

FINAL TRANSCRIPT

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CIT - Q4 2008 CIT Group Earnings Conference Call

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PRESENTATION

OPERATOR

Good morning, ladies and gentlemen. Welcome to CIT's fourth quarter 2008 earnings call. My name is Katina and I will be your operator today. Participating in today's call from the Company are Jeff Peek, Chairman and Chief Executive Officer, Joe Leone, Vice Chairman and Chief Financial Officer, Alex Mason, President and Chief Operating Officer, and Ken Brause, Executive Vice President of Investor Relations. There will be a question and answer session later in the call. (Operator Instructions) I would now like to turn the call over to Ken Brause, Executive Vice President of Investor Relations. Please proceed, sir.

Ken Brause - *CIT Group Inc. - Executive VP IR*

Thank you, Katina. Good morning, everyone. Welcome to CIT's fourth quarter conference call. Our call today will be hosted by Jeff Peek, our Chairman and CEO, Joe Leone, our CFO, and Alex Mason, our President and Chief Operating Officer. Following our formal remarks, we will have a Q&A session. We ask that you limit yourself to one question and then return to the cue if you have additional questions. We will do our best to answer as many questions as possible in the allotted time.

Elements of this call are forward-looking in nature and may involve risks, uncertainties, and contingencies that may cause results to differ materially from those anticipated. Any forward-looking statements relate only to the time and date of this call. We disclaim any duty to update these statements based on new information, future events or otherwise. For information about risk factors relating to the business please refer to our SEC reports. Any references to certain non-GAAP financial measures are meant to provide meaningful insights and are reconciled with with GAAP in the financial tables accompanying our press release.

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For more information on CIT, please visit the investor relations section of our website at www.CIT.com. With that, it is my pleasure to hand the call over to Jeff Peek.

Jeff Peek - CIT Group Inc. - Chairman, CEO

Thank you, Ken. Good morning, everyone, and welcome to our fourth quarter conference call, our first for CIT as a Bank Holding Company. With me this morning are Alex Mason, our President and Chief Operating Officer, and Joe Leone, our Chief Financial Officer. Each of us will share some thoughts with you on the quarter and the year, and then we will open the call to your questions.

First let's take a little bit of a look at year 2008 in review, and talk a little bit about about some of CIT's accomplishments. I think with some certainty, we can all say 2008 will be a year for the history books. As we look back on the year, it is hard to believe how much has transpired, both in the market broadly, and for CIT specifically, but also, how much we got done, how much we accomplished. CIT faced a series of challenges, but I believe by being decisive and acting quickly we successfully guided the Company through a difficult period. Over the course of the year, I spoke many times about the need to manage for liquidity versus profitability as we preserved the value of our core commercial branch franchises. While I'm certainly disappointed by our financial results and that we reported another loss this quarter, I firmly believe we enter 2009 better positioned to navigate the worst of this economic downturn.

Let me take a few minutes to review last year's accomplishments. I'll start with liquidity, where we generated over \$14 billion of incremental liquidity despite being completely closed out of the unsecured debt market for all 12 months of the year. We did so through secured financing, asset sales, balance sheet management and the issuance of deposits at our CIT bank. Over the course of the year, we also paid off nearly \$10 billion of maturing debt, and \$2.1 billion of bank lines that we drew down last March. Next, we improved our risk profile. We sold our home lending business in June completely removing any risk to us from that asset class. We stopped originating student loans and we closed our commercial real estate business.

Third, we raised capital. Nearly \$6 billion over the course of the year, and built reserves for a stronger balance sheet. We issued \$1.6 billion of common equity and convertible preferred in April, and another \$4 billion plus in December, through our two successful exchange offers, common equity raise and, of course, the TARP preferred which we received on New Year's eve. We ended the year as a well capitalized bank holding Company with a tangible equity to managed asset ratio of over 14%, and risk based capital ratios of nearly 10% for Tier 1, and well over 13% for total capital.

We also streamlined our operations. For the year, we reduced head count by over 20%, or 1400 people, to end the year below 5000 employees for CIT worldwide. We previously told you that we were targeting \$200 million of annualized expense savings, and we achieved this goal through staff reductions and other initiatives. While much of these savings are already in our run rate, a portion will be reinvested as we build our Bank infrastructure in 2009. Next, and most importantly, we kept our businesses open and continued to serve our clients. While down compared to 2007, we still did nearly \$20 billion of commercial finance volume, and over \$40 billion of factoring volume. Again, once again, proving the importance of the relationships we have built with our clients over many years in a number of cycles.

And, we positioned the Company for its next century of business by successfully converting to a Bank Holding Company at the end of December. This achievement is important to CIT and our stakeholders in so many ways. It has already given us access to TARP capital and the ability to apply for TLGP at the FDIC. It is the basis for our developing a deposit strategy that will provide long-term stability to our funding plan and our business model. And, it enhances confidence in CIT among our stakeholders as we now benefit from being part of the banking system, working closely with the FEDS and the FDIC, our primary regulators.

Now, let's look ahead into 2009. Let's focus on the state of the union at CIT. We expect another challenging year. No surprise. And, one in which change may be the only constant. Global economic conditions are deteriorating. There is a new administration in Washington, and at CIT, we have a new platform to anchor our franchise. Our planning process has incorporated a number of economic scenarios, as you would expect, but our basic assumption is that conditions are going to get worse before they

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get better. I do expect several items will differentiate us from many banks and financial institutions. That would include our minimal exposure to consumer credit, commercial real estate and off balance sheet vehicles, as well as our credit culture and focus on small business and the middle market. We have set our priorities for the year with these objectives in mind.

