9800 Fredericksburg Road
San Antonio, Texas 78288

January 12, 2024

VIA ELECTRONIC SUBMISSION

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

James P. Sheesley
Assistant Executive Secretary
Attention: Comments/Legal OES
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Chief Counsel's Office
Attention: Comment Processing
The Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, DC 20219

Reference: **Long-term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions (Federal Reserve Docket No. R-1537 and RIN 7100-AG66; OCC Docket No. OCC-2023-0011; FDIC RIN 3064-AF86)**

Dear Ladies and Gentlemen,

United Services Automobile Association, on behalf of itself and its subsidiaries (collectively, "**USAA**"), welcomes the opportunity to comment on the notice issued by the Office of the Comptroller of the Currency (the "**OCC**"), Board of Governors of the Federal Reserve System (the "**Federal Reserve**"), and the Federal Deposit Insurance Corporation (the "**FDIC**") (collectively, the "**Agencies**") entitled *Long-term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions,* published in the Federal Register on September 19, 2023 (the "**LTD Proposal**").[1]

USAA is a Texas reciprocal inter-insurance exchange and membership-based association established in 1922 driven by a mission to facilitate the financial security of our more than 13 million members of the U.S. military, veterans who have honorably served, and their families by

[1] 88 Fed. Reg. 64524 (Sept. 19, 2023).

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providing a full range of competitive financial products and services, including insurance and retail banking.

Among USAA's subsidiaries is USAA Federal Savings Bank (**"FSB"**), a federal savings association chartered in 1983 that is owned by USAA Capital Corporation, which in turn is wholly owned by USAA. FSB has approximately $109 billion in total consolidated assets and a 94% insured deposit base.[2] FSB offers retail banking products and services – deposit products, credit cards, and secured and unsecured loans – to a retail consumer member base. Capitalized significantly above regulatory expectations, FSB has a leverage ratio of 8.8%, 17% tier-1 capital, and 18.7% total risk-based capital.[3] Under the current LTD Proposal, FSB is considered a Covered Insured Depository Institution (**"Covered IDI"**).

Part I of this letter provides general comments on the LTD Proposal, including recommendations to exclude FSB as a Covered IDI, or, alternatively, to adopt a risk-based approach that would calibrate long-term debt (**"LTD"**) requirements to banks' individual risk profiles, including the simplicity of their operations and levels of uninsured deposits, and allowing excess capital to offset required LTD. Part II addresses considerations for supervised insurance organizations (**"SIOs"**), including impacts on leverage levels and how a risk-based approach could avoid disproportionately negative effects. We also propose that any final rule allow FSB and similarly situated organizations to issue LTD from a mid-tier holding company. Part III focuses on how the LTD Proposal might interact with other regulatory requirements; we recommend that the Agencies conduct additional analysis to explore the impacts of these potential interactions, especially with other new and proposed requirements. We further propose that the final rule provide for a five-year phase-in period, a delayed implementation period of three years, and transition time for banking organizations to adjust LTD levels based on changes in calculations.

I. General Comments

We acknowledge the Agencies' goal of providing a range of options to resolve failed insured depository institutions (**"IDIs"**) consistent with the Federal Deposit Insurance Act's least-cost requirement.[4] The current approach in the LTD Proposal, however, does not consider the vast differences in risk profiles that exist within the industry. A risk-based LTD requirement, calibrated on the overall risk an organization presents to the banking system and to the Deposit Insurance Fund (**"DIF"**) in the event of resolution, is consistent with the Agencies existing supervisory policies and would support a least-cost approach without unfairly penalizing smaller, simpler banks through the proposed one-size-fits-all approach.

a. Distinguishing FSB and Other Covered IDIs

As drafted, the LTD requirement is a blunt instrument applied to a highly diverse set of companies. It does not account for differences in risk profiles. The LTD Proposal disproportionately impacts smaller, less complex, lower-risk organizations, like FSB, and may thus incent or drive such

[2] As of September 30, 2023, Call Report.
[3] *Id.*
[4] *See* 12 USC 1823(c)(4); 12 CFR 360.1.

