FINAL TRANSCRIPT

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CIT - Q2 2008 CIT Group Earnings Conference Call

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PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to CIT's second quarter 2008 earnings call. My name is Carissa and I will be your operator for 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. As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the call over to Mr. Ken Brause, Executive Vice President of Investor Relations. Please proceed, sir.

Ken Brause - *CIT Group, Inc - EVP Investor Relations*

Thank you, Carissa, good morning everyone.

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Welcome to CIT's second quarter earnings call. Let me mention two items before we get started today. First, following our formal remarks we will have a Q and A session. We ask that you limit yourself to one question and then return to the queue if you have additional questions. We will do our best to answer as many questions as possible in our allotted time.

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

With that it is my pleasure to hand the call over to Jeff Peek, our Chairman and CEO.

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

Thanks, Ken, and good morning everybody.

Welcome to our second quarter earnings call. I am joined this morning by Joe Leone our Vice Chairman and CFO, and Alex Mason, our new President and Chief Executive Officer. Before I update you on a number of strategic issues and the results for the quarter, I'm going to ask Alex to say a few words about why he joined CIT and his first month here. Then Joe will take you through the quarter and provide you with more detail on our liquidity and capital positions. Then finally, we will be delighted to take your questions.

Now as I am sure you have read, Alex joined us last month as President and Chief Operating Officer and has responsibility for all of our operating business units. He has a long and distinguished career in financial services. Including leadership positions, at Banker's Trust, at Deustche Bank and, most recently, at Mercantile Bank in Baltimore. I think he's a terrific addition to CIT and has quickly become an important contributor to the senior leadership team.

Alex?

Alex Mason - *CIT Group, Inc. - Pres & COO*

Thanks, Jeff. It has been only a matter of a few short weeks since my arrival but I will tell you I have already been struck by the tremendous collegiality of the environment and the quality and focus of the people. A number of folks, both inside and outside the firm, have asked me, and I think quite appropriately, why CIT and why now. I thought it might be useful this morning to talk for a couple of minutes about why I came.

In the interest of keeping this short and relatively simple, I have distilled my reasons down to four. The first is that I really do have an affection for the commercial and corporate finance businesses. As some choose to remind me I have been in this business over 30 years. In that time, I've created businesses, I've built businesses, and I've run businesses, all in the corporate finance field. I haven't touched and felt every business in the CIT mix, but I think I bring enough experience to add value and to help manage those businesses. So I am very excited in this respect.

Secondly, I believe in franchise value. I believe that the core franchises here are in very good order. They have been managed well and over a long period of time. And I believe that franchise value inures to the benefit of both the employees and the share holders. All the folks who have contributed to the creation of these franchises have much to be proud of. They are strong and enduring and very much part of the reason why I am here.

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Thirdly, I believe in relationships. One of the things I found interesting as I did my diligence on CIT was the strength of the relationships that CIT has created with its clients across all its core businesses. As you know, we live in a world where most financial products are highly commoditized. The point of differentiation frankly is the service one provides to clients and the relationship one builds over time with clients by way of that service.

The point at which a relationship becomes most valuable is when one side or the other faces challenges. I think many of you have seen in the troubled times that we have been in, the strength and enduring nature of the client relationships that CIT has forged.

In the last, and most importantly, I believe in the plan. Needless to say, Jeff and I have had occasion to talk about this at some length. I also met with virtually all of our directors before I joined. I believe in the -- I believe in the direction that the firm is taking, I believe, actually, that I arrived at something of an inflection point which is probably worth spending another minute on.

Despite the challenges, I believe CIT has been doing a lot right on a number of different fronts. Obviously, liquidity has been and will continue to be job one. But the firm now has established a strong track record of moving aggressively on the liquidity front. And extending our liquidity time line in the face of continued disruptions in the credit markets continues to be among our highest priorities. I think the sale of the Home Lending portfolio is a major event.

Many of our competitors will be forced to deal with enormous continued pressures on their balance sheets, their earnings and their management's time until this housing cycle is complete. CIT can now put Home Lending in the rear view mirror and focus again on the business at hand. I won't suggest that all our challenges are about to disappear, but I think my arrival will mark the point at which our mission becomes more about rebuilding our access to Capital Markets and growing our franchises again. I know that is where everybody here wants to be.

Thank you, Jeff.

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

Thanks Alex. And I could not agree with you more and share your enthusiasm about the opportunities for CIT. We have a great franchise with leading market positions and deep customer relationships. In my opinion, the from breadth and depth of our experience in the commercial finance sector is unmatched.

Now, let's turn our attention to the second quarter. It was a respectable quarter during which we demonstrated solid execution on a number of well timed actions. And let me review those steps.

We have substantially improved our liquidity position since April 1 through several transactions that represent over $10 billion of incremental liquidity. And that gives us visibility into our maturities into 2010.

The sale of Home Lending which closed last week, cash received, assets and liabilities transferred, and all risks from this volatile asset class removed, was a watershed event for CIT in its strategic evolution to a pure commercial finance franchise. Our remaining consumer exposure, Student Lending, is 95% government-guaranteed loans, and consequently, represents minimal credit risk to CIT.

Our Commercial Credit experience remains well within our expectations as we made further progress in reducing the level of unfunded commitments. While we do see some pockets of weakness across our loan book, there has been no broad-based deterioration. We are appropriately capitalized, despite the loss on the sale of Home Lending, with a pro forma tangible equity-to-managed asset ratio of 9%, above our 8.5% target. This ratio would be well over 10% if we excluded the guaranteed Student Loan portfolio.