So, here are our goals for 2009. First and foremost, it is implementing our Bank strategy, which will enhance and augment our existing business model. We want to quickly realize the benefits of being a Bank Holding Company. Virtually all of our existing businesses are bank eligible. We don't need to make any meaningful changes to our portfolio or businesses, or our mix of originations. The greatest opportunity for us as a Bank Holding Company, however, is on the liability side of the balance sheet, but we now have the ability to access a much broader range of stable sources of funding. We have applied to the FDIC, to participate in the TLGP program as a Bank Holding Company, which if we are approved, will allow us to issue more than \$10 billion of government guaranteed debt. This issuance would certainly help with our 2009 funding plan and allow us to increase our volume of new business and new lending.

We also hope to hear soon about our request to the Federal Reserve for a 23A waiver exemption, which if granted, will enable us to move existing assets into CIT bank and allow us to better deploy our deposits. While we have been quite successful in raising deposits in the broker CD market, we are evaluating strategies to expand our deposit taking capabilities and allow our businesses the best leverage of larger CIT Bank. A priority for our businesses in 2009 is to use this additional liquidity to serve our clients while improving our operational efficiency and profitability. Make no mistake, our goal is to return the Company to profitability on a consolidated basis in 2009. The key drivers will remain the cost of credit and the cost of funding, and we continue to work aggressively to address each of these factors. However, external conditions do play an important part in each of these drivers, and it is too early to project the depth and duration of the recession. We do see great opportunity ahead when the cycle turns, and it will. This is why we worked so hard to keep our businesses open and maintain those client-customer relationships. There will be pent-up demand for our services, and with far fewer competitors and providers in the middle market, CIT will be well positioned for considerable and profitable market share gain.

Now let's talk about the dividend. I want to comment on the Board's decision earlier this week to reduce our quarterly common stock dividend to \$0.02 a share, from \$0.10. We as Management, and the Board, recognize and appreciate the faith you have put in us to prudently manage your investment in CIT. The actions we have taken over the past 18 months clearly demonstrate our determination to honor our obligations. Given our recent earnings experience and our desire to preserve capital, the most appropriate action was to reduce the common dividend at this time. Our decision not to eliminate it entirely reflects our expectation of a return to profitability over the next 12 to 18 months. And, let me clarify one aspect under TARP. We do have the ability to raise the dividend back up to its previous level of \$0.10 a quarter, and I look forward to being able to make that recommendation to our Board of Directors.

Just to wrap up my remarks, I want to acknowledge that the \$0.54 per share loss from continuing operations this quarter was a disappointment. We had several note worthy items which largely offset each other, and we did significantly build credit reserves for the coming recession. We want to stay ahead of that wave. While interest margins remained under pressure, reflecting the cost to our excess liquidity, and also our recent financings in a tough environment, we were successful in again reducing run rate operating expenses. We managed volume down, reduced the size of the balance sheet, and improved our capital ratios to all-time highs for CIT.

I now want to pass the baton to Alex, and ask him to give some more detail on each of the businesses and our bank initiatives. Then Joe will review the consolidated financials and funding, and then we will open the call up for your questions. Thank you. Alex?

Alex Mason - CIT Group Inc. - President, COO

Thanks so much, Jeff. Good morning, everybody. Indisputably, the landscape for finance companies has fundamentally changed. I can tell you with confidence, however, that we are much better positioned today as a Bank Holding Company than we were

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just a month ago. At the same time, having spent virtually my entire career in and around banks. I can also attest to the challenges that await us as we fully transition CIT into the bank holding company environment. What I would like to do over the next few minutes is to walk you through some of the areas we are focused on as it relates to bank transformation, and then of course, to provide you an update on each of our commercial franchises.

2009 will clearly be a year of transition for us. Our first order of business will be to build a bank. A bank that is organized and populated in such a way that it can be scaled to meet the ongoing needs of our businesses. We will do this on a measured basis in conjunction with our regulators. CIT is well suited to this new environment as it possesses a strong credit culture and has systems and processes in place that relate to having both owned and been owned by banks in the past. As Jeff mentioned, nearly all of our business activities today are permissible for bank holding companies. CIT Insurance is the primary exception. Its PNL impact is small and we have two years to resolve its status. From an organizational standpoint, CIT Group as Bank Holding Company will be parent to a state bank and various non-bank subsidiaries. With the exception of our airplane leasing business, we expect most of our domestic business platforms will migrate into the bank.

As Jeff said, we have applied for an exemption from rule 23A for up to \$30 billion, allowing us a one-time series of asset transfers from CIT parent into CIT Bank. If granted, we would transfer assets using a phased approach, likely starting with segments of our corporate finance portfolio, thereby reducing the liquidity exposure associated with unfunded commitment to the Holding Company. Then, followed by our government guaranteed student loans, and then our trade and vendor segments. Near-term, assets placed in the Bank will be funded via intercompany loans and broker deposits. Longer-term, the Bank affords us a much broader range of funding alternatives including demand deposits, direct debt issuance, and of course, the FED window.

Let's now move on to the business segments. In short, 2008 was about preserving our valuable commercial franchises in a worsening economy and a disruptive marketplace. The market environment deteriorated rapidly in the fourth quarter and it doesn't seem to be showing any real signs of improvement. That said, I think our commercial franchises did an admirable job this past quarter, sidestepping distractions and staying focused on managing liquidity, controlling expenses and maintaining key client relationships against the backdrop of our corporate strategy. Let's start with vendor, where we made some solid progress on our pledge to improve business performance. Focusing on results excluding the reconciliation charge which Joe will describe later, I am pleased to report that vendor turned in a profit. A positive result considering where we were three months ago.

