Financial Markets, Lessors and Impacts on Aerospace Finance

Presentation to ITA Conference 2009

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Transportation Finance
CIT
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CIT Commercial Segments

Corporate Finance
Provides lending, leasing and other financial and advisory services to middle market companies, with a focus on specific industries, including healthcare, financial sponsors, energy, communications, media and entertainment.

Trade Finance
Provides factoring, lending, credit protection, receivables management and other trade finance services to companies that sell into retail channels of distribution.

Transportation Finance
Provides lending, leasing, and advisory services to the transportation industry, principally aerospace and rail.

Vendor Finance
Provides innovative customer financing and leasing solutions that support global, regional and local manufacturers and distributors in technology, office products, diversified industries, telecommunications and healthcare.
Transportation Finance Overview

<table>
<thead>
<tr>
<th>CIT Aerospace</th>
<th>Leveraged Finance, Transportation</th>
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<tbody>
<tr>
<td><strong>Commercial Airlines</strong></td>
<td><strong>Business Aircraft</strong></td>
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<tr>
<td>$8.6BN Portfolio</td>
<td>$700MM Portfolio</td>
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<tr>
<td>323 Aircraft</td>
<td>327 Aircraft</td>
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<tr>
<td>104 Customers</td>
<td>202 Customers</td>
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<tr>
<td>49 Countries</td>
<td>13 Countries</td>
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<tr>
<td>107 new aircraft on order</td>
<td>Products:</td>
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<tr>
<td>Offices in New York, Ft. Lauderdale, Los Angeles, Dublin and Singapore</td>
<td>- Loans</td>
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<tr>
<td></td>
<td>- Leases</td>
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<tr>
<td></td>
<td>- Fractional Share Financing</td>
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<tr>
<td>Financial Institutions Group</td>
<td>Customer base primarily corporate users</td>
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<tr>
<td>Third Party Transactions</td>
<td>Expanding scope internationally</td>
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<tr>
<td>- Debt</td>
<td>Strong manufacturer relationships</td>
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<td>- Sale Leaseback</td>
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<tr>
<td>- EETC</td>
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<tr>
<td>- Aircraft Sales</td>
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<th>CIT Rail</th>
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<tbody>
<tr>
<td>$4.8BN Managed Assets</td>
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<tr>
<td>$1.4B Off Balance Sheet</td>
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<tr>
<td>116,508 Railcars</td>
</tr>
<tr>
<td>541 Locomotives</td>
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<tr>
<td>~500 Customers</td>
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<tr>
<td>Located in Chicago, IL</td>
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<td>Customers include railroads as well as shippers</td>
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$14.6BN Managed Assets

- Loans
- Leases
- Fractional Share Financing
- Third Party Transactions
- Debt
- Sale Leaseback
- EETC
- Aircraft Sales

Leveraged Finance, Transportation

- $525MM managed assets
  - Aero & Defense: $415 MM to 25 Customers
  - Marine: $110 MM to 11 customers
- $4.8BN League Table Volume through 2008.
- Offices in New York, Connecticut, Los Angeles, Chicago, Washington DC

Aero & Defense: $415 MM to 25 Customers
- Trio of Customer Relationships

Marine: $110 MM to 11 customers
- Mainly 

Shippers
- Focus on aerospace
- $525MM managed assets
  - $275MM Delivered in 2008
  - $250MM Delivered in 2009
- $240MM funded
- $275MM Delivered in 2010
- $225MM funded
- $525MM funded in total

- Sale Leaseback
- EETC
- Aircraft Sales

Offices in New York, Connecticut, Los Angeles, Chicago, Washington DC
Today’s Agenda

- This Time Last Year…
- Sources Of Aircraft Financing
- Aircraft Supply and Demand
- Outlook and Predictions
This Time Last Year…

Monday, September 15, 2008
- Lehman bankruptcy
- Merrill Lynch sold to Bank of America
- Stocks tumble
- Wall Street sees worst day in seven years
- Dow drops 504 points
- Financial stocks implode
- Taxpayers take on trillions in risk in Fannie and Freddie takeover (announced Sept. 7)

