and therefore are presented separately below.

Commercial Finance and Held for Sale Receivables Risk Rating by Class / Segment (dollars in millions)

Grade:	Pass	Special Mention	Classified-accruing	Classified-non-accrual	PCI Loans	Total
June 30, 2016						
Transportation Finance						
Aerospace	$ 1,363.4	$ 134.0	$ 32.9	$ 18.2	$	$ 1,548.5
Rail	105.4	1.2	0.3			106.9
Maritime Finance	891.0	374.7	365.7			1,631.4

Grade:	Pass	Special Mention	Classified- accruing	Classified- non-accrual	PCI Loans	Total
Total Transportation	2,359.8	509.9	398.9	18.2		3,286.8
Commercial Banking						
Commercial Finance	7,460.3	703.8	619.6	145.1	45.4	8,974.2
Real Estate Finance	5,231.6	177.3	70.3	7.1	79.8	5,566.1
Business Capital	5,833.9	488.0	263.7	55.6		6,641.2
Total Commercial Banking	18,525.8	1,369.1	953.6	207.8	125.2	21,181.5
Consumer & Community Banking						
Other Consumer Banking[(1)]	334.1	12.4	18.9		4.4	369.8
Non- Strategic Portfolios	872.1	57.2	65.9	45.1		1,040.3
Total	$22,091.8	$1,948.6	$1,437.3	$271.1	$129.6	$25,878.4
December 31, 2015						
Transportation Finance						
Aerospace	$ 1,635.7	$ 65.0	$ 46.2	$ 15.4	$	$ 1,762.3
Rail	118.9	1.4	0.6			120.9
Maritime Finance	1,309.0	162.0	207.4			1,678.4
Total Transportation Finance	3,063.6	228.4	254.2	15.4		3,561.6
Commercial Banking						
Commercial Finance	8,215.0	626.4	389.9	131.5	69.4	9,432.2
Real Estate Finance	5,143.2	97.6	18.6	3.6	94.6	5,357.6
Business Capital	5,649.0	517.0	320.1	56.0		6,542.1
Total Commercial Banking	19,007.2	1,241.0	728.6	191.1	164.0	21,331.9
Consumer & Community Banking						
Other Consumer Banking[(1)]	300.6	12.1	18.3		5.3	336.3
Non- Strategic Portfolios	1,286.3	115.4	60.1	56.0		1,517.8
Total	$23,657.7	$1,596.9	$1,061.2	$262.5	$169.3	$26,747.6

(1) *The Consumer and Community Banking segment includes certain commercial loans, primarily consisting of a portfolio of Small Business Administration (SBA) loans. These loans are excluded from the Consumer loan balance and included in the Commercial loan balances.*

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For consumer loans, the Company monitors credit risk based on indicators such as delinquencies and LTV, which the Company believes are relevant credit quality indicators.

LTV refers to the ratio comparing the loan s unpaid principal balance to the property s collateral value. We examine LTV migration and stratify LTV into categories to monitor the risk in the loan classes.

The following table provides a summary of the consumer portfolio credit quality. The amounts represent the carrying value, which differ from unpaid principal balances, and include the premiums or discounts and the accretable yield and non-accretable difference for PCI loans recorded in purchase accounting. Included in the consumer finance receivables are covered loans for which the Company can be reimbursed for a

substantial portion of future losses under the terms of loss sharing agreements with the FDIC if losses occur within the indemnification period. Covered loans are discussed further in *Note 5 Indemnification Assets.*

Included in the consumer loan balances as of June 30, 2016 and December 31, 2015, were loans with terms that permitted negative amortization with an unpaid principal balance of $849 million and $966 million, respectively.

Consumer Loan LTV Distribution (dollars in millions)

	Single Family Residential					**Reverse Mortgage**				
	Covered Loans		**Non-covered Loans**		**Total Single Family Residential**	**Covered Loans Non- PCI**	**Non-covered Loans**		**Total Reverse Mortgages**	**Total Consumer Loans**
LTV Range	**Non- PCI**	**PCI**	**Non- PCI**	**PCI**			**Non- PCI**	**PCI**		
June 30, 2016										
Greater than 125%	$ 0.8	$ 320.6	$ 14.3	$	$ 335.7	$ 0.8	$ 6.7	$35.5	$ 43.0	$ 378.7
101% 125%	2.4	536.5	10.2		549.1	1.2	9.8	11.5	22.5	571.6
80% 100%	321.6	565.6	25.5		912.7	26.9	38.8	8.3	74.0	986.7
Less than 80%	1,601.6	861.5	1,607.6	9.0	4,079.7	424.1	311.8	10.3	746.2	4,825.9
Not Applicable(1)			1.3		1.3					1.3
Total	$1,926.4	$2,284.2	$1,658.9	$ 9.0	$5,878.5	$453.0	$367.1	$65.6	$885.7	$6,764.2
December 31, 2015										
Greater than 125%	$ 1.1	$ 395.6	$ 0.8	$15.7	$ 413.2	$ 1.0	$ 3.9	$39.3	$ 44.2	$ 457.4
101% 125%	3.6	619.9	0.2	14.9	638.6	2.5	6.5	17.0	26.0	664.6
80% 100%	449.3	552.1	14.3	11.4	1,027.1	26.5	37.4	7.0	70.9	1,098.0
Less than 80%	1,621.0	829.3	1,416.1	12.9	3,879.3	432.6	312.5	11.1	756.2	4,635.5
Not Applicable(1)			7.8		7.8					7.8
Total	$2,075.0	$2,396.9	$1,439.2	$54.9	$5,966.0	$462.6	$360.3	$74.4	$897.3	$6,863.3

(1) *Certain Consumer Loans do not have LTV s, including the Credit Card portfolio.*

Covered loans are limited to the Consumer and Community Banking segment. The following table summarizes the covered loans (single family residential and reverse mortgages) as of June 30, 2016:

Covered Loans (dollars in millions)

	PCI	**Non-PCI**	**Total**
Consumer and Community Banking loans HFI at carrying value	$2,284.2	$2,379.4	$4,663.6

Past Due and Non-accrual Loans

The table that follows presents portfolio delinquency status, regardless of accrual/non-accrual classification:

Past Due Finance and Held for Sale Receivables (dollars in millions)