During the quarter, we made further progress aligning our operations into three geographic regions globally. This has allowed us to drive cost efficiencies, streamline decision making, foster best practice sharing, and enhance financial reporting and transparency. We are beginning to see the benefits of our cost reduction programs targeted at right-sizing the Organization and shifting resources from sales and new business development to existing portfolio operations and liquidity management. Expenses were down almost \$7 million sequentially, and we reduced head count by 21% in 2008. Existing staff was further aligned to focus on key relationships in the quarter. Consequently, most of our new business volume in Q4, which was managed down slightly from Q3, was focused on our most important clients. In fact, 75% of the new business volume we did in the quarter could be attributed to our 10 most strategic accounts.

In Q4, we continued to try and offset the margin pressure driven by higher funding costs by proactively pricing new business volumes to existing market rates. Previously, I said we would look to prune areas of the portfolio, and despite market illiquidity, we were able to make some progress, shedding almost \$70 million in assets. More importantly, those asset sales were at a modest gain, which I believe reflects the underlying quality of the vendor portfolio. Finally, credit losses in vendor increased in line with worsening economic conditions. Going forward, we believe that credit losses will remain elevated in 2009. So in summary, with respect to vendor, we made progress but we still have lots of work to do. The underlying fundamentals of this business are strong as evidenced by the fact that we did not lose a single major relationship account in 2008 despite the challenging economy and our own liquidity constraints. As we move into 2009, it is a strategic imperative to bring vendor back to acceptable earnings and returns.

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Next, corporate finance. This business more than any other was severely impacted by market conditions in 2008. Syndication and underwriting fee revenue has all but disappeared, and any activity is about as dry as it has been in years. On the other hand, there are opportunities to make profitable loans with favorable terms to lenders. In fact, margins were unchanged sequentially. We measured volume in the quarter and ended up with approximately half of what was done in Q3. Specifically, on the origination side, our team was focused on amending existing credit, protecting important relationships, and where appropriate, on new deals. In total, we had about \$200 million of CIT Bank originations, representing most newly originated middle market loans. Additionally, we had about \$600 million in non-bank originations which represented mostly FDA loans and new business in Canada and Europe.

The biggest challenge to getting bank eligible deals done was finding other club lenders. A typical deal today is about \$100 million in size with about four times total leverage, pricing in the LIBOR plus 700 range with LIBOR floors and upfront fees averaging 3%, bringing all in yields to about 11%. Despite these attractive economics, lower hold positions require a greater number of participants in the club. Given market illiquidity in the fourth quarter, these deals were very difficult to consummate. We are hopeful that a number of traditional lenders to this market who chose to close for the year during Q4 2008, will return for the first quarter of 2009. Expenses for corporate finance were up slightly in Q4 due to lower deferred costs attributable to the fewer number of new business transactions and our reduced volume, partially offset by lower employee related costs. On a year-over-year comparison, expenses are down 19% driven by a 24% reduction in head count from last year.

Let me spend a few minutes on the demographics of the corporate finance portfolio. We are in a senior position in 94% of our loans. 97% of our loans are secured, split almost evenly between asset based and cash flow. The cash flow loans were underwritten with about 40% equity and sub-debt from others behind us. The portfolio we hold is diverse with over 80% comprising hold positions of less than \$30 million, and with a broad spread of risk across industry and geography. While corporate finance overall has kept its exposures low in many of the more troubled sectors such as auto, construction, and commercial real estate, we are extremely focused on credit in this business as the current economic recession continues to impact all of the industries to which we lend. The result has been higher levels of delinquencies, non-accruals and credit losses. 2009 doesn't seem to be getting much better. You would expect elevated rates for most of the year.

Moving now to trade. I again tip my hat to this team as they continue to generate double digit returns despite the worst US retail market in more than 50 years. In Q4, retailers' focus was solely on weathering the storm and surviving. As a result, credit protection was in greater demand for our manufacturing clients. Lower retail sales, combined with our conservative approach to credit, resulted in significantly lower factoring volumes, down 6% sequentially, and 14%, versus the prior year quarter. As we move through 2009, we plan to continue to price commensurate with risk, and therefore, would expect our average commission rates to increase. It would be the first increase we have seen in six years, given the previously benign credit environment. Credit metrics did worsen across the board as was expected. Credit losses in Q4 were 139 basis points, up from 108 basis points sequentially. But in absolute dollar terms, up only \$6 million, as we continue to aggressively manage down high risk exposures. Currently, I would tell you I'm comfortable with our largest retail exposures. The smaller retail names on our credit watch list continue to grow however, and these are the names we are proactively watching and managing down.

Finally, on to transportation finance. Utilization for both air and rail remain solid, and the segment as a whole returned 19% for the fourth quarter. Rails continue to post double digit returns for the quarter despite some softening market conditions impacting leasing rates. Rail car loadings were down 3% in 2008, and that decline accelerated to 9% in the fourth quarter. A weakened economy and a stronger dollar, which put pressure on export programs, combined to put pressure on Rail car loadings and overall demands. Despite these market challenges, we have been successful in maintaining utilization above 95%, testament to both the quality of our team and having one of the youngest and most modern fleets in the industry. We would expect the weak economic environment in 2009 to continue putting pressure on lease rates, and to a lesser extent, on utilization.

