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June 8, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal EES
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 2-3
Washington, DC 20219

Re: Leveraged Lending Guidance; Federal Reserve Docket No. OP-1439; OCC Docket No. OCC-2011-0028

Dear Sir or Madam:

CIT Group Inc. (CIT) appreciates the opportunity to comment on the leveraged lending guidance jointly proposed by your agencies. We fully support the purpose of this guidance. However, as discussed further below, we recommend two modifications to the guidance. One modification relates to the proposed standard for repayment timing by a borrower. The other relates to the proposed definition of leveraged lending.

CIT provides leveraged lending to small and middle market companies.

CIT is a bank holding company that provides commercial financing and leasing products and services to small and middle market businesses across a wide variety of industries either directly or through one of our subsidiaries, which include a Utah State bank. Given the unique financing needs of smaller businesses, we often engage in complex financing transactions, including leveraged lending activities, such as asset based senior debt structures, cash flow financing, and project finance.

CIT supports the issuance of a guidance rather than a regulation.

CIT fully supports the intent of the proposed guidance. We agree that leveraged lending should be conducted within a risk management framework that includes sound underwriting, valuation, and other standards.

We also strongly support the issuance of a guidance on these matters as opposed to a regulation. Regulations, by their very nature, are fixed rules that may not easily accommodate changing market conditions. Leveraged lending transactions, in contrast, are constantly evolving with market developments and the financing needs of companies. A guidance provides lenders and examiners with the needed flexibility to adjust to such changes.

We recommend that the repayment standard for borrowers be 50% of senior secured debt over a five-to-seven year period rather than 100% of senior secured debt.

The guidance states that "base case cash-flow projections should show the [borrower's] ability over a five-to-seven year period to fully amortize senior secured debt or repay at least 50 percent of total debt." Based upon our experience, we believe that this standard is overly conservative. Fully amortizing senior debt over a minimum five-to-seven year period implies 20% to 15% amortization per year, which is more than is necessary to demonstrate fixed charge coverage flexibility in a reasonable downside scenario, and is well in excess of market norms.

We also believe that the minimum amortization standard should be tied to senior debt rather than total debt. A total debt standard would include junior debt and junior debt seldom amortizes, is junior to senior debt in a troubled situation, and often can have interest blocked. Additionally, senior debt is usually larger than junior debt in the capital structure.

Given these concerns, we recommend that the repayment standard for borrowers be set at 50% of senior secured debt over a five-to-seven year period rather than 100% of senior secured debt. This standard would require a borrower to demonstrate an ability to repay 7-1/2% to 10% of senior debt per year. It also allows the borrower sufficient ability to handle swings in economic conditions and is still generally higher than market amortization schedules. Maintaining sufficient fixed charges flexibility in transactions is prudent, but tightening amortization guidelines too much can impact lending volume and therefore availability of capital to businesses.

Alternatively, the standard could be tied to a definition of "sustainable debt" that would distinguish between companies based upon asset levels. Under this alternative, a borrower, as a general rule, would be expected to reduce total debt to a "sustainable debt" level over a five to seven year period with seven years the standard for more established and stable companies and five years for start-up and cyclical companies. For companies with significant assets, "sustainable debt" would be defined as margined current assets plus tangible book value of fixed assets required to run the company.

We recommend that the definition of leveraged lending recognize loan facilities where the collateral value is largely reliant on enterprise value.

The guidance would require each institution to define leveraged finance in a manner that clearly describes the purposes and financial characteristics of the transaction and that includes the institution's exposure to leveraged finance activities. The guidance also lists common characteristics of leveraged finance, such as purpose of proceeds, leverage level and industry norms. While these characteristics are only illustrative, they fail to address loan product type (e.g., cash flow versus asset based lending). Nor do they address the wide range of loss given default (LGD) among various products. These omissions could be interpreted to discourage or penalize the use of asset based lending solutions, if such solutions were to be included within Leveraged Lending.

Such a result would not only disadvantage lenders, such as CIT, which specialize in asset based lending to small and middle market companies, but also would be inconsistent with the intent of the guidance. Asset based lending (ABL) is a safer product than leveraged cash flow lending. Historical LGD shows that losses are lower under ABL structures than cash flow structures.

The Underwriting Standards section of the Proposed Guidance does note that the underwriting standards are not "meant to discourage well-structured standalone asset-based credit facilities to borrowers with strong lender monitoring and controls, for which banks should consider separate underwriting and risk rating guidance." This concept should be reinforced by inclusion of a loan product type, such as cash flow, as an appropriate characteristic in the definition of leveraged lending. Therefore, we recommend that the list of common characteristics of leveraged lending include the following additional statement: "Loan facilities that are secured, but the collateral value is largely reliant upon enterprise value, i.e. a cash flow loan, versus a loan backed by asset values."

In summary, CIT supports the issuance of this guidance, but recommends a modification related to the standard for borrower repayment timing and a modification related to the definition of leverage lending. If you have any questions about this comment or seek any additional information regarding CIT and its leveraged lending activities, please contact me at 212.771.9531 or Dan McCready at 212.771.9486.

Sincerely,

Robert C. Rowe