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organizations to take additional risk to counter the requirement to service new long-term debt and rationally deploy capital.

For example, FSB's risk profile is distinctly different from that of the Covered IDIs the LTD Proposal seeks to address. With a business plan focused on retail banking products offered solely to U.S. customers, 94% insured deposits, and high capital levels, FSB does not present the risks articulated in support of the proposed LTD rule. FSB's tier-1 capital sits at roughly 17% and its total risk-based capital at 18.7%. As a retail bank offering consumer products to active and retired military members and their families, FSB's profile simply does not present the risks to itself, the financial system, or the DIF that firms with complex commercial banking portfolios, higher levels of uninsured deposits, lower levels of high-quality capital, and more volatile funding sources might. Consumers are better positioned to benefit from economic growth with access to retail financial products and services that responsibly meets their needs.[5] Substantial differences in risk profiles warrant substantially different treatment. We therefore request that FSB be excluded as a Covered IDI subject to the LTD Proposal.[6]

FSB's status as a subsidiary of an SIO further supports its exclusion as a Covered IDI from the LTD Proposal. We acknowledge and agree with the Federal Reserve decision to exclude SIOs from the scope of the LTD Proposal, recognizing that SIOs engaged in the business of insurance are fundamentally different than other bank holding companies and savings and loan holding companies due to the nature and diversity of SIO business strategies and activities.[7] Within the relatively small universe of SIOs, USAA is the only one with a Covered IDI subject to the LTD Proposal, and we believe that the logic of excluding SIOs more broadly from the final LTD rule should apply to FSB. The nature and diversity of USAA's business strategies and activities reduces FSB's risk to the system and the DIF by offering a secure source of strength.

b. Distinguishing Between GSIBs and Covered IDIs

The LTD Proposal applies a single, standardized approach to all organizations with consolidated assets of $100 billion or more without flexibility for adjusting the requirements based on individual risk profiles. The use of asset size alone to apply LTD requirements without consideration of other risk factors subjects a Covered IDI with $100 billion in assets to the same general requirements as an organization with $1 trillion in assets, or more, despite material differences in the respective risk each represents to the financial system and the DIF.[8] This is despite prior acknowledgement from the Agencies of the importance of these significant differences:

[5] Press Release, Governor Michelle Bowman, Board of Governors of the Federal Reserve System, Aspen Institute, Building a More Inclusive Financial System through Collaboration and Action (Dec. 5, 2023).
[6] Response to Question 4.
[7] LTD Proposal at 64529, FN25 (stating, in relevant part that "the proposed rule would not apply to an SLHC with 25 percent or more of its total consolidated assets in insurance underwriting subsidiaries…[or] an SLHC with a top-tier holding company that is an insurance underwriting company").
[8] *See, e.g.,* Press Release, Governor Michelle Bowman, Board of Governors of the Federal Reserve System, Statement on the Proposed Long-term Debt Requirements and Proposed Guidance for Resolution Plan Submissions of Domestic Triennial Full Filers (Aug. 29, 2023).

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> "unlike global systemically important banks [("**GSIBs**")], most large banking organizations do not have material broker dealers or international operations, and their assets and liabilities most often are overwhelmingly concentrated in the depository institution entity."[9]

In fact, the risk profiles of many Covered IDIs are substantially different from GSIBs. These smaller, less complex organizations present less risk to the financial system and the DIF. On the other hand, they do not have the size or scale to offset the burden of issuing and maintaining the high levels of LTD the proposal contemplates. We recommend that the final LTD rule instead calibrate requirements for Covered IDIs to reflect individual levels of risk more appropriately and recognize the differences between GSIBs and certain Covered IDIs and their potential impact to the DIF.