2008 was a stellar year for our air segment as the segment generated solid returns driven by strong lease margins and gains on sale of \$1.2 billion of assets. Currently, all of our planes are leased or under contract to be leased, and the forward order book is placed through 2010. Although CIT had relatively little direct exposure to the airline bankruptcies that occurred in 2008, we

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believe that the cumulative effect of these and future airline failures will lead to a softening of lease rates in 2009. Nonetheless, we believe air will remain solidly profitable with double digit returns. And with that, I will turn the call over to Joe.

Joe Leone - CIT Group Inc. - Vice Chairman, CFO

Thank you, Alex. Good morning, everyone. As I reflect on what I have been hearing today so far this morning, and what I have heard from many of you, the investors, I don't need to talk about 2008 and its challenges. I think we ended the year on a high note in terms of transition of our funding model and Bank Holding Company status. Having said that, as Alex said, '09 starts off as a very challenging year as well. While disappointed in the financial results, I am very proud of the job we did on liquidity all year and on executing the important initiatives we committed to. Yet, that's a little empty when I look at the fact that those successes have not yet been incorporated into our securities valuation. So we are very focused on another year of hard work in 2009. And on the financial side what we are going to do, and Jeff touched on some of this, is we need to get our funding back in balance, secured and unsecured. We need to reduce our debt cost and we need to maintain a very strong capital position. I will give you some of my thoughts as I go through the '08 results on those financial goals. I will touch on the balance sheet, funding capital and reserve, some of the financial results and 2009 funding.

First, liquidity in 2008 was priority one. I think we have all said that on this call and others. We did not access the unsecured debt markets all year, yet we repaid \$13 billion of unsecured debt including \$2 billion of bank lines, and is drawing down those lines in March. I think that's a testament to the strength of the balance sheet and the strength of the finance and treasury staff. In the fourth quarter, our focus changed a little bit to capital. We wanted to be positioned well for well capitalized bank status, and we were successful as Jeff outlined, and I think those strong capital ratios position us well relative to other banks and their capital ratios. Recapping some of what we did, we retired \$1.7 billion of senior fixed rate long-term debt, and replaced it with \$1.1 billion of 12% sub-debt. We exchanged early, 490 million of outstanding equity units, 14 million common shares, and some cash. And as Jeff said, we raised well over \$300 million of new common equity, and those were the elements to get us into BHC and TARP approval.

Some detail on the TARP investment. The government purchased \$2.3 billion, or so, of CIT preferred stock. We will pay a 5% dividend for the first five years and that will step up to 9% if not refinanced then. We issued the government a warrant to purchase up to 88 million shares, or so, at an exercise price just below \$4. The accounting for the transaction is not as straightforward as may appear or you would think. We need to account for both elements, the warrants and the preferred, separately. As a result, we will record in preferred stock approximately \$1.9 billion, and we'll record in paid-in capital, approximately \$400 million, to recognize the value of the warrant. No impact on total capital, no impact on cash flow, but a requirement on the GAAP. All these initiatives result in the creation of \$4 billion of regulatory capital, and net cash flow of \$2 billion.

We did have success with other funding initiatives. Let me briefly update you. We increased our utilization of the Goldman facility to \$2 billion, and we still have more room. As you know, the facility is committed for \$3 billion. We put in some aircraft middle market loans and small business loans this quarter. We are paying the full 285 basis point commitment fee, and advances are flat to LIBOR. We continue to work diligently on using the facility as quickly as possible. We thought we would get there at the end of the year, but declines in financial asset values tampered our efforts in the fourth quarter. We also commenced borrowing under the Wells facility. We drew towards \$100 million and expect another \$125 million in January. We renewed conduits. We renewed the \$1.3 billion trade facility for another year, and renewed an equipment conduit but downsized it to \$650 million, reflecting our reduced volumes. We continue to look at the conduit facilities and will take more actions in the first half of the year.

Deposit growth was a little less of a focus because we slowed origination volumes, yet we were successful in issuing \$400 million of deposits at attractive rates, in and around 3%. Managed assets, we mentioned earlier, came down 5%, \$3 billion. We tightened originations earlier in the quarter and we saw some seasonal runoff in factoring. That's always good. Transportation finance, we did have asset growth. We continue to fund with the ECA facility. We had about 150 million of deliveries in the fourth quarter and we expect to fund our 2009 deliveries the same way. Additionally, we are working on structuring a comparable facility for

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US Boeing planes. We restructured an off balance sheet vendor equipment conduit and we bought \$1.5 billion receivables back onto the balance sheet. Why? We did this as part of the bank conversion to reduce our regulatory risk assets. And by the way, we continue to closely analyze and better understand regulatory risk waitings to ensure we are optimizing structures for regulatory capital use.

We did use some cash generated from the portfolio runoff to buy-in some debt. We repurchased \$360 million of longer dated non US denominated debt for \$250 million in cash, \$110 million pretax gains, and we did that to further bolster capital ratios. We ended the year with well over \$5 billion in cash, and cash outflows in the quarter included \$3 billion. or so, of pay down of unsecured debt, \$250 of secured, and we had about \$700 million of market-to-market under secured facilities because of the decline in financial asset values in the quarter. One of your hot topics is unfunded commercial loan commitments. They are basically unchanged from September at \$5.5 billion. That excludes commitments that are unavailable to customers because of collateral and/or other covenants. That also excludes \$1.3 billion of consumer oriented vendor related commitments where an asset has to be purchased to avail. We are flat with September, but we're down significantly from a year ago, and commercial line utilization is high and you would expect it to be high in this environment. It is around 80%.