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And, we expect to begin building capital through retained earnings going forward from today. We have market leading franchises in the commercial middle market. That is our value franchise. That is why we have been around for 100 years. Given the back drop of a weakening economy, current market dynamics, and our own funding costs, I believe the second quarter results of these businesses are quite respectable, with particularly strong performance by Transportation Finance. And solid results in both Corporate Finance and Trade Finance.

Now, let me turn your attention to the issues of liquidity and funding. We made meaningful progress, executing against our initiatives, to increase liquidity through asset sales and financing. After we drew our bank lines in March, we outlined our plan to return to a more normal funding model. We said we wanted to shrink the balance sheet and specifically mentioned the target of Managed Commercial assets in the $50 to $60 billion range. At quarter end, our Managed Commercial assets were $59 billion.

Having sold about $3 billion of loans, airplanes and other assets during the quarter while strategically managing our growth. And these assets sales have been at around book value. Now we think that our ability cannot only get these transactions done in the current market, but to do so at these prices, continues to demonstrate the quality of our portfolio. We also said we wanted to secure additional liquidity, including some form of funding partnership.

Since then, we have raised and/or secured over $7 billion in new funding including the capital raised in April, the secured ECA air craft facility we announced today, and other asset-backed financings we did during the quarter, as well as the $3 billion long term funding arrangement we put in place with Goldman Sachs. And we received proceeds of over $3 billion from asset sales. Including the $1.7 billion from the Home Lending sale. Bringing the increase, the overall increase in liquidity to well over $10 billion. And we said we would consider business dispositions.

And of course, the sale of our Home Lending business, which was not in our initial plan, puts us considerably ahead of our liquidity projections. We will continue to look for opportunities to dispose of non core assets at attractive and appropriate values.

Now, I know many of you are curious about the status of the Rail business. As you know, we have been considering various strategic options for this very attractive franchise. We have run a very comprehensive and competitive analytical process. Given the considerable progress we have made with regard to liquidity and asset sales, we continue to explore a full range of alternatives for Rail. It would be inappropriate to comment in any more detail at this late stage of our process. We will update you when there is something to report.

Now, moving on to operating results, the business environment has not only remained difficult but perhaps become even more challenging. Accordingly, we still have a tale of two cities for CIT in the second quarter. Our market leading Commercial Finance businesses which continue to progress, and our liquidating Consumer Businesses, Student Lending, which remains and Home Lending, which is now divested and accounted for as a discontinued operation in the current and prior periods.

I would like to share a few highlights with you for each of our commercial franchises, during this second quarter. First, Transportation Finance. We had another terrific quarter. Return on equity, over 20%. We have a young and importantly fuel efficient aerospace fleet, and we continue to see good demand for our planes. Our delivery book is committed with leases into 2010. And we have been successful at selling planes. Nearly 700 million of those sales have closed year-to-date and more are under contract for memorandum of understanding, MOU. We think these asset sales in the plane sweep are a positive for liquidity, for risk management, and for fleet composition. Credit in the Aerospace leasing business remains excellent. We have had no exposure. Repeat, no exposure, to any of the U.S. airlines that have recently stopped operating.

Rail, it had a strong quarter as well. Overall, utilization rose to 96% this quarter as we saw continued good demand for several of our car types. Higher gas prices continue to make Rail a more attractive strategic alternative to trucking, it's major competitor. And I will say. the Rail team performed very well this quarter staying focused on the business amidst our strategic review..

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Trade Finance. Let's talk about that. Trade Finance remains a steady performer. Return on equity of around 13%. I will say the weaker economy is having an impact on volumes, which are down, and we did see some margin compression. In this difficult retail environment, we're clearly playing defense.

And while credit metrics have weakened, we continue to dodged many bullets and continue to be successful in anticipating problems and proactively taking actions to mitigate potential losses. We certainly have a track record here of successfully managing through prior cycles, and I'll reiterate again, how talented I think the executive team in this business is at managing credit risk.

Let's move on to Corporate Finance. I think Corporate Finance, again, was masterful in managing their franchise in a difficult market. Earning about a 10% return on equity before liquidity related items. While the syndication and asset sales markets remain challenged, we are getting deals done for our clients. Including arranging senior secured loans for CHF industries, Alkon Entertainment and the Edmonton Oilers, a hockey team. As well as advising on the sales of physician endoscopy and PBM graphics.

And importantly, we continue to build our pipeline of financing, many of which are now originated by CIT bank. We think that it is very important, crucial, to be open for business, helping our clients achieve their goals.

Vendor Finance. Our Vendor Finance results were a disappointment again this quarter, and we are very focused on this business. It continues to be impacted by the dislocation in the capital markets which has resulted in some impairment charges that relate to both current and past periods. A lack of sale and securitization income and increase funding costs, given the lag in repricing assets in this increase portfolio, are also affecting profitability negatively.

We certainly have a plan in place to get the results in this business back in line with expectations. We're focusing our resources on the highest margin customers and segments, we're increasing pricing and we continue our cost production program across vendors. In our opinion, Vendor Finance is a core CIT franchise. With some of the leading global companies as business partners. And I am confident that we will get this back to double digit returns on equity.

So overall, stepping back, looking at our go forward business, businesses, our commercial results are good in the current environment. We're providing customers with the financing they need, and we remain disciplined and focused on enhancing our valuable middle market franchises. We will right-size the organization to carry an expense base that is sized appropriately for current market opportunities and our book of business. And we will continue to keep our line of communication open, with our customers, our employees, the rating agencies, and key stake holders like all of you. To make sure everyone understands the considerable projects that we have made in our ultimate destination.