	Past Due						
	30 59 Days Past Due	**60 89 Days Past Due**	**90 Days or Greater**	**Total Past Due**	**Current[(1)]**	**PCI Loans[(2)]**	**Total Finances Receivables**
June 30, 2016							
Transportation Finance							
Aerospace	$	$ 0.5	$ 18.2	$ 18.7	$ 1,529.8	$	$ 1,548.5
Rail	0.3	1.2	2.0	3.5	103.4		106.9
Maritime Finance					1,631.4		1,631.4
Total Transportation Finance	0.3	1.7	20.2	22.2	3,264.6		3,286.8
Commercial Banking							
Commercial Finance	15.7	45.7	20.3	81.7	8,847.1	45.4	8,974.2
Real Estate Finance	1.5			1.5	5,484.8	79.8	5,566.1
Business Capital	97.4	32.9	20.4	150.7	6,490.5		6,641.2
Total Commercial Banking	114.6	78.6	40.7	233.9	20,822.4	125.2	21,181.5
Consumer & Community Banking							
Legacy Consumer Mortgages	19.9	7.1	38.1	65.1	2,767.5	2,358.8	5,191.4
Other Consumer Banking	8.2	1.4	0.9	10.5	1,965.5	4.4	1,980.4
Total Consumer & Community Banking	28.1	8.5	39.0	75.6	4,733.0	2,363.2	7,171.8
Non-Strategic Portfolios	15.7	6.8	16.1	38.6	1,001.7		1,040.3
Total	$158.7	$95.6	$116.0	$370.3	$29,821.7	$2,488.4	$32,680.4
December 31, 2015							
Transportation Finance							
Aerospace	$ 1.4	$	$ 15.4	$ 16.8	$ 1,745.5	$	$ 1,762.3
Rail	8.5	2.0	2.1	12.6	108.3		120.9
Maritime Finance					1,678.4		1,678.4
Total Transportation Finance	9.9	2.0	17.5	29.4	3,532.2		3,561.6
Commercial Banking							
Commercial Finance			20.5	20.5	9,342.3	69.4	9,432.2
Real Estate Finance	1.9		0.7	2.6	5,260.4	94.6	5,357.6
Business Capital	131.1	32.8	26.8	190.7	6,351.4		6,542.1
Total Commercial Banking	133.0	32.8	48.0	213.8	20,954.1	164.0	21,331.9
Consumer & Community Banking							
Legacy Consumer Mortgages	15.8	1.7	4.1	21.6	2,923.8	2,526.2	5,471.6
Other Consumer Banking	2.7	0.3	0.4	3.4	1,765.2	5.3	1,773.9
Total Consumer & Community Banking	18.5	2.0	4.5	25.0	4,689.0	2,531.5	7,245.5
Non-Strategic Portfolios	18.7	22.1	33.7	74.5	1,443.3		1,517.8
Total	$180.1	$58.9	$103.7	$342.7	$30,618.6	$2,695.5	$33,656.8

(1) *Due to their nature, reverse mortgage loans are included in Current, as they do not have contractual payments due at a specified time.*

(2) *PCI loans are written down at acquisition to their fair value using an estimate of cash flows deemed to be collectible. Accordingly, such loans are no longer classified as past due or non-accrual even though they may be contractually past due as we expect to fully collect the new carrying values of these loans.*

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Non-accrual loans include loans that are individually evaluated and determined to be impaired (generally loans with balances greater than $500,000), as well as other, smaller balance loans placed on non-accrual due to delinquency (generally 90 days or more for smaller commercial loans and 120 or more days regarding real estate mortgage loans).

Certain loans 90 days or more past due as to interest or principal are still accruing, because they are (1) well-secured and in the process of collection or (2) real estate mortgage loans or consumer loans exempt under regulatory rules from being classified as nonaccrual until later delinquency, usually 120 days past due.

The following table sets forth non-accrual loans, assets received in satisfaction of loans (OREO and repossessed assets) and loans 90 days or more past due and still accruing.

Finance Receivables on Non-Accrual Status (dollars in millions)

	June 30, 2016			December 31, 2015		
	Held for Investment	**Held for Sale**	**Total**	**Held for Investment**	**Held for Sale**	**Total**
Transportation Finance						
Aerospace	$	$ 18.2	$ 18.2	$ 15.4	$	$ 15.4
Total Transportation Finance		18.2	18.2	15.4		15.4
Commercial Banking						
Commercial Finance	135.6	9.5	145.1	120.5	11.0	131.5
Real Estate Finance	7.1		7.1	3.6		3.6
Business Capital	55.6		55.6	56.0		56.0
Total Commercial Banking	198.3	9.5	207.8	180.1	11.0	191.1
Consumer & Community Banking						
Legacy Consumer Mortgages	11.7		11.7	4.2	0.6	4.8
Other Consumer Banking					0.4	0.4
Total Consumer & Community Banking	11.7		11.7	4.2	1.0	5.2
Non-Strategic Portfolios		45.1	45.1		56.0	56.0
Total	$ 210.0	$ 72.8	$ 282.8	$ 199.7	$ 68.0	$ 267.7
OREO and repossessed assets			91.6			127.3
Total non-performing assets			$ 374.4			$ 395.0
Commercial loans past due 90 days or more accruing			$ 7.9			$ 15.6
Consumer loans past due 90 days or more accruing			27.3			0.2
Total Accruing loans past due 90 days or more			$ 35.2			$ 15.8

Payments received on non-accrual financing receivables are generally applied first against outstanding principal, though in certain instances where the remaining recorded investment is deemed fully collectible, interest income is recognized on a cash basis. Reverse mortgages are not

included in the non-accrual balances.

The table below summarizes the residential mortgage loans in the process of foreclosure and OREO:

Loans in Process of Foreclosure (dollars in millions)

	June 30, 2016	December 31, 2015
PCI	$241.4	$320.0
Non-PCI	111.5	71.0
Loans in process of foreclosure	$352.9	$ 391.0
OREO	$ 86.4	$118.0

Impaired Loans

The Company s policy is to review for impairment finance receivables greater than $500,000 that are on non-accrual status. Consumer and small-ticket loan and lease receivables that have not been modified in a restructuring, as well as short-term factoring receivables, are included (if appropriate) in the reported non-accrual balances above, but are excluded from the impaired finance receivables disclosure below as charge-offs are typically determined and recorded for such loans when they are more than 90 150 days past due.

The following table contains information about impaired finance receivables and the related allowance for loan losses by class, exclusive of finance receivables that were identified as impaired at the date of the OneWest Transaction (the Acquisition Date) for which the Company is applying the income recognition and disclosure guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*), which are disclosed further below in this note. Impaired loans exclude PCI loans.