Financial results. We had some noteworthy items, some noise. We had a \$52 million restructuring charge, and Alex described we continue to streamline operations, particularly in corporate finance and vendor finance, primarily non-US. Fourth quarter we saw \$5 million in savings from that action, and we expected about a 12-month payback, so another \$40 million, \$45 million of savings to go in '09 from that action. We did have \$82 million of operational and reconciliation completion charges. The majority of those charges relate back to 2004, 2005, 2006, in our European vendor finance operations, and they pertain to items such as back-taxes that are not uncollectible, some reconciliation differences and the like. The charge followed a very comprehensive work plan to bring the units, controls, and reconciliations current. A significant amount of that oversight has now been transferred to our centralized accounting office in the US, and we will have better control and more consistency over the reconciliation process. Management was changed and the business was realigned. Not a pleasant work stream, but one that was very important to get accomplished.

We also had \$31 million of advisory and other costs to transition to a Bank Holding Company, and we took a \$15 million valuation charge against our Lehman derivative counter-party exposure. When you net these items against our \$216 million pre-tax gain from debt extinguishments and unfavorable tax adjustments, impact to net income and ETS from these significant or noteworthy items was negligible. Let's talk about operating performance. I think in our December disclosures, continuing into January, we guided you that margins would be lower, and they are, and loss provisioning would be higher, and it is. We did lower operating expenses as both Jeff and Alex described.

First, the margin. It's down 82 points sequentially. Most of that was funding related. Let me break the variances out for you. Higher conduit borrowing costs completely fell on the \$6 billion of conduits we renewed and partially impacted by the Q4 renewals. On a weighted average, the conduits repriced higher by about 225 basis points in the quarter, compressing margins by about 35 basis points. While all segments or most segments were impacted, it is most evident in student lending. Let me give you an example. We are now paying funds about the same rate that we are getting from the students. So the borrowing rate has been uncapped, and as you know, the lending rate is capped.

As I mentioned earlier, we are now paying the full commitment fee on the Goldman facility, and we had some up front fees on the Wells facility we established. These two reduced margins about by 10 basis points. Alex mentioned some lower rentals in transportation, particularly rail. We do, at year end, look hard at our residuals in those type of assets, rail and air. We had some minor residuals write-downs which go through margin. Those two factors were about 15 basis points impact on margin. Additionally, you know the noise in the environment, contraction in prime, and LIBOR relationship, strong US dollar, liabilities repricing faster than assets, those three combined to negatively impact margin by about 12 to 15 basis points. And factor into your analysis, that the vendor reconciliation process cost us 6 basis points and non-accruals 4. If you add those factors up, that gives you a pretty good idea what happened in the quarter in margin.

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Now the big question is what happens next? Margin will benefit from increased levels of capital. It will benefit to the extent we have greater utilization of the Goldman facility, as we are already paying the spread. It will be offset by continuing lower operating lease margins and increased non-accruals. Longer term, we have work to do, and I mean longer term, I mean every month of 2009. We need to recover some of this margin compression from our bank deposit and bank financing strategies, and we need to refinance some of the expensive conduits. Most notably, student loans, where as I said, the lending margin is essentially zero. Additionally, we think forward to an environment where we are not maintaining excess cash liquidity, but go back to the world where we had undrawn backup liquidity. For example, if we reduced excess cash by \$3 billion that we are carrying, that could improve margin by up to 25 basis points. And lastly, but not least, and it is probably first on our agenda, approval of our TLGP application would help the margin.

The provision up substantially, sequentially, as we built loss reserves by almost \$250 million. We said we would build reserves and we did. We analyzed our go-forward expected loss in the portfolio. We analyzed loan by loan on nonperforming, and we increased loss reserves to \$1.1 billion, and they now exceed 2% of receivables. You'll notice some changes to our credit reporting. 60 day delinquency now exclude non-accrual loans, but we will continue to report those loans separately. We made that change to conform with bank practices. We have also pushed the provision for credit losses down to the segment level, and all the prior periods were conformed to current period presentation. In the case of delinquency, we are showing you numbers this quarter both ways, including nonperforming and excluding. Next quarter, we will go to the one more prevalent bank practice.

We expect losses to trend higher from here, as Alex said. That's why we built the reserve. Operating expenses, I think we spoke a lot about. I was very happy that sequentially we saw an \$18 million improvement in core operating expenses, but that work continues into 2009 and we have an extra hurdle in that we will require investment in banking compliance areas. Some comments on taxes. This is not the most straightforward line in the financial statements because of two factors. One, the loss, and two, the fact we have continuing and discontinued operations. Let me take a shot at it. We had a benefit in continuing operations because the debt extinguishment on the equity exchange is nontaxable. In accounting or tax parlance, it is a permanent difference. That was mitigated by the fact we had a true-up, our full year rate to actual of 41%, which basically, the difference relates to the fact we had less earnings in the non-US areas and we had a loss in the US areas. Taxes on discontinued operations were impacted as we decided to add to our valuation reserve on our US NOL. So going forward, any taxes on US income will be modest as we would utilize that reserve in 2009. On the flip side, any losses will have very little US benefit.

The transition to a Bank Holding Company marks a significant transition point. I don't need to spend too much time on that. That's obvious. But we expect to spend most of our finance and treasury thinking on how to capitalize on those new borrowing capabilities. We do not expect that to happen overnight. I expect steady progress throughout the year. Our cash needs for 2009 are about \$12 billion. Many of you know these numbers better than I do. We have \$9 billion unsecured debt. We have \$2 billion of bank lines, and we have about a \$1 billion of manufacturer purchase commitments to satisfy. While we have applied for the FDIC's program and are confident in our successful transition, and capital enhancement initiatives, we continue to work hard on liquidity alternatives.