One Week Later
- Wall Street is in crisis
- The Fed expands lending to calm markets
- AIG rescue number one ($85B)

...A Historic Upheaval of Financial Markets Was Underway
Financing Sources for New Deliveries

- Operating Leasing / Sale Leaseback - Shrinking
- Bank Debt secured by specific aircraft - Shrinking
- Unsecured Financing – Almost None Available
- Airline Cash or General Bank Facility – Few Airlines Are Cash Rich
- Export Credit Agency Financing – Growing Rapidly To Fill Any Funding Gap
- Capital Markets transactions (structured debt like EETC’s) – Some, But Expensive
- Manufacturer Financing – Capacity Constrained, Trying To Minimize
Operating Leasing

- 100% financing of acquisition cost
- Currently finances 1/3 of the world fleet
- Modern aircraft types still in demand, though traffic slowdowns causing oversupply of seats globally
- A380 and 787 delays are prolonging a shortage of new widebody lift, helping A330 Demand
- A fleet with staggered lease expiries gives airlines the ability to add or reduce to meet demand
- New orders from lessors have slowed as most have robust order backlogs and the financial crisis has hurt the parent companies of most lessors
- M&A activity expected to increase with several business slated for sales (ILFC and RBS Aviation are two examples)
A Tale of Two Lending Markets

- Government Guaranteed / Backed Lending Has Low Interest Rates:
  - Treasury bonds (Fed Purchases Help)
  - Bank Deposits
  - Agency Backed Mortgages (Fannie Mae / Freddie Mac Conforming)
  - Export Credit Backed Aircraft Finance
  - Interbank Lending (LIBOR)

- Other Rates / Financing Availability Challenged:
  - Small / Medium Business Finance
  - Used Aircraft Financing
  - Consumer Debt Dropping (Good To Align Spending With Income, But Bad For GDP)
  - Corporate M&A Finance
Aircraft Backed Bonds Still Have High Yields

EETC Senior Tranche Spreads Over Treasuries

Bps

0 500 1000 1500 2000 2500

8/14/2008

Continental Delta Northwest United

Making It Expensive For Airlines To Do New Financing
Forecasts Show A Resumption Of Growth

Data Source: Airline Monitor

Past Traffic Dips Have Been Followed By Growth
But The Growth Is Far From Steady…

This Volatility Causes Large Swings In Supply-Demand Balance

Data Source: Airline Monitor
Supply and Demand Outlook

Long Backlog Slows Reaction Time of Production Rate
Virtually all industry participants expect a slowdown in OEM deliveries over the next several years.

- Traffic weakness causing near term oversupply

Key broad OEM sector trends:

- Increased international deliveries (China, India and Middle East).
- Fuel economy benefits driving replacements.
- Significant pent-up demand for new aircraft in the U.S. for replacement.

Trend toward widebodies will help materials demand for the near-term forecast period.

- Widebodies require 3x the material content of narrowbody aircraft.
- Maintenance requirements are more significant as well given the high utilization of widebody aircraft.
Outlook (From Last Year)

- Modest global traffic growth in 2008, Reductions really kick in in the fall schedules - True
- After 3 years of book to bill of >2X, orders will slow down sharply - True
- Financing markets will adjust, and quality assets will still find attractive financing – True, thanks to lots of government export finance guaranties
- Energy prices, environmental concerns and infrastructure constraints will hold traffic growth rates in the next 10 years to less than the past 10 years – We Will See
- 2/3 of the parked passenger aircraft will never fly again – Looking Good
- Retirements will be accelerated by fuel costs, the cheapest 10% of the seats in the active fleet are only 1% of the fleet value – Weak traffic as well as fuel drove retirements up
Outlook (2009 views)

- Traffic Growth will Begin in 2010, and accelerate through 2011
- Orders will remain slow until surplus is absorbed and airline profits return
- Financing markets will continue recovery, and quality assets will still find attractive financing
- Energy prices, environmental concerns and infrastructure constraints will hold traffic growth rates in the next 10 years to less than the past 10 years
- Private capital will come to the lessor sector through M&A
- Financing Issues / “Funding Gap”, will continue to be hot topics through 2010