Now, let me ask Joe to review our liquidity position and financial results in greater detail. Joe?

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

Thank you, Jeff. Good morning everyone. Welcome to the call. Jeff's review is very comprehensive.

Let me try to give you my view of where things sit from the first quarter and the progress we made and I will try to interject how I feel about the environment we're in vs. the last 20 years that I have been in this business. I think we made tremendous strides in the quarter on the balance sheet. And this is the most difficult operating environment I have ever seen. As Jeff said, we raised equity capital, that was well timed, early in the quarter, and it gave us strategic options.

Clearly the home lending sale as Alex mentioned is a key part of the overall strategy of execution in the second quarter. Our liquidity runway has been extended in a very robust way. The cash position is strong. Capital is stronger than it was last quarter,

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despite the write down and our loss reserves have been strengthened. And all that, as Jeff described, we're doing that while continuing to service our clients.

Let me get you grounded in the financials by detailing some of the impact current market conditions have had on our results. The impact of Home Lending actions, on the financial reporting and performance metrics. And then an update on liquidity, which has been my primary focus.

Starting with the financials, income from continuing operations was negatively impacted by items related to liquidity actions and some restructuring costs. If I put an EPS around those items, which I will detail, it is about $0.10 to $0.12 a share. First, is the negative carry on the very large cash balance we have had since we drew down the bank lines in march. We had more than $7 billion of cash on hand. And that cost about $15 million pretax on the negative carry. That is just the cost of doing business today, we understand that.

We also had $9 million of net pretax losses on the receivables sold for liquidity purposes that Jeff described, largely out of Corporate Finance. The Corporate Finance team did a terrific job in execution. It not only enhanced our cash, it enhanced our contingent liquidity because we reduced the potential draws on unfunded commitments related to those loans.

We are renegotiating, renewing and terming out some of our committed securitization conduits. We had some noise in the first quarter on that and that continued into Q2. The new facilities, the term -- the new term outs are being priced at current market rates. That is resulting in impairments in retained interest. This quarter we had about $20 million, $0.4 a share, of impairments on these term outs, both in Canada and the U.S.. The quarter's results were also impacted by our exit from the Consumer business.

For example, we recorded about a $17 million restructuring charge, most of which covers the closing of Student Lending originations which we did in April, and some to cover corporate down-sizing. And in Home Lending, again, a very important trend - - transaction to us, particularly with regard to our forward strategic emphasis and strategy, we closed the sale, moved that business into discontinued OPS and we exited the business risk. But we have work to do here. The sale results in $49 million of pretax, falling back to corporate, stranded costs, if you will. $5 to $6 million of that is indirect sales and general administration expenses previously allocated to that segment. We need to eliminate that. And, roughly $44 million or $43 million of interest expense is now got to be covered by the rest of the operation.

Let me explain that. We sold Home Lending at a discounted book. So the cash we received did not pay down all the allocated debt. Give you some round numbers. We had $10 billion of Home Lending assets funded with $9 billion of debt and a billion dollars of equity. About $6 billion of that debt will go away from the assumption of debt by the buyer, $4.5 billion, and our expected pay downs of debt with the cash we received of $1.8 billion. That leaves about $3 billion of debt, with little cash current tax benefits. That now becomes part of our operation. So we're going to have some drag to work through, and we're committed to finding ways to work through that and reducing the costs of that, higher cost debt and excess liquidity.

Key operating metrics for continuing operations. Let's start with net finance revenue margin. It increased sequentially six basis points. Some of that was due to de-leveraging in the quarter with the equity raise, up 5 basis points, higher rentals and transportation finance, several basis points, the difference in timing on the rate resets that happened during the quarter, that was helpful, and those factors more than offset the negative carry on and cash position and increased non accrual costs.

As I look to the second half of the year, we will have some more pressure as we refinance low cost debt with higher cost debt and we are very focused on pricing that through in our new originations, particularly in our lending areas where pricing and structures have improved significantly over the prior year.

Non spread revenue, pressured in the market place, particularly in syndications. The value of our operating lease equipment held up and we had gains on equipment sales in both air and rail. Receivable sales and syndications are more difficult, and therefore, profits were down this quarter from sale activities. Additionally, many of the deals we do today, in the -- in the lending

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book, are being structured as club deals, and the accounting requires fees to be deferred and amortized over time. Though we have similar, or better deal economics, but income comes in over time rather than up front.

Our deferred fees have more than doubled in the last year. Factory commissions were down. Jeff describes some of the market environment we're encountering there. Some of that is seasonal, receivables are down. Some of it reflects volume reductions due to seasonality and the economy. And some of it reflects lower rates as we dialed back on volumes to riskier credits.

Credit quality. Very much on your mind and ours, came in about where we expected it to. Charge offs declined sequentially, but forward indicators increased with the softening economy. Most of the increases in the forward markers were in Corporate Finance and Trade Finance. Couple words on that. Jeff covered a little of this. Retailers are weak. We have a leadership position so we're not immune to the trends. We have exposure to retail -- retailers. I will reiterate what Jeff said, the Trade Finance team, whom I have known for 20 years, has done a tremendous job just as they did in 2001 of staying ahead of the curve and managing down credits, or exposures to weak credits.