For example, the final LTD rule could scale the amount of LTD required to the risk profiles of Covered IDIs. A larger institution with an inherently high-risk profile due to commercial portfolios or uninsured deposits, for example, may be required to issue a larger amount of long-term debt (e.g., 6% of risk-weighted assets ("**RWA**"), 3.5% of total consolidated assets, or 2.5% of supplementary leverage ratio), whereas a smaller, less risky institution with a lower risk profile could issue a smaller amount of long-term debt (e.g., 1% of RWA or 1% of total consolidated assets). Adopting this approach would account for the differences of Covered IDIs by calibrating the LTD requirements to their size and risk profile and would support the Agencies' public policy goals.

c. Distinguishing between Other Large Banking Organizations and Covered IDIs

Covered IDIs with less complex activities, funding, and capital bases likewise present considerably lower risk than other large, complex banking organizations. We recommend the LTD requirements be calibrated to recognize these differences and be proportionate to risks. Doing so would support the Agencies' goal that the LTD Proposal be designed to address risk specific to these institutions.[10]

i. Covered IDIs with Minimal Uninsured Deposit Risk

First, we recommend that the final LTD rule factor the levels of uninsured deposits into the calibration of a Covered IDI's LTD requirement. In particular, Covered IDIs with low levels of uninsured deposits and a focus on consumer banking do not pose the same risk as banking organizations with large commercial banking businesses and high levels of uninsured deposits.[11]

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[9] *See* Resolution-Related Resource Requirements for Large Banking Organizations, 87 Fed. Reg. 64170, 64172 (Oct. 24, 2022) ("LTD ANPR").

[10] Press Release, Chairman Martin Gruenberg, FDIC Board of Directors, Statement on the Notice of Proposed Rulemaking of Long-Term Debt (Aug. 29, 2023).

[11] *See* Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements, 86 Fed. Reg. 9120, 9131 (Feb. 11, 2021) (noting that banking organizations "that rely more heavily on stable funding such as retail deposits and have traditional balance sheet structures" are less vulnerable to funding stability risks).

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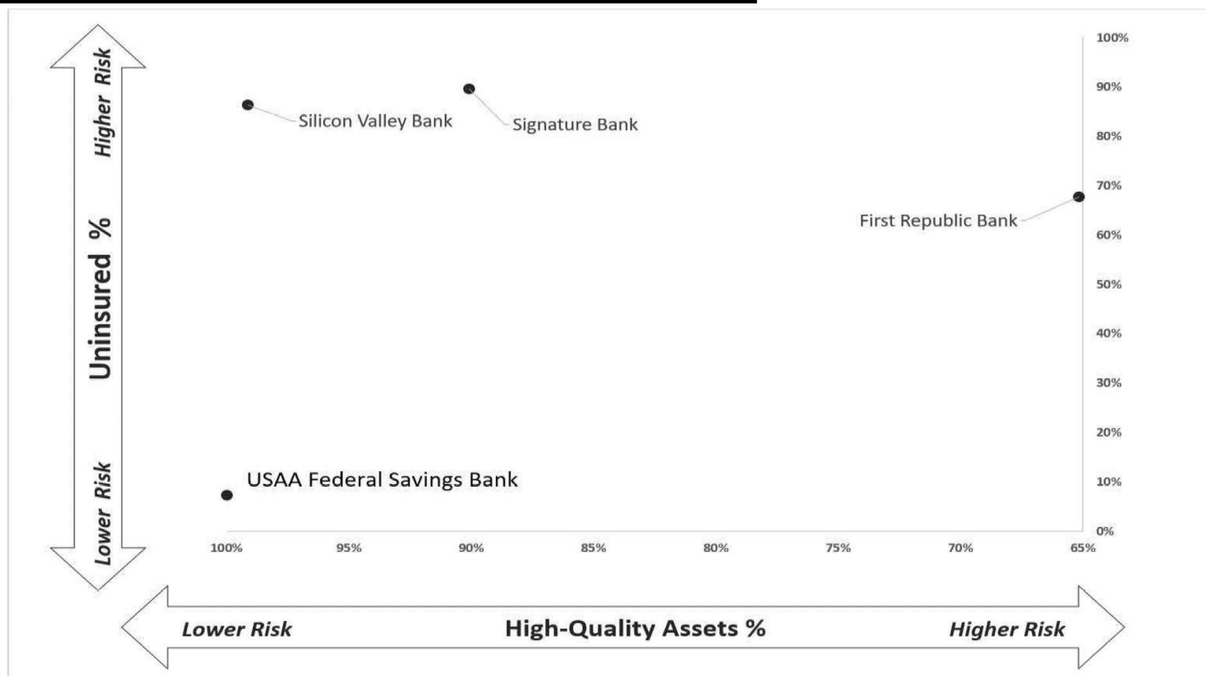
The LTD Proposal is right to recognize the risk inherent in the **"increased reliance on uninsured deposits"** as a vulnerability that has emerged with respect to the financial system.[12] Focusing on **an organization's uninsured deposit levels helps measure potential risk to the financial system and** the DIF in a manner that accounts for a potential liquidity event **that could impact an organization's** resolvability.[13] March 2023 banking failures' **lessons** indicated that some forms of deposits – e.g., deposits from venture capital firms, high-net worth individuals, and crypto firms – may be more prone to faster runs.[14] The final LTD rule should account for the much lower risk inherent in organizations with low levels of uninsured deposits and high levels of high-quality assets.[15] For example, Table 1 shows the levels of uninsured deposits and high-quality assets of larger banking organizations that failed in early 2023 as compared to FSB, illustrating the stark difference in risk posed by organizations with high levels of uninsured deposits.