Impaired Loans (dollars in millions)

				Average Recorded Investment			
				Three Months Ended June 30,		Six Months Ended June 30,	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	2016	2015	2016	2015
June 30, 2016							
With no related allowance recorded:							
Transportation Finance							
Aerospace	$	$	$	$ 0.5	$	$ 0.3	$
Commercial Banking							
Commercial Finance	9.8	23.9		10.0	0.5	11.8	0.8

				Average Recorded Investment			
Business Capital	9.0	22.1		8.3	4.9	7.7	5.5
Real Estate Finance	0.8	0.9		2.5		1.7	
Non-Strategic Portfolios					11.7		12.2
With an allowance recorded:							
Transportation Finance							
Aerospace					2.4	5.1	1.6
Commercial Banking							
Commercial Finance	126.7	134.6	25.0	132.6	34.2	122.6	32.7
Business Capital	7.8	7.8	4.0	10.4	4.8	10.2	3.2
Real Estate Finance	3.2	3.2	0.4	3.2		2.1	
Non-Strategic Portfolios					15.2		12.1
Total Impaired Loans(1)	157.3	192.5	29.4	167.5	73.7	161.5	68.1
Total Loans Impaired at Acquisition Date and Convenience Date(2)	2,488.4	3,649.4	7.7	2,524.7	0.1	2,581.6	0.4
Total	$2,645.7	$3,841.9	$37.1	$2,692.2	$73.8	$2,743.1	$68.5

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment(3)
December 31, 2015				
With no related allowance recorded:				
Commercial Banking				
Commercial Finance	$ 15.4	$ 22.8	$	$ 6.5
Business Capital	6.3	9.7		5.9
Real Estate Finance	0.2	0.8		0.7
Non-Strategic Portfolios				7.3
With an allowance recorded:				
Transportation Finance				
Aerospace	15.4	15.4	0.4	5.0
Commercial Banking				
Commercial Finance	102.6	112.1	22.7	53.2
Business Capital	9.7	11.7	4.7	5.4
Non-Strategic Portfolios				7.3
Total Impaired Loans(1)	149.6	172.5	27.8	91.3
Total Loans Impaired at Acquisition Date and Convenience Date(2)	2,695.5	3,977.3	4.9	1,108.0
Total	$2,845.1	$4,149.8	$32.7	$1,199.3

(1) *Interest income recorded for the three and six months ended June 30, 2016 and the year ended December 31, 2015 while the loans were impaired were $0.5 million, $0.9 million and $1.5 million of which $0.2 million, $0.4 million and $0.5 million was interest recognized using cash-basis method of accounting, respectively. Interest income recorded for the three and six months ended June 30, 2015 while the loans were impaired were $0.2 million and $0.6 million of which $0 was interest recognized using cash-basis method of accounting, respectively.*

(2) *Details of finance receivables that were identified as impaired at the Acquisition Date are presented under Loans Acquired with Deteriorated Credit Quality.*

(3) *Average recorded investment for the year ended December 31, 2015.*

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Impairment occurs when, based on current information and events, it is probable that CIT will be unable to collect all amounts due according to contractual terms of the agreement. For commercial loans, the Company has established review and monitoring procedures designed to identify, as early as possible, customers that are experiencing financial difficulty. Credit risk is captured and analyzed based on the Company s internal probability of obligor default (PD) and loss given default (LGD) ratings. A PD rating is determined by evaluating borrower credit-worthiness, including analyzing credit history, financial condition, cash flow adequacy, financial performance and management quality. An LGD rating is predicated on transaction structure, collateral valuation and related guarantees or recourse. Further, related considerations in determining probability of collection include the following:

- Instances where the primary source of payment is no longer sufficient to repay the loan in accordance with terms of the related loan document;
- Lack of current financial data related to the borrower or guarantor;
- Delinquency status of the loan;
- Borrowers experiencing problems, such as operating losses, marginal working capital, inadequate cash flow, excessive financial leverage or business interruptions;
- Loans secured by collateral that is not readily marketable or that has experienced or is susceptible to deterioration in realizable value; and
- Loans to borrowers in industries or countries experiencing severe economic instability.

Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable. A specific allowance or charge-off is recorded for the shortfall. In instances where the estimated value exceeds the recorded investment, no specific allowance is recorded. The estimated value is determined using fair value of collateral and other cash flows if the finance receivable is collateralized, the present value of expected future cash flows discounted at the contract s effective interest rate, or market price. A shortfall between the estimated value and recorded investment in the finance receivable is reported in the provision for credit losses. In instances when the Company measures impairment based on the present value of expected future cash flows, the change in present value is reported in the provision for credit losses.

The following summarizes key elements of the Company s policy regarding the determination of collateral fair value in the measurement of impairment:

- Orderly liquidation value is the basis for collateral valuation;
- Appraisals are updated annually or more often as market conditions warrant; and
- Appraisal values are discounted in the determination of impairment if the:
  - appraisal does not reflect current market conditions; or
  - collateral consists of inventory, accounts receivable, or other forms of collateral that may become difficult to locate, or collect or may be subject to pilferage in a liquidation.

Loans Acquired with Deteriorated Credit Quality

For purposes of this presentation, the Company is applying the income recognition and disclosure guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*) to loans that were identified as impaired as of the Acquisition Date. PCI loans were initially recorded at estimated fair value with no allowance for loan losses carried over, since the initial fair values reflected credit losses expected to be incurred over the remaining lives of the loans. The acquired loans are subject to the Company s internal credit review. See *Note 4 Allowance for Loan Losses.*

Purchased Credit Impaired Loans[(1)] (dollars in millions)

June 30, 2016

	Unpaid Principal Balance	Carrying Value	Allowance for Loan Losses
Commercial Banking			
Commercial Finance	$ 76.2	$ 45.4	$ 0.3
Real Estate Finance	132.6	79.8	2.3
Consumer & Community Banking			
Other Consumer Banking	5.7	4.4	
Legacy Consumer Mortgages	3,434.9	2,358.8	5.1
	$ 3,649.4	$ 2,488.4	$ 7.7

December 31, 2015	Unpaid Principal Balance	Carrying Value	Allowance for Loan Losses
Commercial Banking			
Commercial Finance	$ 115.5	$ 69.4	$ 2.5
Real Estate Finance	161.1	94.6	0.6
Consumer & Community Banking			
Other Consumer Banking	6.8	5.3	
Legacy Consumer Mortgages	3,693.9	2,526.2	1.8
	$ 3,977.3	$ 2,695.5	$ 4.9

(1) *PCI loans from prior transactions were not significant and are not included.*

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The following table summarizes commercial PCI loans within Commercial Banking, which are monitored for credit quality based on internal risk classifications. See previous table Consumer Loan LTV Distributions for credit quality metrics on consumer PCI loans.