In Corporate Finance, we had an increase, the majority was in a handful of names across several industries, energy, entertainment, and real estate. Delinquencies were up more than non performings in corporate finance. Let me explain that. Last quarter you heard me talk about approximately $90 million energy account comb line that we put on non accrual. In the second quarter it technically became past due, so it went on our past due list. So if you think about that, we put up loans on non accrual before they are contractually delinquent. That's our conservative accounting policy. Having said that, we fully expect that loan to be brought current in the current quarter.

On another note related to credit, our workout team, once again, did a great job in selling an asset we foreclosured on. If you recall about a year ago we spoke about a waste-to-energy plan that we charged off. This quarter our workout team brought in $10 million in cash proceeds by selling that asset.

On the reserving front, we increased lost reserves by $59 million in the quarter. And that's even despite assets going down $3 billion. So our total loan loss reserve ratio improved to 147 basis points, 162 basis points if you exclude guaranteed Student Loans and the dedicated FAZ144 reserves. Of the $60 million or so of increase in reserves, $36 million relates to commercial and $23 million relations to consumer, principally the private student loan book.

Operating expenses were up sequentially, a little disappointing, but are down $33 million from a year ago. We have some reversals in Q1 of incentive accruals. Without that sequential expenses were down, as staff and expense control efforts more than offset some of the higher costs we're seeing in professional fees and covering annual employee raises which took effect in March.

We had 300 head count reduction in Q2, and we have met our initial objective of 100 million of annualized expenses out of the base this year, with some $7 to $8 million of this benefit on a quarterly basis not yet reflected in quarterly results. We are very focused on expanding efficiency initiatives and further right-sizing the company after asset sales.

Some comments on income taxes, and I will try to clarify what is going on. It is a complicated formula with discontinued operations. We had an effective tax rate of approximately 30% on continuing operations. That was a bit higher than we expected. We had higher state and local income taxes this quarter. We did record a tax benefit on our - - on the Home Lending laws.

Having said that, we limited the benefit we booked, the $435 million, which is only 17% of the pre-tax loss. As we look forward into 2008 and beyond, we expect our effective tax rate on continuing operations to be in the 20% area, and that depends on the jurisdiction of where the income is earned. How fast the NOL benefits accrue back to us will depend on income generation levels and geographic mix. What I mean by that is, we need U.S. income.

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Funding. I am very proud of the team and the overall company on what we have accomplished here. As you said to me, we have one of the most experienced and best treasury teams in the industry, and I agree with you. I am proud of the flexibility and tenacity of the organization overall has shown in managing through this market.

Jeff told you, we generated over $10 billion of liquidity outside the unsecured debt markets since drawing on our bank lines. That is without access to the unsecured debt markets. And that was through the - - items that Jeff mentioned. And that liquidity not only enabled us to meet client needs, we actually improved our standings in middle market commercial lending [lead tapes].

Getting to some details, we ended the quarter about $7.5 billion available cash. Despite paying off $5.5 billion of debt, and we did opportunistically buy back some debt of our own this quarter. We reduced portfolio assets by $3 billion, and executed vendor equipment securitizations in a very difficult market. CIT bank has been successful. It has deployed it's cash into middle market corporate lending origination, about a billion dollars year-to-date.

You often ask me about availability under securitization facilities. We have about $2.2 billion available. And we have generated over $5 billion of liquidity that is not in our June ending cash number. The Home Lending sale, that is about an additional $1.5 billion we received in July. We will receive another $100 million toward the end of the year, early '09 when we transfer the servicing operation.

With regard to the Goldman facility, we will start funding the facility in the second half of the year, most probably with corporate finance to start. And we expect to be a full utilization by year end.

Jeff mentioned, we also recently entered into a secure Aircraft financing facility in July. I have been talking to you for about four months that we're working on it. Well, it is signed. In aggregate, we expect to fund about a billion-and-a-half of airbus new deliveries over the next 18 months, include being $350 million in July of '08. While we're unable to disclose specific terms, it is long term financing, it is competitive in rate, and advanced rate.

Our cash and liquidity generating projections exceed our forward 12 months of unsecured term debt maturities of about $10 billion and $4 billion of bank lines. Having 12 months or more of confirmed liquidity available to meet debt obligation continues to be our operating objective.

And our base liquidity plan, which we stress test as well, is based on the following assumptions. No unsecured debt access. No secured debt issuance beyond existing commitments. Flat asset levels with portfolio inflows used to finance new business. And remember, the portfolio inflows that we have are significant. About a billion dollars a month exclusive of factoring. So that always presents us with another liquidity option.

On commitments, we made significant progress as I mentioned earlier by selling about $3 billion of commitments. And today we have about $4.5 billion of unfunded and available commercial loan commitments at the end of the second quarter. That's down from about $9 or $10 billion at year end.

Customer behavior to date has been not abnormal in any significant way with regard to line utilization. Beyond the baseline liquidity plan - - it is liquidity, liquidity, liquidity. We are currently analyzing other asset sales, secured financing involving vendor, middle market, consumer and transportation. We are mindful of the encumbrance limits, or guidelines, or thoughts, but today on the commercial finance side we're about 20% encumbrance. We feel we have ample capacity to continue to execute additional secured financing.

We will have further asset sales, in addition to the Home Lending sales we sold -- we're syndicated $2.5 billion of assets this quarter on the commercial side. We have another $400 million of commercial air craft and asset sales for sale and that is moving forward.