So x-TLGP, as I see our funding needs in 2009, we have cash of let's say \$5 billion, we have \$1.6 billion in additional capacity under our secured facilities, we have about \$800 million in ECA capacity, we have \$1 billion plus in securitization vehicles, and our net inflows from our non-bank portfolio and management of new business volumes lower. We will be funding most of our new business in the Bank and that will help overall cash flows. Let me repeat that. I don't think I was clear on that. We will attempt to book as much new business as we can in the Bank, utilizing that liquidity source. We will run down the portfolios in the non-bank and therefore we will generate more cash from different funding sources. When our application for TLGP is approved, just to give you an example, if we use the formula that others have utilized with 125% of term debt coming due between September and June, we could issue approximately \$10 billion of debt. That's just using the formula that others have gotten. That would be a significant benefit to funding, profitability and the ability to grow the loan portfolio. We would pay down conduits. We would improve loan volumes. And, we would have a greater ability to lend more to small and mid-sized businesses. With that, let's turn the call back to Katina, the Operator, and get your questions. Thank you.

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QUESTIONS AND ANSWERS

OPERATOR

Thank you. (Operator Instructions) Your first question comes from the line of David Hochstim representing Buckingham Research. Please proceed.

David Hochstim - *Buckingham Research - Analyst*

I had a couple of questions. First, Joe, could you just revisit the \$82 million charge in vendor finance, and the \$31 million Bank Holding Company conversion expense, and just provide a little better explanation for what the \$100 million plus was spent on?

Joe Leone - *CIT Group Inc. - Vice Chairman, CFO*

Sure. Let me start with the \$31 million. That includes legal and advisory costs in connection with the transformation. We have hired consultants to help us through a GAAP analysis to compare current practices to what's required as a bank holding company and, finally, we have committed contributions to nonprofit agencies who provide credit and foreclosure avoidance counseling. So those were the elements of the \$31 million. Just to repeat, legal and advisory fees, GAAP analysis, getting our current practices more in line with the required regulatory environment, and committed contributions for credit counseling.

David Hochstim - *Buckingham Research - Analyst*

Should there be charges like that again in the first quarter or you're done? You spent so much that you would never have to spend.

Joe Leone - *CIT Group Inc. - Vice Chairman, CFO*

We will continue to put together our compliance programs, including regulatory reporting to the FED, and we will have some assistance from third parties there, but that's where I see, in terms of closing the gap so to speak, I see some expenses there. That's number one. And number two, we will have to build out certain internal areas using my area as an example, we will need to build out the FED regulatory reporting group to comply with the monthly and quarterly reports there. As I said in my remarks on expenses, our challenge is to find a way to self-finance that. So, that's the \$31 million.

On the reconciliations, let's me give you a couple of examples of what happens and let me try to give you a little bit of the root cause. I said principally, you can replace the word principally with "all", coming out of our Dublin operation. In Dublin, we had consolidated the operations back in the early 2000s, from the continent, which we thought was a very good efficiency move. What complicated the move is the fact that we had to put them on a different general ledger because they were an outlier, they were on a coded general ledger as opposed to our common general ledger. That's number two. And number three, we made a CitiCorp vendor acquisition at the time. So the operations took on a lot at the same time. And so some of the things that went awry, and mentioned back taxes, value added taxes in Europe, what happened was we were paying some of those taxes on behalf of our customer and since operations and accounting weren't put together as well, they weren't billed out to our customers, and as that ages it became harder to collect. While we will pursue collection we decided to write those things off. Another is some of the back end gains on residuals. Since the operations in the ledger weren't tied together we had some more residuals on the books. When the cash came in, they weren't accounted for in the gains. That's a little bit of color on those and those should not happen again.

David Hochstim - *Buckingham Research - Analyst*

How much, is a large portion of the \$82 million the tax receivables, basically, that you might recover?

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Joe Leone - *CIT Group Inc. - Vice Chairman, CFO*

Well, some. There are two or three large parts, but that's one where there is recovery possible, but I wouldn't say it is probably because that's why we wrote it off.

David Hochstim - *Buckingham Research - Analyst*

Okay. And then, can you just provide some color on the current lease rates for rail cars, aircraft versus whatever the average is now in the existing portfolio or what's running off rather than what's going on over the next year?

Joe Leone - *CIT Group Inc. - Vice Chairman, CFO*

I can't do that specifically, but I think that clearly in rail we are going to see some degree of compression. I can picture the chart, but I can't picture the numbers on the chart of renewal rates compared to expiring rates. We will have to come back to you. We will have IR follow up with you on that.

David Hochstim - *Buckingham Research - Analyst*

Then, just finally. In terms of reserve building, can you remind us how far forward you're looking in establishing the reserve at year end in terms of expected charge-offs?

Joe Leone - *CIT Group Inc. - Vice Chairman, CFO*

Well, I think we are going to stick to what we said. A couple things. One, we expect the charge-off number to go higher in 2009 from where we ended 2008, and where we ended 2008 was 90 basis points or so for the year which is not too far off what we said. Fourth quarter was a little higher, at about 130, 135 basis points. So, we think charge-offs will go higher. And on the reserve as I said, we did our normal reserving analysis but we increased the expected loss on the portfolio and went loan by loan on the nonperforming. I would hope that the reserve builds aren't in the magnitude of fourth quarter, but we will measure that quarter to quarter.

David Hochstim - *Buckingham Research - Analyst*

So we should expect that the provision will exceed charge-offs though in 2009?

Joe Leone - *CIT Group Inc. - Vice Chairman, CFO*

I think so.