	June 30, 2016		
(dollars in millions)	Non-criticized	Criticized	Total
Commercial Finance	$ 4.9	$40.5	$ 45.4
Real Estate Finance	34.3	45.5	79.8
Total	$39.2	$86.0	$125.2

	December 31, 2015		
	Non-criticized	Criticized	Total
Commercial Finance	$ 5.3	$ 64.1	$ 69.4
Real Estate Finance	33.2	61.4	94.6
Total	$38.5	$125.5	$164.0

Non-criticized loans generally include loans that are expected to be repaid in accordance with contractual loan terms. Criticized loans are risk rated as special mention or classified.

Accretable Yield

The excess of cash flows expected to be collected over the recorded investment (estimated fair value at acquisition) of the PCI loans represents the accretable yield and is recognized in interest income on an effective yield basis over the remaining life of the loan, or pools of loans. The accretable yield is adjusted for changes in interest rate indices for variable rate PCI loans, changes in prepayment assumptions and changes in expected principal and interest payments and collateral values. Further, if a loan within a pool of loans is modified, the modified loan remains part of the pool of loans. The difference between the cash flows contractually required to be paid, measured as of the Acquisition Date, over the expected cash flows is referred to as the non-accretable difference.

Subsequent to acquisition, we evaluate our estimates of the cash flows expected to be collected on a quarterly basis. Probable and significant decreases in expected cash flows as a result of further credit deterioration result in a charge to the provision for credit losses and a corresponding increase to the allowance for credit losses. Probable and significant increases in expected cash flows due to improved credit quality result in reversal of any previously recorded allowance for loan losses, to the extent applicable, and an increase in the accretable yield applied prospectively for any remaining increase. Changes in expected cash flows caused by changes in market interest rates or by prepayments are recognized as adjustments to the accretable yield on a prospective basis.

Changes in the accretable yield for PCI loans are summarized below for the quarter and six months ended June 30, 2016:

(dollars in millions)	**June 30, 2016**	
	Quarter Ended	**Six Months Ended**
Beginning Balance	$1,279.7	$1,294.0
Accretion into interest income	(51.3)	(100.9)
Reclassification from non-accretable difference	51.1	96.1
Disposals and Other	(4.7)	(14.4)
Balance at June 30, 2016	$1,274.8	$1,274.8

Troubled Debt Restructurings

The Company periodically modifies the terms of finance receivables in response to borrowers difficulties. Modifications that include a financial concession to the borrower are accounted for as troubled debt restructurings (TDRs).

CIT uses a consistent methodology across all loans to determine if a modification is with a borrower that has been determined to be in financial difficulty and was granted a concession. Specifically, the Company s policies on TDR identification include the following examples of indicators used to determine whether the borrower is in financial difficulty:

- Borrower is in default with CIT or other material creditor
- Borrower has declared bankruptcy
- Growing doubt about the borrower s ability to continue as a going concern
- Borrower has (or is expected to have) insufficient cash flow to service debt
- Borrower is de-listing its securities
- Borrower s inability to obtain funds from other sources
- Breach of financial covenants by the borrower.

If the borrower is determined to be in financial difficulty, then CIT utilizes the following criteria to determine whether a concession has been granted to the borrower:

- Assets used to satisfy debt are less than CIT s recorded investment in the receivable
- Modification of terms interest rate changed to below market rate
- Maturity date extension at an interest rate less than market rate

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- The borrower does not otherwise have access to funding for debt with similar risk characteristics in the market at the restructured rate and terms
- Capitalization of interest
- Increase in interest reserves
- Conversion of credit to Payment-In-Kind (PIK)
- Delaying principal and/or interest for a period of three months or more
- Partial forgiveness of the balance.

Modified loans that meet the definition of a TDR are subject to the Company s standard impaired loan policy, namely that non-accrual loans in excess of $500,000 are individually reviewed for impairment, while non-accrual loans less than $500,000 are considered as part of homogenous pools and are included in the determination of the non-specific allowance.

We may require some consumer borrowers experiencing financial difficulty to make trial payments generally for a period of three to four months, according to the terms of a planned permanent modification, to determine if they can perform according to those terms. These arrangements represent trial modifications, which we classify and account for as TDRs. While loans are in trial payment programs, their original terms are not considered modified and they continue to advance through delinquency status and accrue interest according to their original terms. The planned modifications for these arrangements predominantly involve interest rate reductions or other interest rate concessions; however, the exact concession type and resulting financial effect are usually not finalized and do not take effect until the loan is permanently modified. The trial period terms are developed in accordance with our proprietary programs or the U.S. Treasury s Making Homes Affordable programs for real estate 1-4 family first lien (*i.e.,* Home Affordable Modification Program HAMP) and junior lien (*i.e.*, Second Lien Modification Program 2MP) mortgage loans.

At June 30, 2016, the loans in trial modification period were $67.5 million under HAMP, $0.1 million under 2MP and $6.1 million under proprietary programs. Trial modifications with a recorded investment of $71.3 million at June 30, 2016 were accruing loans and $2.5 million were non-accruing loans. Our experience is that substantially all of the mortgages that enter a trial payment period program are successful in completing the program requirements and are then permanently modified at the end of the trial period. Our allowance process considers the impact of those modifications that are probable to occur.

The recorded investment of TDRs, excluding those classified as PCI, at June 30, 2016 and December 31, 2015 was $45.9 million and $40.2 million, of which 81% and 63%, respectively, were on non-accrual. Commercial Banking, NSP and Consumer and Community Banking receivables accounted for 73%, 12% and 15% of the total TDRs, respectively, at June 30, 2016. Commercial Banking and Transportation Finance receivables accounted for 61% and 26% of the total TDRs, respectively at December 31, 2015. There were $2.3 million and $1.4 million as of June 30, 2016 and December 31, 2015, respectively, of commitments to lend additional funds to borrowers whose loan terms have been modified in TDRs.

The recorded investment related to modifications qualifying as TDRs that occurred during the quarters ended June 30, 2016 and 2015 were $6.1 million and $1.7 million, respectively, and $19.8 million and $2.3 million for the six month periods, respectively. The recorded investment at the time of default of TDRs that experience a payment default (payment default is one missed payment), during the quarters ended June 30, 2016 and 2015, and for which the payment default occurred within one year of the modification totaled $2.0 million and $0.1 million, respectively, and $4.1 million and $0.4 million for the six month periods, respectively. The June 30, 2016 defaults related to Commercial Banking, Consumer and Community Banking and Non-Strategic Portfolios and the June 30, 2015 defaults related to Non-Strategic Portfolios.

