

FINAL TRANSCRIPT

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CIT - CIT to Present at the Credit Suisse Financial Services Conference

Event Date/Time: Feb. 05. 2009 / 9:30AM ET

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CIT - CEO

PRESENTATION

Moshe Orenbuch - *Credit Suisse - Analyst*

Thanks for joining us. We are very pleased to have with us this morning to management of CIT. The past 18 months have been extremely turbulent for the entire financial system, wholesale funded companies, and CIT was certainly no exception in that. But in that time period, the Company has worked hard to develop new funding sources so that it can continue to serve its key customers.

Recently, the Company received approval to become a bank holding company, which is maybe not the last step but the first step in terms of a significant change in that funding structure. Coupled with being able to take advantage of some recent government programs, that should significantly add to the companies liquidity, moving it on the path to improving its net interest margin and back to profitability. The Company's long history of conservative lending in its key businesses should stand it in relatively good stead in the current weak economic environment.

With us today, Jeff Peek, the CEO, joined CIT in 2003, has a long track record in the financial services industry, including a stint here at Credit Suisse. And we are very happy to have Jeff and Ken with us this morning.

Jeff Peek - *CIT - CEO*

Thank you, Moshe. I think many of you know Ken Brause, our EVP and Head of Investor Relations, who is here to my right.

I want to thank Moshe and Credit Suisse for hosting this in good markets and bad. So I think that is terrific. I also want to say just good morning to everybody in the room and those of you on the webcast.

I am pleased to be here to give you an update on CIT. I will apologize just at the beginning -- as you probably have discerned, I've got a head cold. And so if I come out a little squeaky, I will apologize in advance for that.

For us, it has certainly been an eventful 12 months for the market broadly, as well as for CIT. And I want to give you an update on what has happened since I was here last year at this time.

This I think you're all familiar with -- legal notices, forward-looking statements. Read it when you get a chance.

I've got three objectives today in my talk with you. First is I do want to review the very important accomplishments we had during 2008 which culminated in our conversion to a bank holding company. Secondly, I want to give you an update on our bank strategy. And finally, take a little bit of a forward view and discuss our priorities for 2009 and our longer-term vision. And if time permits, I would be delighted to take your questions.

For CIT, 2008 was a little bit of a perfect storm, like it was for many specialty lenders. The mortgage crisis, which began with subprime -- if you remember, at the start of 2008, we had a \$10 billion subprime mortgage loan portfolio, which we were liquidating.

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Second, 2008 saw a virtual shutdown of the debt capital markets, which of course had been our primary source of funds and a major contributor to our profitability.

And finally, we had the beginning of a recession and a turn, rather accelerated turn in the credit cycle. And overall, this was really a dramatic change in the financial services industry, as the wholesale funded model effectively came to an end, and those companies that used wholesale funding either merged, closed, or converted to banks.

Now, 2008 was also a transformational year for CIT. And I think our accomplishments are noteworthy, given the economic backdrop. First and foremost, we maintained leadership in our core middle-market commercial businesses. Those would be corporate finance, trade finance, vendor, transportation finance.

We dramatically improved the risk profile of the firm, most notably by selling our subprime mortgage portfolio in June. We generated significant liquidity, despite being closed out of the unsecured debt markets and the commercial paper markets. We ended the year with over \$8 billion of cash on the balance sheet, up \$1.5 billion from 2007.

You will see the balance sheet is much stronger through capital raises and reserve builds. And we successfully converted our Utah industrial loan company, our ILC, to a full-service, full-power Utah state-chartered Bank. And of course, CIT became a bank holding company.

Now let me go back and just review each of these in detail so you can get an idea of where we start 2009.

First, we have tried to position the franchise for the future. A number of you I know ask, why do we write any business at all given our liquidity constraints that we experienced in 2008?

And the answer is simple -- we want to preserve the franchise value of the commercial finance businesses we are in. We believe this cycle will turn. Every cycle does turn. And we want to be well-positioned to benefit market share gains when the cycle does turn.

The competitive landscape certainly has changed. A number of the nontraditional players have totally exited the commercial finance arena. And second, traditional competitors, some of the very largest, have announced that they are going to pull back dramatically in the amount of capital that they allocate to the commercial finance business.