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Finally, after deploying its $1 billion of cash, CIT Bank intends to grow its deposits in a measured way and utilize the proceeds to continue to originate Corporate Finance loans. Bottom line, we are tracking to our cash forecast. We look at them daily. Our liquidity position and length of runway has improved significantly from our forecast three months ago. Our controls, our analytics over liquidity and cash have never been stronger in my 20 years in the company.

So, we are confident that we have more than 12 months liquidity and our planned actions for the second half of 2008 will extend our runway into 2010. And I think we have been successful in executing what we told you we would do over the last six months. And while securing liquidity outside the capital markets is essential to weathering the storm, our primary objective is to return to the unsecured markets as soon as practical, repay our bank lines and stabilize our debt ratings.

Again, I want to thank all CIT employees for your support of the liquidity initiatives we have - - we have put in place and executed on in the second quarter. And you needed to do that and help us out as you run your business. And I want to thank our investors for your interest and support. We - - in terms of liquidity, one last thought. We are not stopping where we are in terms of initiatives. The organization is extremely energized. I think you heard it from Alex and Jeff, to continue to improve liquidity. But there is a balancing act. We have to balance the liquidity needs with customer relationships and franchise strength. With an eye towards longer term profitability enhancement.

With that, I will turnover the call, or turn the call back to Carissa, our operator, to open up the Q & A line.

Operator

(OPERATOR INSTRUCTIONS)

And your first question comes from from the line of Chris Brendler of Stifel Nicolaus. Please proceed.

Christ Brendler - *Stifel Nicolaus - Analyst*

Hi, good morning.

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

Good morning.

Christ Brendler - *Stifel Nicolaus - Analyst*

Congratulations on the progress this quarter. I guess the first question is the obvious one. Can you just give us a little more detail on the commercial finance book.

How big was the size of that one loan that moved from NPA into delinquency. The sequential jump is alarming but I want to get more comfort on the trend and how you feel about the trend and also what you think the ultimate loss content is there. I expected to see more reserve building in commercial finance this quarter and I didn't. I hope that's a good sign not bad sign. Can you give me more color if you can.

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

Sure, Chris. Something we spent a lot of time on. The loan that went on non accrual last quarter that went on to delinquent this quarter was approximately $85 to $90 million. That was a big part of the delinquency increase.

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Clearly, we look closely at the loss content on anything that goes into non performing, and have our FAZ114 impairment tests. And as we went through those loans, we increased the reserves accordingly, for FAZ114 impairment. And those loans essentially were in Corporate Finance and somewhat in Trade Finance. I would say that as we look at the loss content of some of the loans that went on non accrual, we're encouraged by a few things.

The underlying value of the enterprise and the fact that we're in a senior secured position and there is a significant amount of abortinated mezzinine debt and equity below us. As we look forward, clearly credit costs are going to go higher. We have been saying that for years and, unfortunately, we're right now. We're coming coming off all time lows. But I think the 50 to 60 basis points we had in Q2 was a good number. The increase in non accruals will probably push that up a bit, but as we've looked at the non accrual loans and loss content, we feel comfortable with the second half of the year in terms of reasonable charge off levels.

Christ Brendler - *Stifel Nicolaus - Analyst*

Okay. The follow-up question will be on liquidity. Just give me a little more -- I don't think you addressed this in your prepared remarks. What going on with deposits in the bank. I think they were down. Shouldn't they be growing? Any - - I guess target on how much - - how quickly you can grow the bank.

And then your encumbrance at 20%, can you still get that to 30% with your current mix of assets. I think we talked about 30 in the past. Is that still the right number to give you a little more cushion. And then final liquidity thought. From the text of the release, it says that you can get through '09 with some additional progress, and I think from your color on this call it sound like you feel like you're almost there. And, you know I think that maturity scheduled the second half of '09 definitely helps you there. It is not very big, but just give me a little more color and comfort that you feel very comfortable that you're not going to need unsecured debt until 2010 it sounds like from this release.

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

I can't answer that question, Chris. You're only allowed one question. I am kidding. First, on deposits in the bank - - I'm not going to remember all the parts of the question. Somebody will have to help me here.

Christ Brendler - *Stifel Nicolaus - Analyst*

Costs encumbrance - - and

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

That's okay, we will do it. Deposits in the bank. Why are they going down? Good reason for that. We had initially in the bank, the Home Lending loan.

And when we sold the portfolio, and you know last year and then again, you know, the big sale this year, we took those loans out of the bank and sold them. That left the bank with a lot of, you know, negative arbitrage cash. Negative carry on cash. So, the governor on the deposits has been getting assets in there and we have worked with the regulators since late '07 into early '08 to begin to book commercial loan origination in the bank.

So that has come down, but we're very close to reigniting the origination of deposits and we actually over the last few weeks did a little test marketing and raised some deposits to see what the demand was, what the rates looked like, et cetera. That's the deposits. Now somebody help me out on the other part.

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Christ Brendler - *Stifel Nicolaus - Analyst*

Encumbrance, 30%.

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

Encumbrance. Encumbrance is, you know. it's sort of a - - it's not a science, it's an art. And the reason why we're -- we're focused on commercial is that is where the ongoing you know business enterprise will be and is. And clearly I think a 20%, I've heard a banker tell us we - - came into this market mess, whatever you call it, with a very responsible balance sheet in terms of encumbrance.

We had very little commercial finance assets encumbered when we came in. But we're now at 20%. That number will go higher with the facilities we put in place. But my thinking, Glen's thinking, as we think about it, somewhere in the 30 to 35% area, is - - is tolerable. More importantly, we've got to look at the amount of unencumbered assets we have against unsecured debt, because we want to make sure the unsecured debt has more assets than - - than there is debt. So, that's the second answer.