The financial impact of the various modification strategies that the Company employs in response to borrower difficulties is described below. While the discussion focuses on the 2016 amounts, the overall nature and impact of modification programs were comparable in the prior year.

- The nature of modifications qualifying as TDR s based upon recorded investment at June 30, 2016 was comprised of payment deferrals for 6% and covenant relief and/or other for 94%. December 31, 2015 TDR recorded investment was comprised of payment deferrals for 13% and covenant relief and/or other for 87%.
- Payment deferrals result in lower net present value of cash flows, if not accompanied by additional interest or fees, and increased provision for credit losses to the extent applicable. The financial impact of these modifications is not significant given the moderate length of deferral periods;
- Interest rate reductions result in lower amounts of interest being charged to the customer, but are a relatively small part of the Company s restructuring programs. Additionally, in some instances, modifications improve the Company s economic return through increased interest rates and fees, but are reported as TDRs due to assessments regarding the borrowers ability to independently obtain similar funding in the market and assessments of the relationship between modified rates and terms and comparable market rates and terms. The weighted average change in interest rates for all TDRs occurring during the quarters ended June 30, 2016 and 2015 was not significant;
- Debt forgiveness, or the reduction in amount owed by borrower, results in incremental provision for credit losses, in the form of higher charge-offs. While these types of modifications have the greatest individual impact on the allowance, the amounts of principal

forgiveness for TDRs occurring during quarters ended June 30, 2016 and 2015 was not significant, as debt forgiveness is a relatively small component of the Company s modification programs; and

- The other elements of the Company s modification programs that are not TDRs, do not have a significant impact on financial results given their relative size, or do not have a direct financial impact, as in the case of covenant changes.

Reverse Mortgages

Consumer loans within continuing operations include an outstanding balance of $885.7 million and $897.3 million at June 30, 2016 and December 31, 2015, respectively, related to the reverse mortgage portfolio, of which $794.8 million and $812.6 million at June 30, 2016 and December 31, 2015, respectively, was uninsured. Reverse mortgage loans are contracts in which a homeowner borrows against the equity in their home and receives cash in one lump sum payment, a line of credit or fixed monthly payments for either a specific term or for as long as the homeowner lives in the home, or a combination of these options. Reverse mortgages feature no recourse to the borrower, no required repayment during the borrower s occupancy of the home (as long as the borrower complies with the terms of the mortgage), and, in the event of foreclosure, a repayment amount cannot exceed the lesser of either the unpaid principal balance of the loan or the proceeds recovered upon sale of the home. The mortgage balance consists of cash advanced, interest compounded over the life of the loan, capitalized mortgage insurance premiums, and other servicing advances capitalized into the loan.

The uninsured reverse mortgage portfolio consists of approximately 1,900 loans with an average borrowers age of 83 years old and an unpaid principal balance of $1,076.3 million at June 30, 2016. The realizable collateral value (the lower of the collectible principal and interest or the estimated value of the home) exceeds the outstanding book balance at June 30, 2016.

Reverse mortgage loans were recorded at fair value on the Acquisition Date. Subsequent to that, we account for uninsured reverse mortgages, which are the majority of the total, in accordance with the instructions provided by the staff of the Securities and Exchange Commission (SEC) entitled Accounting for Pools of Uninsured Residential Reverse Mortgage Contracts. Refer to Note 1 of the Company s most recently filed Annual Report on Form 10-K for further details. To determine the carrying value of these reverse mortgages as of June 30, 2016, the Company used a proprietary model which uses actual cash flow information, actuarially determined mortality assumptions, likelihood of prepayments, and estimated future collateral values (determined by applying externally published market index). In addition, drivers of cash flows include:

1) Mobility rates We used the actuarial estimates of contract termination using the Society of Actuaries mortality tables, adjusted for expected prepayments and relocations.
2)

Home Price Appreciation Consistent with other projections from various market sources, we use the Moody s baseline forecast at a regional level to estimate home price appreciation on a loan-level basis.

As of June 30, 2016, the Company s estimated future advances to reverse mortgagors are as follows:

Future Advances (dollars in millions)

Year Ending:	
2016	$ 8.4
2017	14.5
2018	11.9
2019	9.8
2020	8.0
Years 2021 2025	21.9
Years 2026 2030	6.7
Years 2031 2035	1.7
Thereafter	0.4
Total[(1),(2)]	$83.3

(1) *This table does not take into consideration cash inflows including payments from mortgagors or payoffs based on contractual terms.*

(2) *This table includes the reverse mortgages supported by the Company as a result of the IndyMac loss-share agreements with the FDIC. As of June 30, 2016, the Company is responsible for funding up to a remaining $51 million of the total amount. Refer to Note 5 Indemnification Asset for more information on this agreement and the Company s responsibilities toward this reverse mortgage portfolio.*

Serviced Loans

In conjunction with the OneWest Transaction, the Company services HECM reverse mortgage loans sold to Agencies (Fannie Mae) and securitized into GNMA HMBS pools. HECM loans transferred into the HMBS program have not met all the requirements for sale accounting, and therefore, the Company has accounted for these transfers as a financing transaction with the loans remaining on the Company s statement of financial position and the proceeds received are recorded as a secured borrowing. The pledged loans and secured borrowings are reported in Assets of discontinued operations and Liabilities of discontinued operations, respectively. See *Note 2 Acquisition and Disposition Activities*.

As servicer of HECM loans, the Company is required to repurchase loans out of the HMBS pool upon completion of foreclosure or once the outstanding principal balance is equal to or greater than 98% of the maximum claim amount. Although permitted under the GNMA HMBS program, the Company does not conduct optional repurchases upon the loan reaching a maturity event (i.e., borrower s death or the property ceases to be the borrower s principal residence). These HECM loans are repurchased at a price equal to the unpaid principal balance outstanding on the loan plus accrued interest. The repurchase transaction represents extinguishment of debt. As a result, the HECM loan basis and accounting methodology (retrospective effective interest) would carry forward.

However, if the Company classifies these repurchased loans as AHFS, that classification would result in a new accounting methodology. Loans classified as AHFS are carried at LOCOM pending assignment to the Department of Housing and Urban Development (HUD). Loans classified as HFI are not assignable to HUD and are subject to periodic impairment assessment.