David Hochstim - *Buckingham Research - Analyst*

Thank you.

OPERATOR

Your next question comes from the line of Chris Brendler representing Stifel Nicolaus. Please proceed.

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Chris Brendler - *Stifel Nicolaus - Analyst*

Hi, thanks, good morning. Could you talk at all about, I understand the best way to return to profitability is to start growing again and get some high yielding assets on the books as well as the fee income that comes with that. But, you raised a lot of capital in the quarter. Your tangible ratios look great, but I think from a bank perspective, you are still a little thin on your Tier 1 ratio. They like to have it above 10. So how do you balance the operating losses you're expecting this year with your desire to grow and your capital needs? I assume your plan is to not raise additional capital, but maybe that's not the plan. Just help me think about that as you go through 2009.

Alex Mason - *CIT Group Inc. - President, COO*

It's Alex. I think there are a couple of elements to the plan. I think Joe talked in some depth about our strategy with respect to improving margins. I think our goal is to return to profitability here in 2009, and we clearly have to attack margins in order to be able to do that. One of the key elements is accessing the TLGP facility to the extent we can get into that program. I think we can start to drive volumes and take advantage of some of the pricing power that we have given the market disruption. So, my view is if we can do that we've got the capital we need, we can proceed accordingly, build a profitable base and maintain ratios that the FED and you were were very comfortable with.

Jeff Peek - *CIT Group Inc. - Chairman, CEO*

I said something else in my script just to repeat to make sure it wasn't lost. We do need to make sure we fully understand the risk ratings in the regulatory process. So, for example, that's why we restructured a conduit the way we did to make it more capital efficient. There are other things like that that we have questions on whether we should review, change the structure, and going forward, we have a better appreciation of what capital needs are against certain situations, certain structures, etcetera. So there will be a focus on the denominator as well.

OPERATOR

(Operator Instructions). Thank you. Your next question comes from the line of Sameer Gokhale, representing KBW. Please proceed.

Sameer Gokhale - *KBW - Analyst*

Thank you for taking my question. I just had a question about the idea of getting back to profitability. Jeff, I think you mentioned in comments, sometime this year, I'm just wondering how realistic that goal is given that credit losses are expected to move higher and some companies like GE capital, for example, are saying the commercial credit cycle could last into 2010, so charge-offs remain higher, elevated through 2010. Is it realistic to think that some of the steps you can take to help the margin would be baked into the numbers in an adequate enough amount to offset the current situation? I am assuming you have submitted a plan to the bank regulators. Have you assumed that you would turn a profit in 2009 or is that an '10 event? Hoping you could get back to profitability in 2009. Some color would be helpful.

Jeff Peek - *CIT Group Inc. - Chairman, CEO*

Good question, Sameer. Obviously one that's on our minds. You know, we have done a fair number of scenarios and depending on, one, the cost of credit and how long and deep the cycle is, and also how quickly we can avail ourselves of things like TLGP and getting our 23A waiver, and moving assets into the bank where we have lower cost funding. We have scenarios where we are profitable. We have scenarios where we are not profitable. Also to the extent that we can take advantage of some excess

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liquidity while we continue to lend, but if we feel like we have excess liquidity, and also continue to repurchase debt as we did at the end of the year, that also is a great way for us to continue to keep the capital ratios where we want them and have a very strong balance sheet. And as I think everybody has been talking about, the asset base also continues to shrink in this kind of environment. There are a number of variables in it, but clearly some of the scenarios we have presented show us being profitable in 2009.

I just want to get my time here on two other questions that were asked previously. I think implicit in Joe's answer to David was that next quarter we are probably not going to have \$31 million in bank holding company transformation expenses. I just want to make sure everybody understands that. We will have some continuing expenses as we become more bank-like in risk management and compliance, and asset liability management, and that type of thing, but I don't think they will approach the magnitude of that number. Hope that helps you.

OPERATOR

The next question comes from the line of Bill Carcache representing Fox-Pitt. Please proceed.

Bill Carcache - *Fox-Pitt - Analyst*

Hello. I was hoping that you could share your thoughts on how you think about the reserve for credit losses as a percentage of nonperforming assets? I was taking a look on page 16 of your release, and it shows that you were at 118% last year versus 76% at the end of '08, given your outlook for deteriorating credit in the coming year. If you could just speak to that and share your thoughts on how you get comfortable with that, I would appreciate it.

Joe Leone - *CIT Group Inc. - Vice Chairman, CFO*

Sure. Good question. One that we totally vett internally as we go through our reserve process. I would say a couple things. One, I'll talk for CIT, I can't talk for any other financial institution, but that ratio generally moves that way in a cycle. The coverage of nonperforming is significantly higher in the up cycle and significantly lower in the down cycle. Having said that, our reserving practices remain unchanged from the perspective of this is how we reserve. We look at all our portfolios and project a 12 month plus expected loss rate and from that we put up a reserve to cover at least 12 months worth of future losses. Secondly, as I said before, we have a process to look at the exposure, the expected loss on each of the non-accrual loans and put that up as a reserve. I think the couple of things that we don't have in our portfolio, I think Alex mentioned, maybe Jeff mentioned, we don't have much in terms of consumer risk except for the private student loans which we have been building reserves on, and we don't have big exposure to commercial real estate. And lastly, I would say our portfolio mix is different from many banks in that a lot of our portfolios are secured lending, whether it is asset-based lending and/or equipment lending or vendor financed to some extent. I think it is a function of collateral mix. I think it's a function all those factors.