So we think there clearly are market share gains for us when the market returns to some normalcy. We are a relationship company. We have stood by our customers during this difficult period. We want to be in a great position to benefit when the markets come back and liquidity starts to flow again.

Now, here -- what I've got up here is just lead tables for middle-market lending. Despite a dramatic drop in volume and in number of deals, you can see over the last three years we have gone from 14th to 9th to 6th. So this is just some verification of how we have tried to stay in there and continue to support our customers in a very difficult environment.

Now let's talk about our risk exposure. We took a number of actions to improve our risk profile during 2008 knowing that we were going to go into a difficult economic environment. The most significant was, as we said, the sale of our subprime mortgage portfolio back in July. While it is not easy to accept a price of \$0.65 on the dollar, that is one decision that we never look back on. Given what is happening in housing and the economy, we thought that was a terrific price at the time. And we have only thought more since then.

We also closed our commercial real estate business. We have stopped originating commercial real estate loans in the first quarter. We have about \$800 million of commercial real estate exposure. That is approximately 1% of assets.

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We stopped originating student loans following the change in legislation. It took all the profitability out of the business. We have tightened our credit underwriting standards over the course of the year. We have adjusted pricing upward.

We do think our portfolio is fairly well positioned to weather the storm. It is very diversified, as you will see. Having said that, there is no doubt that we will take our share of pain as the recession continues.

In our portfolio, we are predominantly in a senior secured position. We have good diversification. And we have no exposure to structured products, off-balance-sheet conduits and other controversial high profile areas.

Now let's just talk about liquidity, because we think we have made significant progress on our liquidity. Since drawing our bank lines in March of last year, if you remember that, following the Bear Sterns failure, we have secured well over \$20 billion in additional liquidity.

We maintain a plan that we can meet any of our funding requirements, any of our maturities 12 months forward on a runway without access to the unsecured debt markets.

We enter the year in a strong cash position, as I said. We do have borrowing availability in existing facilities -- Goldman Sachs, the Wells facility, and our conduits, and we continue to have positive cash coming off the portfolio.

There are several other initiatives which are very interesting to us that could have a meaningful impact on our liquidity -- namely, those would be the TLGP and the 23A. We would like approval to issue the FDIC-insured bonds through TLGP. And also, we would like approval of the waiver of 23A so we could start to sell assets into CIT Bank from the holding companies.

Both of those we have applied for. We are in consistent discussions with the regulators, the Fed and the FDIC. The timing is a little uncertain, but we continue to make progress week by week as we go through that.

Now, this is really the capital raising slide. 2008 we generated over \$6 billion of new regulatory capital. There are three or four parts to this. Just let me take you through it. In April, we raised \$1.6 billion in common and convertible preferred. This capital raise set us up to take advantage of the opportunity to sell the subprime mortgage portfolio in July. So this was really the capital that allowed us to go ahead and sell the mortgage portfolio at a discount.

We generate another \$1.6 billion of regulatory capital through two voluntary exchange offers that were announced in November, closed in December. The first of them was to generate subordinated debt -- tier two capital. We exchanged \$1.7 billion of existing senior debt for \$1.1 billion of subordinated debt to fill out our tier two capital. As a non-bank entity, we had never gotten any credit for debt when we moved to being a bank. We had to fill out the tier two capital. And this exchange offer helped us.

Second exchange offer was we accelerated conversion of about 70% of our outstanding equity units, and that generated about \$500 million in new common equity. Also in December, as the final phase of our bank application process, we raised about \$345 million of new common stock in a single-day offering. And on New Year's Eve, we received \$2.3 billion of top preferred. I will probably never think about New Year's Eve in quite the same way again.

I want to spend a minute just on the results of those capital ratios. Our tangible equity to managed assets, which had been our metric with the rating agencies -- we ended the year at 14.3%, which was quite a significant increase from 10%, where we ended the year before. So that was the old metric we had, up by more than 400 basis points.

Under the new bank guidelines, risk-based capital -- at year-end, our tier-one capital was 9.8% and total capital ratio was 13.4%, making us by definition a well-capitalized bank holding company.

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We also threw in our ratio of tangible common equity here, which did seem to get some attention last week in some other year-end announcements. And that was 5.7%. So we consider these to be strong capital ratios, much higher than CIT has had in its past. And our intent is really to continue to maintain those.