Christ Brendler - *Stifel Nicolaus - Analyst*

I am -- 2010?

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

2010 - - you know I will repeat what I said. Chris, we're going to look at this and report it sort of in 12 months out. We do that with our board. We show them - - obviously, we show them something beyond but we think it's reasonable, prudent for us at least - - we have to at least look at 12 months, and I often say to my team, people think in 12-month terms. It is hard to think in what is the next 15 months. Not a good reason but a practical way of looking at the numbers. Yes, we - - we feel we've done a lot that really has extended the horizon, maybe beyond the second quarter of 2009.

We have no, I repeat no additional, or we have no unsecured debt issuance in our base plan. And for that matter, we don't have any new secured facilities that we don't have commitments on in our base plan. So, we're feeling pretty good about liquidity but we're going to continue to work on it. I think we should move on.

Christ Brendler - *Stifel Nicolaus - Analyst*

Thank you.

Operator

And your next question comes from the line of Eric Wasserstrom of UBS. Please proceed.

Eric Wasserstrom - *UBS - Analyst*

Thanks. Just a couple of points of clarification. And just - - back to this cash position. Did you say you mentioned some statistics about how much your cash position exceeded your -- your -- your upcoming liabilities. Can you just repeat those for me?

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

Well, what I said was that between the cash we sit on, $7.4 billion, and the cash we have coming in in July, which is principally on Home Lending and somewhat on aircraft sales, and on top of that the $3 billion of facilities in Goldman that we have totally available to us, that our liquidity forecast 12 months forward exceeds our debt maturities by not an insignificant amount. That's what I -- I think I said.

Eric Wasserstrom - *UBS - Analyst*

Okay, great. And then on the - - just to get back to Chris' question on the credit deterioration, I think you guys have often pointed to 80 to 85 basis points as what you consider to be a normalized loss experience. Is there anything that would change that at this stage?

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

Well, I think we have said that, you know, the normal charge off rate through the cycle or, you know, we have also talked about stress testing the portfolio in a deep recession and we come out with 120 basis points or so. But I don't want to leave you with the 120. We're thinking as we see the portfolio, as we see the market that we have today, we're still thinking about the 70 to 80 basis point area.

Alex Mason - *CIT Group, Inc. - Pres & COO*

Eric, I just add to that with the divestiture of Home Lending, we feel so much better about the credit outlook for us going forward and, as we said in our remarks, that you know the commercial book is performing within our expectations. And as you saw we had a reserve build - - which we think is prudent, just given all the uncertainty in the economy.

Eric Wasserstrom - *UBS - Analyst*

Thanks very much.

Operator

Your next question comes from the line of Bruce Hardtin of Lehman Brothers. Please proceed.

Bruce Hartin - *Lehman Brothers - Analyst*

On the securitization side, Joe, you all sound more like you're back to your normal selves. Congratulations on the home equity sale by the way. But the - - in terms of securitization as a percentage of total funding, when it was at its peek and the - - peak and the markets were operating normally, what would that number have been. And on a go-forward basis can you - - assuming that doesn't come back to any normalcy or attractive funding costs, is the funding strategy going forward to just go without that. And specific to vendor - - how much of the decline in the ROE there is really due to, you know, the lack of securitization funding and -- as opposed to other issues going on within that, and when do you think, you know, that segment would be, you know, sort of rallying back to, you know, better - -better returns as it was in the past. Thanks.

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

Yeah, good question. Multipart question again. You guys are getting us here. Help me out on the answers, or the order of the questions. I would say first, you know, if you look back to 2004 or '05 or '06 when the market was rebust, we overweighted unsecured financing and underweighted secured financing.

And one, we wanted to have secured financing facilities because diverseification is important. But two, the unsecured economics were much better than the secured economics. I would say we were probably 90-10 unsecured to secured.

That helped us now, because as I said before, when we came into, the market morass that began last year, we had a lot of dry powder in terms of unencumbered we assets. So, I don't think we will go back to 10. As we think about it now Bruce, I think 10 would be on the low side as we see the model and the markets developing over the years. I think the secured financing would be more in the 30% area.

As to vendor, we did do a vendor financed securitization in both Canada and the U.S.. Clearly the costs were more expensive than the conduit financing we had in place. And therein lies the reason for the impairment. I - - we still have conduits of capability, availability, and we do have conduits that need to be renewed and renegotiated.

So, I continue to see pressure on the funding costs from - - you know, when you look at it you see how could it have been that way. The costs were like LYBRA plus 20 to 30 previously. They were coming in, just like in credit, where we're coming off all time lows. In funding, we're coming off all time lows. I'm not expecting it to get back there.

But the funding model, I will just say this just one more reason, the funding model in vending finance is an issue that we're looking at. The loan side is not as elastic as the financing side. It is a little bit more Main street than Wall Street. On the flip side, Corporate Finance really repriced the market place, you know, along with our cost of funds. So, as Jeff said, we're looking at, you know, where we make our money. Are their relationships that are marginal where we can't make money and what the operating cost base needs to be in that business.

Bruce Hartin - *Lehman Brothers - Analyst*

Thanks.

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

I hope he covered it all, Bruce.

Bruce Hartin - *Lehman Brothers - Analyst*

You did, Joe. And, in your prepared remarks for clarification, you said the new facilities - - you know, facilities, new term out are being priced out at, and then I missed and you said requiring an impact on your residuals.

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

Yeah.