OPERATOR

The next question comes from the line of Matt Burnell representing Wachovia. Please proceed.

Matt Burnell - *Wachovia - Analyst*

Good morning, thank you for taking my question. Let me start with an administrative question. When you're saying profitable for 2009, are you referencing profitable for the full year or is it more an assumption or a hope for profit on a quarterly basis in the second half of the year?

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Jeff Peek - CIT Group Inc. - Chairman, CEO

I think our goal would be to be profitable for the year, Matt.

Matt Burnell - Wachovia - Analyst

Okay. Great. Then, let me use my follow-up to ask a question in terms of lending opportunities. Should you get access to the TLGP, your comments have certainly led us to believe that there is going to be some lending opportunities. I'm wondering if you could flesh out sort of what those lending opportunities may be because we are obviously hearing, on the one hand, Congress saying that banks and other financial institutions need to lend. We are hearing from a lot of potential borrowers that their desire to borrow right now is substantially lower than it has been. So if you could just provide a little additional color on that, that would be helpful.

Alex Mason - CIT Group Inc. - President, COO

There is certainly demand out there in the corporate finance space. As I said in my comments, we have had great difficulty getting deals fully subscribed and that has limited our ability to execute in the market, but we do believe that as 2009 unfolds, there will be a return of many of the players to the market and we will be in a position to put deals together in corporate finance, and take advantage of what I described as some very attractive pricing power that we have. Additionally, in several of our other spaces we see substantial demand. Let me give you one example. That would be vendor, where we could be doing considerably more business than we are doing, if we chose to. There again, participants left that market. We have had a lot of inbound calls from folks who would be like to be doing business with us in the vendor space, but frankly, we have had to focus on our existing client base. I would also point to our SPL lending activity. We are the leading player in that market. That market has been artificially depressed because of some government regulatory issues. We see that breaking free this year and we will continue to be a major player there to the extent we can generate additional liquidity.

Ken Brause - CIT Group Inc. - Executive VP IR

I think we have time for one more question.

OPERATOR

Thank you. Your final question comes from the line of Goldman Sachs.

Louise Pitt - Goldman Sachs - Analyst

Hi, it's actually Louise Pitt from Goldman Sachs. I just had a quick question on the liquidity you ran through, Joe, with respect to \$12 billion that you have in 2009. When I look at the cash in the secure facilities, I guess the aircraft is only available for aircraft, but then you have the securitizations and the lower business volumes and inflows. I get there is a shortfall of slightly over \$4 billion which will include the inflows and lower business volumes. Can you just reconcile that a little bit more for me, please?

Joe Leone - CIT Group Inc. - Vice Chairman, CFO

I will try. Yes, the ECA financing is only available for aircraft, but the \$12 billion takes into account the purchase commitments on aircraft, so I think that is matching the books, so to speak. Think of 11 and 11 if you'd like, without that. Yes, we do need to have \$4 billion or so of funding come from another direction. So, either assets have to be \$4 billion lower, which is one way, but that's not our preferred way. Or, we have a \$1 billion plus dollars in cash in the Bank, and that could be higher once we start

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generating more deposits again. We have been holding that back because we have not moved that many assets into the Bank. So what we are looking to do, either through the 23A that was described where we transfer assets into the Bank, or generating new assets in the Bank. SBA is one that we have very much on our agenda to do in the first quarter, and some of our other vendor programs possibly. So moving assets to get funded in the Bank is the other way of getting that \$4 billion of financing. You know, asset sales are another way. This market you can't count on big volumes there, but we do have some asset sales lined up for the first quarter.

Alex Mason - CIT Group Inc. - President, COO

But we have stayed active in funding the bank despite the fact that we have generated relatively little new loan volume there. And, we have been in the market to the tune of \$50 million a week on a pretty consistent basis. We believe that the brokered deposit market is available to us, up well beyond \$100 million a week, perhaps to as much as \$200 million. So, do the math on that. You play that out over 2009, I think we can generate a lot of cash in the Bank and that will obviously be accelerated as we move into the 23A process.

Joe Leone - CIT Group Inc. - Vice Chairman, CFO

Louise, the last thing I would add is our preferred method of funding, be it 12 or the 11, is getting access to TLGP as well. We just wanted to point out how we would do it absent TLGP.

OPERATOR

Ladies and gentlemen, this concludes all the time we have for our question and answer session on today's call. I would now turn the call back to Mr. Jeff Peek for closing remarks.

Jeff Peek - CIT Group Inc. - Chairman, CEO

Thank you, Katina, and thank you, everybody, for joining us on a very busy morning. These remain extremely challenging times, as I think we all can attest, and we do continue to work here at CIT to build value for the benefit of all our investors and stakeholders. Let me just give you a few parting thoughts. I think these resonate with our call this morning. We are in the midst of a transformation at CIT. We are now a well capitalized Bank Holding Company. We are actively developing our Bank strategy, including greater deposit taking initiatives. Funding and credit, as we've said, remain the key drivers of our return to profitability, and are our top priorities for 2009. Our core commercial finance franchises remain open for business. They're focused on improving their efficiency and profitability as they each manage through this difficult environment in their market sector. We have raised capital. We have built reserves. We reduced the size of the balance sheet. We think that puts us in a very strong capital position to manage through the cycle. I want to thank our employees for their dedication and hard work, our clients for working with us and all of our investors for their support of the CIT franchise. As always, Ken, Steve, and Bob are available to answer any questions we didn't cover today. Thanks for your attention.

OPERATOR

Ladies and gentlemen, we thank you for your participation in today's conference. This concludes the presentation. You may now disconnect, good day.

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