In the quarter ended June 30, 2016, the Company repurchased $25.0 million (unpaid principal balance) of additional HECM loans, of which $16.4 million were classified as AHFS and the remaining $8.6 million were classified as HFI. As of June 30, 2016, the Company had an outstanding balance of $124.7 million of HECM loans, of which $33.8 million (unpaid principal balance) is classified as AHFS with a remaining purchase discount of $0.1 million and $76.5 million is classified as HFI accounted for as PCI loans with an associated remaining purchase discount of $10.9 million. Serviced loans also include $25.4 million that are classified as HFI, which are accounted for under the effective yield method, with no remaining purchase discount.

NOTE 4 ALLOWANCE FOR LOAN LOSSES

The Company maintains an allowance for loan losses for estimated credit losses in its HFI loan portfolio. The allowance is adjusted through a provision for credit losses, which is charged against current period earnings, and reduced by any charge-offs for losses, net of recoveries.

The Company maintains a separate reserve for credit losses on off-balance sheet commitments, which is reported in Other Liabilities. Off-balance sheet credit exposures include items such as unfunded loan commitments, issued standby letters of credit and deferred purchase agreements. The Company s methodology for assessing the appropriateness of this reserve is similar to the allowance process for outstanding loans.

Allowance for Loan Losses and Recorded Investment in Finance Receivables (dollars in millions)

	Transportation Finance	Commercial Banking	Consumer & Community Banking	Non-Strategic Portfolios	Corporate and Other	Total
Quarter Ended June 30, 2016						
Balance March 31, 2016	$ 42.7	$ 347.1	$ 14.8	$	$	$ 404.6
Provision for credit losses	15.6	11.4	1.1			28.1
Other[1]	(0.4)	3.8	4.3			7.7
Gross charge-offs[2]	(6.6)	(38.0)	(0.5)			(45.1)
Recoveries		3.3	0.8			4.1
Balance June 30, 2016	$ 51.3	$ 327.6	$ 20.5	$	$	$ 399.4
Six Months Ended June 30, 2016						
Balance December 31, 2015	$ 39.4	$ 310.5	$ 10.3	$	$	$ 360.2
Provision for credit losses	38.3	84.9	4.2			127.4
Other[1]	(0.2)	(1.3)	5.6			4.1
Gross charge-offs[2]	(26.2)	(73.8)	(1.2)			(101.2)
Recoveries		7.3	1.6			8.9
Balance June 30, 2016	$ 51.3	$ 327.6	$ 20.5	$	$	$ 399.4
Allowance balance at June 30, 2016						
Loans individually evaluated for impairment	$	$ 29.4	$	$	$	$ 29.4
Loans collectively evaluated for impairment	51.3	295.6	15.4			362.3
Loans acquired with deteriorated credit quality[3]		2.6	5.1			7.7
Allowance for loan losses	$ 51.3	$ 327.6	$ 20.5	$	$	$ 399.4
Other reserves[1]	$ 0.4	$ 44.3	$ 0.2	$	$	$ 44.9
Finance receivables at June 30, 2016						
Loans individually evaluated for impairment	$	$ 157.3	$	$	$	$ 157.3
Loans collectively evaluated for impairment	2,613.1	20,427.3	4,770.7			27,811.1
Loans acquired with deteriorated credit quality[3]		125.2	2,363.2			2,488.4
Ending balance	$2,613.1	$20,709.8	$7,133.9	$	$	$30,456.8
Percent of loans to total loans	8.6%	68.0%	23.4%	0%	0%	100%

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Allowance for Loan Losses and Recorded Investment in Finance Receivables (dollars in millions) (continued)

	Transportation Finance	Commercial Banking	Consumer & Community Banking	Non-Strategic Portfolios	Corporate and Other	Total
Quarter Ended June 30, 2015						
Balance March 31, 2015	$ 32.7	$ 285.7	$	$ 38.1	$	$ 356.5
Provision for credit losses	1.1	18.0		(0.7)		18.4
Other[(1)]	0.2	(0.9)		0.2		(0.5)
Gross charge-offs[(2)]	(0.7)	(29.8)		(3.7)		(34.2)
Recoveries	0.1	4.6		6.0		10.7
Balance June 30, 2015	$ 33.4	$ 277.6	$	$ 39.9	$	$ 350.9
Six Months Ended June 30, 2015						
Balance December 31, 2014	$ 26.5	$ 282.5	$	$ 37.4	$	$ 346.4
Provision for credit losses	7.5	42.4		3.1		53.0
Other[(1)]		(2.8)		(1.3)		(4.1)
Gross charge-offs[(2)]	(0.7)	(52.4)		(7.7)		(60.8)
Recoveries	0.1	7.9		8.4		16.4
Balance June 30, 2015	$ 33.4	$ 277.6	$	$ 39.9	$	$ 350.9
Allowance balance at June 30, 2015						
Loans individually evaluated for impairment	$ 0.9	$ 11.6	$	$ 5.0	$	$ 17.5
Loans collectively evaluated for impairment	32.5	266.0		34.9		333.4
Loans acquired with deteriorated credit quality[(3)]						
Allowance for loan losses	$ 33.4	$ 277.6	$	$ 39.9	$	$ 350.9
Other reserves[(1)]	$ 0.2	$ 37.5	$	$ 0.3	$	$ 38.0
Finance receivables at June 30, 2015						
Loans individually evaluated for impairment	$ 4.7	$ 40.6	$	$ 34.3	$	$ 79.6
Loans collectively evaluated for impairment	3,134.0	15,071.7		1,364.0		19,569.7
Loans acquired with deteriorated credit quality[(3)]						
Ending balance	$3,138.7	$15,112.3	$	$1,398.3	$	$19,649.3
Percentage of loans to total loans	16.0%	76.9%	0%	7.1%	0%	100%

(1) *Other reserves represents additional credit loss reserves for unfunded lending commitments, letters of credit and for deferred purchase agreements, all of which is recorded in Other liabilities. Other also includes changes relating to loans that were charged off and reimbursed by the FDIC under the indemnification provided by the FDIC, sales and foreign currency translations.*

(2) *Gross charge-offs of amounts specifically reserved in prior periods that were charged directly to the Allowance for loan losses included $15 million and $22 million, for the quarter and six months ended June 30, 2016, respectively, and $5 million for both the quarter and six months ended June 30, 2015. The charge-offs related to Commercial Banking for all periods.*

(3) *Represents loans considered impaired as part of the OneWest transaction and are accounted for under the guidance in ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality).*

NOTE 5 INDEMNIFICATION ASSETS

The Company acquired the indemnifications provided by the FDIC under the loss sharing agreements from previous transactions entered into by OneWest Bank. The loss share agreements with the FDIC relates to the FDIC-assisted transactions of IndyMac in March 2009 (IndyMac Transaction), First Federal in December 2009 (First Federal Transaction) and La Jolla in February 2010 (La Jolla Transaction). Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., loan modification, charge-off of loan balance or liquidation of collateral). Reimbursements approved by the FDIC are received usually within 60 days of submission.