Bruce Hartin - *Lehman Brothers - Analyst*

Can you clarify that. Is that done now? You know --

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

Yeah, we're terming them out at market rates is what I said. And I think if you - - I can't remember the exact rate in the U.S. conduit. I know the advance rate was 83% for $500 million. I think the all fixed cost was 5 3/4 or 6. I can't remember the LIBOR spread but it was probably LIBOR plus 200 to 250. I am just guessing there. IR will confirm that.

Bruce Hartin - *Lehman Brothers - Analyst*

Thank you.

Operator

Your next question comes from the line of Moshe Orenbuch of Credit Suisse. Please proceed.

Moshe Orenbuch - *Credit Suisse - Analyst*

Thanks. Given the significant amount of cash and liquidity you talked about and the fact that you did buy back some debt in the quarter, could you talk a little bit about how much debt you bought back. What the effective yield on the debt that you've got outstanding is that would be maturing in the next couple of quarters and what would, you know, how you think about whether to buy that back? Going forward?

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

Yeah, Moshe, it is something you know we still are early on - - on in the analysis but -- if I remember right, on the bank line draw call, on March 20th, or whenever we drew the lines, we got that question I said absolutely we're not buying back debt. And the reason for that was several. But including, we had to get a good insight into our liquidity picture before we did that. With the initiatives in Q3, Q2, I'm sorry, we became more and more comfortable that our bonds were not trading correctly and that we were supporting, or escrowing, or holding liquidity for those ultimate maturities anyway.

So, a lot of our -- - we have found it difficult to find a lot of our bonds that we were looking for. But having said that, it was several hundred million dollars that we bought back. I don't remember the effective cost, but we do have debt maturing in this second half of the year that is relatively cheap. As I mentioned before, we have got the bank lines and that is probably LIBOR plus 50 to 60. And we have some floaters that are probably LIBOR plus 10 to LIBOR plus 30. So they have low cost. Having said that, to the extent we're sitting on excess liquidity, there is a negative carry on on that. We continue to look at what is the appropriate cash position to have and what is the appropriate approach to buying in early or paying off early any of the debt we have in front of us. I would say we look at it in a relatively short time horizon. We're not looking to buy out 10 year forward debt. We're looking at what do we have in our liquidity plan and should we do that sooner rather than later. Hopefully that is helpful, Moshe.

Moshe Orenbuch - *Credit Suisse - Analyst*

Okay, thanks.

Operator

Your next question comes from the line of Sameer Gokhale of KBW. Please proceed.

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Sameer Gokhale - *KBW - Analyst*

Good morning. You know - - clearly you have taken some pretty positive steps in terms of boltstering your liquidity and your - - seem to be well along in that process. But I have to say, you know, with the announcement of the sale of your mortgage business, it is not that I was expecting the company to get -- you know, formal upgrades in your credit rating, but it did seem like the tone from the rating agencies remained pretty cautious specifically as it relates to capital levels.

I know you've talked about how your capital levels are adequate, but, you know - - is there any update on your discussion with the rating agencies. You know, what specifically are they looking for in terms of capital levels. And then in - - on another quick note in terms of your strategic partnerships you signed the agreement with Goldman, are you still actively looking for other strategic partners and how far along the process are you there. Thank you.

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

Yes, Sameer, I think in reverse order we're delighted with the Goldman partnership. And, you know, we continue to have discussions with others, particularly as, you know, as we bolster our liquidity and given more clarity to what we think the new CIT is going to look like.

So the answer to that would be yes, I think, you know, each of these discussions tends to take its own unique profile so it is not that we have a template that we're trying to force counter partys into. But we have several discussions going on, in terms of securitized funding that, you know, that we think are promising on that.

I think in terms of our discussions with the rating agencies, they are ongoing. And, I guess all I would say in response to your question is, I think it has been a long time since we saw an upbeat rating agency report on a financial services company. But, you know our view is that capital levels are going to go up over time in the business and, you know, that's - - that's why we're at over 9% even though our historical target has been 8.5.

Sameer Gokhale - *KBW - Analyst*

Okay. Thank you.

Operator

Your next question comes from the line of Howard Shapiro of Fox-Pitt. Please proceed.

Howard Shapiro - *Fox-Pitt - Analyst*

And I know you don't want to talk about the rail business but I am trying to understand the economic decision here. Your well ahead in terms of your efforts to build your liquidity. The - - the utilization rate is 96%. It is a strong alternative to other forms of transportation right now, credit is very strong. At this point, why would you even consider selling it?

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

Just - - I think it is just - - well, I just - - I will stand by the statement we had, Howard. You know, I think all I would say is you've done a nice job of summarizing the reasons why we think it is a very valuable franchise.

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Howard Shapiro - *Fox-Pitt - Analyst*

Okay, and if I can squeeze one other one in. On the $3 billion in financing that you kind of have stranded from - - or debt that you have stranded from the - - the sale of the Home Lending portfolio, is there anything you can do to defuse it. Are you working on any way to kind of diffuse that cost?

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

Well, it -- Howard, this is Joe. I would say we're looking at that in combination of how much excess liquidity we should carry at all times. So, if we have carried 7, 8, $9 billion in the second quarter, that may be higher than the threshold we would carry going forward and that's how we're looking to attack it.

Howard Shapiro - *Fox-Pitt - Analyst*

Okay perfect, thanks.

Operator

Your next question comes from the line of Ryan O'Connell of Citigroup. Please proceed.