I would just note here that our year-end book values -- book value per share was \$13.61. Tangible book value was \$11.81. I would note our stock closed at about \$2.83 yesterday.

Now, I want to talk a little bit on profitability and the steps we are taking to position CIT for better profitability in 2009. In every one of our businesses, we have increased pricing. Obviously, the cost of funds and the probability of default have dramatically increased. So business by business, we have gone through there and raised pricing any place from 300 to 500 basis points.

We have also focused on ways to mitigate the margin compression that we see from a higher cost of funds. Most of these steps are just a natural benefit from being a bank holding company. They would include lowering the cost of excess liquidity. You can see we've got probably 10% of our assets in cash right now. The cost of that liquidity, once we are firmly in the banking system, we think will go away.

Also, as we get more deposit funding, we can move away from some of the higher-priced conduits, which as everybody knows, are repricing to higher levels as they expire and are renewed.

In terms of operating expenses, we delivered on a reduction of about \$200 million of run-rate operating expenses for 2008. Headcount went down by 1,400 or 22%. We closed 45 offices. We also made the obvious cuts to various discretionary spending programs in T&E, marketing and others.

And finally, our initiatives include the restructuring of vendor, which is already underway. And also, as you know -- probably know, on New Year's Eve we bought back some debt at a discount. We will be an aggressive buyer of our debt pending liquidity throughout 2009.

Now let me just take you through this a little bit, set you up in terms of what we look like now from a regulatory perspective. As I said, CIT group is a bank holding company. We are regulated by the Federal Reserve Bank of New York.

We have both US and non-US non-bank subsidiaries. The international non-bank subsidiaries largely relate to our aircraft leasing business and our vendor leasing business in China and in Europe. The non-US, non-bank subsidiaries would also include any lending that we do in Canada and the UK.

CIT Bank is a state chartered Bank in Utah. It's regulated by the FDIC.

Now our plan for 2009 is the transition our organizational platforms to that of a bank. It is designed to build a bank that is both scalable and can meet the needs of our businesses. I think it will occur on a measured, phased business. We have a quite a bit of work to do here, but I think it will be phased over a series of months and a series of quarters.

We are building out our bank infrastructure. Some of the important sectors there, the capabilities that we need to bolster, would be credit, compliance, regulatory reporting.

As I said, we have applied for an exemption from Rule 23A. We are asking to transfer \$30 billion of our assets from CIT Group into CIT Bank. This would give us a onetime pass to put assets from affiliates into the bank.

If granted, we will transfer these assets probably in three phases over the next nine to 12 months. Most likely, we would start with our corporate finance loans, followed by the government-guaranteed student loan portfolio, then trade and vendor finance. So as I said, \$30 billion coming out of the group into the bank, supported by deposits, probably taking place over the next nine to 12 months.

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Initially, these assets would be funded by intercompany loans and brokered deposits. But our goal is to further diversify our funding. So we are exploring direct issuance out of the bank, get the bank rated, bank notes, and also demand deposits.

Now, this is an interesting slide. What we have done here is we have tried to position CIT as a bank holding company. And we think it is well positioned as a bank.

We have a strong credit culture. Our systems and processes are largely bank compliant, given our history of both being owned by banks and owning banks in the last 25 years.

Virtually all of our existing businesses are bank eligible. Their assets can be put in a bank.

If you look at this a slide, we ranked as a top 20 bank, as measured by assets; a top 15 bank, as measured by loans; and the seventh-largest C&I loan portfolio in the country. We believe that when we're successful in converting CIT to a bank holding company with a commercial finance focus, we feel like this franchise will have real value. So once again, the seventh-largest C&I loan portfolio in the country.

Now let's just talk a little bit about 2009 and what our priorities are. I have described 2008 as a transformational year. Despite all that we accomplished in 2008, we recognize there is a lot of work to be done. I have to say I was feeling that the regulators didn't love me. I had three regulatory meetings last week. Now I feel like the regulators clearly have us on their screen.

So there's a lot of work to do. We will advance our bank strategy, both in terms of implementing the transition plan, but also our longer-term strategy of building a deposit base and diversifying our funding.

It's imperative this year we maintain our financial strength. We started the year in a strong financial position. It's certainly a corporate priority to maintain that.

We will be making investments in people and systems to develop and support our bank infrastructure. And it will be a real priority to try and do this as economically as we can.