In connection with the lndyMac, First Federal and La Jolla Transactions, the FDIC indemnified the Company against certain future losses for covered loans. For the IndyMac Transaction, First Federal Transaction and La Jolla Transaction, the loss share agreement covering SFR mortgage loans is set to expire March 2019, December 2019 and February 2020, respectively. In addition, in connection with the IndyMac Transaction, the Company recorded an indemnification receivable for estimated reimbursements due from the FDIC for loss exposure arising from breach in origination and servicing obligations associated with covered reverse mortgage loans sold to the Agencies prior to March 2009 pursuant to the loss share agreement with the FDIC.

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Below provides the carrying value of the recognized indemnification assets and related receivable/payable balance with the FDIC associated with indemnified losses under the IndyMac and La Jolla Transactions as of June 30, 2016 and December 31, 2015, respectively.

Indemnification Assets (dollars in millions)

	June 30, 2016		
	IndyMac Transaction	La Jolla Transaction	Total
Loan indemnification[1]	$273.8	$	$273.8
Reverse mortgage indemnification	10.6		10.6
Agency claims indemnification[2]	91.1		91.1
Total	$375.5	$	$375.5
Receivable from (Payable to) the FDIC	$ 7.7	$(0.6)	$ 7.1

	December 31, 2015		
	IndyMac Transaction	La Jolla Transaction	Total
Loan indemnification	$338.6	$ 0.3	$338.9
Reverse mortgage indemnification	10.3		10.3
Agency claims indemnification	65.6		65.6
Total	$414.5	$ 0.3	$414.8
Receivable from (Payable to) the FDIC	$ 18.6	$(1.9)	$ 16.7

(1) *As of June 30, 2016, the carrying value of the Indymac loan indemnification decreased by $64.8 million from December 31, 2015, which is comprised of $51.5 million in claim submissions filed with the FDIC during the period, $8.0 million prior period adjustment associated with REO expenses and $5.3 million in other (yield and provision for credit losses adjustments).*

(2)

As of June 30, 2016, the carrying value of the Indymac agency claims indemnification increased by $25.5 million, which is primarily attributable to an increase in the amount of servicing-related obligations covered by the loss share agreement related to reverse mortgage loans.

The Company separately recognizes a net receivable (recorded in other assets) for the claim submissions filed with the FDIC and a net payable (recorded in other liabilities) for the remittances due to the FDIC for previously submitted claims that were later recovered by investor (e.g., guarantor payments, recoveries).

IndyMac Transaction

There are three components to the IndyMac indemnification program described below: 1. Single family residential (SFR) Mortgages, 2. Reverse Mortgages, and 3. Certain Servicing Obligations.

SFR Mortgages Indemnification Asset

The FDIC indemnifies the Company against certain credit losses on SFR mortgage loans based on specified thresholds. Prior to the OneWest acquisition, the cumulative losses of the SFR portfolio exceeded the First Loss Tranche ($2.551 billion) with the excess losses reimbursed 80% by the FDIC. As of June 30, 2016, the Company projects the cumulative losses will reach the final loss threshold of meets or exceeds stated threshold ($3.826 billion) in July 2017 at which time the excess losses will be reimbursed 95% by the FDIC.

The following table summarizes the submission of qualifying losses (net of recoveries) for reimbursement from the FDIC since inception of the loss share agreement as of June 30, 2016 and December 31, 2015, respectively:

Submission of Qualifying Losses and Reimbursements (dollars in millions)

	June 30, 2016	**December 31, 2015**
Unpaid principal balance	$4,096.0	$4,372.8
Cumulative losses incurred	3,693.3	3,623.4
Cumulative claims	3,682.8	3,608.4
Cumulative reimbursement	865.0	802.6

Reverse Mortgages Indemnification Asset

The FDIC indemnifies the Company against losses on the first $200.0 million of funds advanced post March 2009, and to fund any advances above $200.0 million.

As of June 30, 2016 and December 31, 2015, $149.1 million and $152.4 million, respectively, had been advanced on the reverse mortgage loans post March 2009. Prior to the OneWest acquisition, the cumulative loss submissions and reimbursements totaled $1.8 million from the FDIC. From August 3, 2015 (the acquisition date of OneWest Bank) through June 30, 2016, the Company was reimbursed $0.8 million from the FDIC for the cumulative losses incurred.

Indemnification from Certain Servicing Obligations

Subject to certain requirements and limitations, the FDIC agreed to indemnify the Company, among other things, for third party claims from the Agencies related to the selling representations and warranties of Indy Mac as well as liabilities arising from the acts or omissions, including, without limitation, breaches of servicer obligations of IndyMac for SFR mortgage loans and reverse mortgage loans as follows:

SFR mortgage loans sold to the Agencies

The FDIC indemnification for third party claims by the Agencies for servicer obligations expired as of the acquisition date; however, for any claims, issues or matters relating to the servicing obligations that are known or identified as of the end of the expired term, the FDIC indemnification protection continues until resolution of such claims, issues or matters.

The Company had no submitted claims from acquisition date through June 30, 2016. Prior to the OneWest acquisition, the cumulative loss submissions and reimbursements totaled $5.7 million from the FDIC to cover third party claims made by the Agencies for SFR loans.

Reverse mortgage loans sold to the Agencies

The FDIC indemnifies the Company through March 2019 for third party claims made by the Agencies relating to any liabilities or obligations imposed on the seller of HECM loans acquired by the Agencies from IndyMac resulting from servicing errors or servicing obligations prior to March 2009.

The Company had no submitted claims from acquisition date through June 30, 2016. Prior to the OneWest acquisition, the cumulative loss submissions totaled $11.2 million and reimbursements totaled $10.7 million from the FDIC to cover third party claims made by the Agencies for reverse mortgage loans.

First Federal Transaction

The FDIC agreed to indemnify the Company against certain losses on SFR, and commercial loans based on established thresholds.

As of June 30, 2016, the loss share agreements covering the SFR mortgage loans remain in effect (expiring in December 2019) while the agreement covering commercial loans expired (in December 2014). However, pursuant to the terms of the shared-loss agreement, the loss recovery provisions for commercial loans extend for three years past the expiration date (December 2017). The loss thresholds apply to the covered loans collectively. Pursuant to the loss share agreement, the first $932 million (First Loss Tranche) of cumulative losses are borne by the Company without reimbursement by the FDIC.