Ryan O'Connell - *Citigroup - Analyst*

Good morning. Joe, could you maybe provide a little bit more color on, you know, the renewals of the asset backed conduits? You've got about I think $1.5 billion that was going to come up for renewal this quarter, Q2, sorry, and about $6 billion that is coming up for renewal in Q3. So, just in terms of availability, what sort of advanced rates, pricing, to the extent you can.

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

Yeah, the asset-backed conduits. I think of it sort of in three - - three buckets. We have equipment and vendor finance. I think that's the one you're referring to which has a nearer term maturity. Then we have student lending which has sort of a fourth quarter maturity. Then we have our factoring facility that has a December or January maturity.

I would say - - I would say a couple things. One, advanced rates are coming down. And I think that - - the - - you know, one of the benchmarks I can give you is when we did the equipment finance public securitization in the U.S. , which by the way, the cost was LIBOR plus 274. I think Bruce asked that question.

The advance rate, a year or two ago was 87%, the advance rate in the public markets when we did it two months ago was 83%. I think that the conduit advanced rate is going to be somewhere in that - - you know, area code. And that is down. It is down from - - I forget if it is the high 80s or low 90s. Clearly the costs are going higher.

I mentioned that some of these facilities are priced below LIBOR plus 50. And clearly, when you look at a market comp that I just mentioned to you, LIBOR plus 274 we know the cost will go higher. I think the first discussion we will have with the renewal with you is the one on equipment, because that's the one we're furthest along and working on right now. Actually, JPMorgan is the lead on that.

There are four or five banks in it and we have been talking to them for about a month on the facility. And I will leave it at that but, you know, we should get the closure on that facility, you know, in the year term. Then we will take the other maturities as they come. I think on the factoring which is on the back end of the year, it is a billion-and-a-half facility. I say it is one of the

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safest facilities for the banks that they probably have in the world because the factoring receivables are over collateralized and the 60 day receivables. So, I'm hoping the pricing sort of reflects the safety of that. Then we have the student loan maturities. And that, you know, that asset class has been difficult in the securitization market. So, we may be looking to, you know, renew that at a lower amount. So that's the status. It is clearly a work stream that is very much under focused. And I think the first, just summing up, the first specifics you will hear from us is on equipment. Okay,

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Ryan O'Connell - *Citigroup - Analyst*

Yeah. Thanks a lot, Joe.

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

You're welcome.

Ken Brause - *CIT Group, Inc - EVP Investor Relations*

It is a busy morning for everybody with a number of companies reporting. So, I think we will have one more question before we close.

Operator

Our final question will come from the line of Joseph [Fatz] of Goldman Sachs. Please proceed.

Louise Pitts - *Goldman Sachs - Analyst*

Yeah. Hi. Good morning. It is actually Louise Pitts here. Good morning, guys. Thanks for the call. I just wanted to press a little bit. You said the debt you bought back was more short term than longer term. Can you give us any more detail on that and do you have any plans to continue to buy back debt and the discount? And then, my second question, is actually on the dividend policy, with respect to your plan for the dividend on an ongoing basis relative to capital and liquidity.

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

I think just in brief in reverse order you know the dividend at this point is - - you know, historically, we have had a payout ratio of someplace between 15 and 20%. And we think the dime a quarter, you know, kind of fits - - is within that range when we look at the perspective earnings power, you know, of the company on an interimediate term - - long-term basis. So, we're pretty comfortable with that.

I think on the buy back of that - - as Joe said, we have kept it on a relatively short term go forward - - you know, we looked for maturities that were within our liquidity horizon if that's the way to look at it. You know, we have talked about 12 months being kind of the liquidity, 12 months plus stretching it now to 18 into 2010. So, we have been looking for debt that we could buy back at a discount that was maturing within 12 months, and actually, we haven't found too many people who wanted to sell it to us at less than par. So, but we're not going way, way out, Louise, in terms of looking for the out years in terms of maturities.

Louise Pitts - *Goldman Sachs - Analyst*

Can you give us any guidance on how much of a discount that you averaged out in the debt buy back?

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

Not - - not too much. NAH, it has - - it hasn't been significantly. Frankly there - - we have been looking a lot and we haven't really gotten much done.

Ken Brause - *CIT Group, Inc - EVP Investor Relations*

I think based upon the comments I gave you in the financial statements you will be able to come to a pretty reasonable estimate of it.

Louise Pitts - *Goldman Sachs - Analyst*

Okay, great, thanks.

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

All right. Just before we close, I just like to reiterate a couple of our key messages. We do think that our core commercial finance businesses are doing well and retain quite a bit of value.

We closed on the sale of Home Lending and we were delighted that we closed on the week in which we did, but we have removed any and all risks from that asset class. As we said to you, we think commercial credit, our credit experience on the commercial book continues to perform well within our expectations. We have made quite a bit of progress on securing liquidity with clear visibility into repaying our maturities, leading into 2010.

We think the capital that we have got right now is appropriate and we do continue to originate new business in support of our customers. We will continue to focus on improving the efficiency and profitability of our core commercial franchises. And I want to echo Joe's remarks and I want to thank all of our employees for their dedication and hard work in helping us manage through these challenging times. And I also want to thank all our investors, both on the equity as well as the fixed income side, for your support of the value of the CIT franchise. And I - - I know that will be recognized and rewarded in the future.

As always, Ken Brause and the investor relations team are available to answer any questions that we did not cover today or any follow-up in terms of our one question per analyst policy. Thanks very much for your time and attention.

Operator

Thank you for participating in today's call. You may now disconnect. Good day.

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