We want to manage our business to weather the recession, position ourselves again to create value for the shareholders when the cycle turns. I think there's a tendency to focus on these government programs as an end in themselves. And they're really a means to an end, which is to get back to profitability, get back to building value. As I said, we view these government programs really as a means to an end, not an end in and of themselves.

Now, we do expect the US economy will remain under stress for 2009. We built our balance sheet to help us manage through this challenging period.

We went through the capital ratios. We feel like those are strong. We did build reserves in 2008. We built reserves by over \$500 million. Our reserves now are over 2% of finance receivables. And I expect we will continue to build reserves over the next few quarters.

From a funding perspective, we enter the year with good flexibility -- \$8 billion of cash, another \$3 billion of availability in the Wells, the Goldman Sachs and the conduits. Unencumbered assets are still over \$40 billion.

If we are approved for TLGP and the 23A, our funding and liquidity position gets even better. Finally, we have very little in market sensitive assets on the balance sheet, very little exposure to marked to market.

I think you have seen this slide before in our presentations. Our portfolio is pretty well diversified, generally secured. The chart on the left shows industry composition. Outside of student lending, where 95% of our student loans carry the 97% FFELP guarantee, the largest industry concentration we have is 17%.

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Our growth over the past few years has been focused in what we think are some of the more of the recession-resistant sectors such as health care, energy, technology. We have stayed away from some of our traditional cyclical areas like construction and retail.

The chart on the right shows the risk composition of our portfolio. We have some form of collateral, security or government guarantee for 88% of the portfolio.

If you look at the corporate finance portfolio, I know that's one of the areas -- the lending book, that is one of the areas that you are interested in. 96% of the assets there are senior secured, and the split between asset-based lending and cash flow loans is just about 50/50.

The average loan size once again is around \$15 million. So you can see it's about a -- little bit over a \$20 billion book. This is quite a bit of diversification in that we have very few tall trees.

We have a fairly conservative portfolio, as I said -- mostly senior secured. Very little in the way of sub, mezzanine or equity interest in the portfolio. That puts us pretty much at the front of the line or very near to the front of the line in any kind of work out or bankruptcy situation.

Now let me just talk a little bit about each -- about the four core commercial finance business. Corporate finance, our largest business -- certainly be challenged this year as credit costs rise in the capital markets remained disrupted. Very few fee opportunities for our corporate finance business -- syndicated loan markets closed down.

We are getting some fee income, some fee revenue from borrowers coming in. They have breached covenants. We have to give them waivers. That can be very profitable business for us. But corporate finance clearly will be challenged this year.

There are a lot of attractive lending opportunities. Our basic lending rate now is probably LIBOR plus 1000 basis points. And that usually comes for senior secured. If it's junior to that, it is more. Typically that is LIBOR plus 800, with a couple points up front. That is how to get the LIBOR plus 10.

But lots of attractive lending opportunities. Leverage is down. Structures are great. Covenants are terrific. So this is the paradox -- in the worst of times, you make your best loans.

Trade finance, a factoring business -- they have done a terrific job of navigating through what is a very difficult retail environment. We'll clearly see lower volume, but much higher pricing. We are applying surcharges to a number of the national retailers when we buy their receivables. So we are buying them at a bigger discount.

And lower volume -- we feel like we have passed the tipping point in risk/reward, so we clearly are not buying receivables of some of the riskier retailers -- [almost] whatever [discount] we can buy them in.

Transportation finance -- that was our best operating unit last year. Both air and rail remain at high utilization levels. We don't have a single airplane on the ground. Utilization on rail is right around 95%. But we do expect to see some softness in both rail and air in 2009.

Vendor finance -- gone through a significant restructuring last year. They will be focused on improving returns as we -- we've really tried to focus on our big strategic vendor relationships there -- Dell, Microsoft, people like that.

Now, I am sure credit risk -- cost of credit is clearly a top of mind for you as it is for us. So let me just talk about credit on the unit by unit basis. As I said, corporate finance -- that's an area we're reviewing very closely. We did see a notable deterioration in credit metrics in the fourth quarter in corporate finance. It is a diverse portfolio.

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Right now, I would say the areas that are of most concern would be the commercial real estate portfolio, which thankfully is only about 1% of assets; and media exposure -- anything in print advertising is having terrific trouble right now. The Internet is just taking a huge amount of revenue away from them.