The following table summarizes the submission of qualifying losses for reimbursement from the FDIC since inception of the loss share agreement:

Submission of Qualifying Losses for Reimbursement (dollars in millions)

	June 30, 2016		
	SFR	Commercial[1]	Total
Unpaid principal balance	$1,353.7	$	$1,353.7
Cumulative losses incurred	414.1	9.0	423.1
Cumulative claims	413.1	9.0	422.1
Cumulative reimbursement			

	December 31, 2015		
	SFR	Commercial[1]	Total
Unpaid principal balance	$1,456.8	$	$1,456.8
Cumulative losses incurred	408.5	9.0	417.5
Cumulative claims	407.2	9.0	416.2
Cumulative reimbursement			

(1) *Due to the expiration of the loss share agreement covering commercial loans in December 2014, the outstanding unpaid principal balance eligible for reimbursement is zero. As provided by the loss share agreement, the loss recoveries for commercial loans extend for three years from expiration date (December 2017). As such, the cumulative losses incurred, claim submissions and reimbursements for commercial loans are reduced by the reported recoveries.*

As reflected above, the cumulative losses incurred have not reached the specified level ($932 million) for FDIC reimbursement and the Company does not project to reach the specified level of losses. Accordingly, no indemnification asset was recognized in connection with the First Federal Transaction.

Separately, as part of the loss sharing agreement, the Company is required to make a true-up payment to the FDIC in the event that losses do not exceed a specified level by December 2019. As the Company does not project to reach the First Loss Tranche ($932 million) for FDIC reimbursement, the Company does not expect that such true-up payment will be required for the First Federal portfolio.

La Jolla Transaction

The FDIC agreed to indemnify the Company against certain losses on SFR, and commercial loans HFI based on established thresholds.

As of June 30, 2016, the loss share agreement covering the SFR mortgage loans remain in effect (expiring in February 2020) while the agreement covering commercial loans expired (in March 2015). However, pursuant to the terms of the loss share agreement, the loss recovery provisions for commercial loans extend for three years past the expiration date (March 2018). The loss thresholds apply to the covered loans collectively. Pursuant to the loss share agreement, the Company s cumulative losses since the acquisition date by OneWest Bank are reimbursed by the FDIC at 80% until the stated threshold ($1.007 billion) is met.

The following table summarizes the submission of cumulative qualifying losses for reimbursement from the FDIC since inception of the loss share agreement:

Submission of Qualifying Losses for Reimbursement (dollars in millions)

	June 30, 2016		
	SFR	Commercial(1)	Total
Unpaid principal balance	$79.5	$	$ 79.5
Cumulative losses incurred	56.2	353.7	409.9
Cumulative claims	56.2	353.7	409.9
Cumulative reimbursement	45.0	283.0	328.0
	December 31, 2015		
	SFR	**Commercial(1)**	**Total**
Unpaid principal balance	$89.3	$	$ 89.3
Cumulative losses incurred	56.2	359.5	415.7
Cumulative claims	56.2	359.5	415.7
Cumulative reimbursement	45.0	287.6	332.6

(1)

Due to the expiration of the loss share agreement covering commercial loans in March 2015, the outstanding unpaid principal balance eligible for reimbursement is zero. As provided by the loss share agreement, the loss recoveries for commercial loans extend for three years from expiration date (March 2018). As such, the cumulative losses incurred, claim submissions and reimbursements for commercial loans are reduced by the reported recoveries.

As part of the loss share agreement with La Jolla, the Company is required to make a true-up payment to the FDIC in the event that losses do not exceed a specified level by the tenth anniversary of the agreement (February 2020). The Company currently expects that such payment will be required based upon its forecasted loss estimates for the La Jolla portfolio as the actual and estimated cumulative losses of the acquired covered assets are projected to be lower than the cumulative losses. As of June 30, 2016 and December 31, 2015, an obligation of $59.7 million and $56.9 million, respectively, has been recorded as a FDIC true-up liability for the contingent payment measured at estimated fair value. Refer to Note 10 *Fair Value* for further discussion.

NOTE 6 INVESTMENT SECURITIES

Investments include debt and equity securities. The Company s debt securities include U.S. Government Agency securities, U.S. Treasury securities, residential mortgage- backed securities (MBS), and supranational and foreign government securities. Equity securities include common stock and warrants, along with restricted stock in the FHLB and FRB.

Investment Securities (dollars in millions)

	June 30, 2016	December 31, 2015
Available-for-sale securities		
Debt securities	$ 2,320.6	$ 2,007.8
Equity securities	34.7	14.3
Held-to-maturity securities		
Debt securities[(1)]	281.9	300.1
Securities carried at fair value with changes recorded in net income		
Debt securities	312.6	339.7
Non-marketable investments[(2)]	279.3	291.9
Total investment securities	$ 3,229.1	$ 2,953.8

(1) *Recorded at amortized cost.*

(2) *Non-marketable investments include securities of the FRB and FHLB carried at cost of $261.3 million at June 30, 2016 and $263.5 million at December 31, 2015. The remaining non-marketable investments include ownership interests greater than 3% in limited partnership investments that are accounted for under the equity method, other investments carried at cost, which include qualified Community Reinvestment Act (CRA) investments, equity fund holdings and shares issued by customers during loan work out situations or as part of an original loan investment, totaling $18.0 million and $28.4 million at June 30, 2016 and December 31, 2015, respectively.*

Realized investment gains totaled $0.9 million and $3.8 million for the quarters ended June 30, 2016 and 2015, and $1.5 million and $4.5 million for the six months ended June 30, 2016 and 2015, respectively, and exclude losses from OTTI.

In addition, the Company maintained $7.1 billion and $6.8 billion of interest bearing deposits at June 30, 2016 and December 31, 2015, respectively, which are cash equivalents and are classified separately on the balance sheet.

The following table presents interest and dividends on interest bearing deposits and investments:

Interest and Dividend Income (dollars in millions)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest income investments	$19.8	$5.1	$39.0	$ 9.2
Interest income interest bearing deposits	8.8	3.4	17.3	7.4
Dividends investments	3.1	0.5	6.3	1.0
Total interest and dividends	$31.7	$9.0	$62.6	$17.6

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Securities Available-for-Sale

The following table presents amortized cost and fair value of securities available for sale (AFS).

Securities AFS Amortized Cost and Fair Value (dollars in millions)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2016				
Debt securities AFS				