We also are seeing some softness in areas that have traditionally been pretty solid for everybody. Gaming would be an area where for the first time we are starting to see some softness.

Trade finance business supplies credit to the retail industry. They have done an impeccable job of managing that exposure. As we look back on the holiday season for 2008, we are encouraged because a number of the large retailers went for liquidity as opposed to profitability. So they had huge sales at big discounts just to move the inventory, and they probably enter 2009 in a more liquid position than we would have thought.

We are now watching some of the smaller retailers, some of these regional department stores you see in the news from time to time, as well as the apparel manufacturers. So it is I would say a cautious time for our factoring people.

Credit trends in vendor finance probably mirror what is going on in the economy. We expect to see higher losses, but also at a time like this, when capital expenditures are under some pressure we see a lot of lease extensions. And that is a very profitable part of our vendor finance business, as opposed to taking new equipment that will extend, we have pretty much depreciated the equipment over the initial term. So that can be a very profitable experience for us.

Finally, we talked about transportation. Credit is not such a big issue for us there. It is more about utilization and lease rates. And as opposed to 2001, 2002, where we had some large loans to some of the US hub carriers, most of our exposure today in transportation is operating leases. And the clientele, the lessees are well diversified and mostly investment grade.

Now you can spend some time on this slide a little later, but I want to call your attention to the right side of the slide, which is kind of our roadmap for improvement in our various metrics, and how we think we can get back to where we create value for the shareholder.

We do believe that we can get return on equity up in the lower double digits. What we need there would be a 3% margin, more normal levels of fees, and credit losses averaging between 75 and 100 basis points throughout the cycle. Credit losses -- if you think about it, 2006, 38 basis points; 2007, 43 basis points; 2008, about 93 basis points. So we think 75 to 100 throughout the cycle as an average probably isn't too far off from what we have seen.

Some of the most important drivers in getting to this kind of target return will be driving down our funding cost as we reposition our funding within a bank context, reduce the amount of excess liquidity we carry, higher levels of deal activity - we will need that as markets stabilize, get more fees. And our success in managing credit costs and operating expenses.

Now, I think that becoming a bank holding company is quite a significant gateway for us -- we don't see it as a destination, but we see it as a gateway to us taking our asset origination businesses and putting them within a bank context. And the work we really have to do is really on the right side of the balance sheet. Within a bank context, we really need to rework our funding model.

In the past, obviously, we were very reliant on unsecured debt issuance. 2006 we issued about \$22 billion, \$23 billion of debt around the world. And our plan is to reduce that to a more manageable \$5 billion to \$6 billion. So you have to obviously think beyond the dysfunctional capital markets we have. But one of our -- in terms of our long-term model would certainly be to increase deposits, decrease the amount of unsecured debt issuance that is required.

The bank holding company business model -- it was a pivotal step in providing more stability to our funding model, opening up several liquidity alternatives, whether it's the discount window, whether it is TLP or 23A. By addressing our funding challenge,

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and as I said, that is the work we have to do, we do think that will get us back to where our core commercial finance businesses can generate profitable businesses by doing what we do best.

We originally originate and adjudicate rooms loans to middle market and small businesses. We lease equipment, airplanes, railcars. And we provide working capital to the suppliers of the retail industry.

So just to sum up, I think whatever your perspective, you can say 2008 was an extraordinary year. At CIT, we think we made quite a bit of progress in retrofitting our business model. We improved our risk profile. We eliminated all risk from home lending. We improved our liquidity position. We built capital and strengthened the balance sheet. And we maintained -- most importantly, we maintained our key business franchises' relationships.

When the environment does improve, we will be positioned to benefit as a more disciplined, stable and efficient competitor as a bank holding company. I remain very excited about our future, and would now be happy to take your questions. Thank you.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Assuming that you do get those two big funding program -- or access to them, the TLGP and the 23A waiver, how should we think about how quickly you can kind of implement them and start the process of rebuilding that net interest margin to where it needs to be?

Jeff Peek - CIT - CEO

Right. The TLGP is quite rapid. As you might expect, your firm and other underwriters are quite anxious. So we have met with a number of them. We have provided the FDIC with our plans for issuance, who the underwriters would be, what would be fixed, what would be floating, that type of thing. So I think that is a matter of two, three weeks, probably to get that.

And as we said, on 23A, it is \$30 billion of assets we would like to move in over time. And I think that would be phased, as we said. The first phase would really be our corporate finance lending book. Second phase would probably be our government guaranteed loans. And third phase would really be trade and vendor. And my guess is that would -- that could be accomplished probably in calendar 2009, at the end of the first quarter of 2010.

What the Fed has said, I had a call with one of the governors on Tuesday, and they said they are trying to really fast-track all 23A approvals. He said, we know a lot of institutions want to move money around. So once you get the applications to us, it could be as short as four weeks that we act on them.

The 23A requires a vote of the Governors of the Federal Reserve system. So it is -- it seems -- it wouldn't seem that it would seem that level of -- from on high kind of approval, but that is the way it works.

Moshe Orenbuch - Credit Suisse - Analyst

And in terms of the size of the benefit, 300-ish basis points, is that --

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Jeff Peek - CIT - CEO

Yes. And probably our most expensive conduit is LIBOR plus 450. We are now raising deposits in the bank at probably 2.5, 2 to 2.5. So there's quite a -- there's 200 to 300 basis point savings there.

Also, one of the other point is, as we said, the liquidity. We are running with \$5 billion, \$6 billion, \$7 billion of cash that we are earning 10 basis points on. Yes, Bob?

Unidentified Audience Member

You get a good look at a broad cross-section of the economy, both specifically and generally. Can you tell by talking to your customers, your clients whether there are any particular pockets of accelerating weakness, or whether it's too early to start to see any bright signs emerging, either by region, by industry, or by type of equipment that is financed? Can you get -- can you give us any insights on how you relate your customer reactions to the economy, and any sense you can make real time in the trenches with respect to your customers?

Jeff Peek - CIT - CEO

Sure. I think that -- I think that the last 90 days, the last 60 days, you have seen an acceleration in deterioration. If you take business by business, transportation -- as I said, our folks have done a terrific job to keep utilization at about 95%. For those of you who follow rail loadings, the last two weeks of December, rail loadings were down 21% year-over-year. So that is -- by anybody's measure, that is a pretty significant downturn. So that would be one factoid.

Air -- you know, it's interesting. Things are so volatile. We did a deep dive in August on if oil went to \$200 a barrel, would leasing airplanes be a good idea or not. And we came back with kind of, if oil stays below \$125 a barrel, it will be a pretty good business for us. If it goes over \$125 -- so we spent a lot of time on that. And of course, oil's kind of half of our -- 40% of our decision point.

But aircraft has stayed pretty well. Their issue now is fuel is 40% of their operating expense. So that is a good thing. But they are having trouble filling the airplanes because of the economy.

The places we have seen real weakness -- as I said, media; anything print is a problem. Second, third-tier gaming; some of that was related to the cost of gasoline. People got tired of driving 50 miles to lose \$50. With gas coming down again, maybe they will think about that again.

I think the branded retailers, particularly the stuff that was acquired by private equity firms -- I mean, all those deals were kind of done in an environment far, far away from where we are today. And the leverage was too much, and the value of -- the idea that -- the second exit was the value of the real estate. Well, we find out it's a big country. There's a lot of real estate.

So those would be some of the things. I think technology actually is still pretty good. Our vendor business is not Cray computers. It is more laptops, desktops, printers. So those are really the cornerstones of the modern organization. So people continue to have a need for that. That would be some of it.

Unidentified Audience Member

Do you have any businesses (inaudible -- microphone inaccessible)

Jeff Peek - CIT - CEO

I think rail is -- I am not sure rail was the earliest thing. But I think it is a leading indicator a little bit.

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The other question we all deal with is -- Washington is throwing everything they have in the closet at the problem, whether it is a stimulus or targeted asset problems. And so I think one of the -- my own view is it's a question of lag. Is that stuff going to have an impact by April or by July? Some of this stuff it looks like it isn't going to be until 2011. But there clearly is a lot of stimulus coming down the pike.

Moshe Orenbuch - *Credit Suisse - Analyst*

Well, please join me in thanking Jeff for his presentation. He will be in the breakout room two doors to the left. And we will have Regions Financial starting momentarily in this room. Thanks, Jeff.

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