Table 1- Levels of Uninsured Deposits and Relative Risk[16]



We recommend that the LTD requirement for Covered IDIs should recognize the role that **uninsured deposit levels play in an organization's** liquidity risk, and should be calibrated based on,

[12] LTD Proposal at 64525.
[13] *See* LTD Proposal at 64550.
[14] Press Release, Michael Barr, Vice Chair for Supervision, Board of Governors of the Federal Reserve System, ECB Forum on Bank Supervision, The Importance of Effective Liquidity Risk Management (Dec. 1, 2023).
[15] *See* Federal Reserve Financial Stability Report – May 2023, pg. 49 (2023), *available at* https://www.federalreserve.gov/publications/files/financial-stability-report-20230508.pdf (noting recent bank failures, **"highlighted vulnerabilities associated with high concentrations of uninsured deposits.")**
[16] As of 12/31/2022 Call Report; HQLA proxy per Schedule RC-R: Regulatory Capital Components and Ratios 0% and 20% securities relative to total securities.

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among other factors, an institution's level of uninsured deposits by applying a multiplier/factor to an entity's total amount of LTD.[17] As an example, the LTD requirement could be 10% for institutions with 0 to 15% of uninsured deposits, 25% for institutions with 15% to 25% of uninsured deposits, 50% for institutions with 25% to 50% of uninsured deposits, and 100% for institutions with 75% to 100% of uninsured deposits. This approach would require Covered IDIs to increase their loss-absorbing capacity proportionately with their liquidity risk exposure, would provide for loss-absorbing capacity calibrated to each institution's level of uninsured deposits, and would minimize the potential impact to the DIF based on risk of a liquidity event, in alignment with Agencies' objectives.

ii. Alternative Loss-Absorbing Options for Covered IDIs

We recommend that the final LTD rule provide flexibility to account for capital that an organization holds above regulatory minimums – e.g., 6.5% plus a 2.5% capital conservation buffer – when assessing loss-absorbing capacity. This principle of reducing regulatory burdens based on other risk mitigating factors is not new or unique. The FDIC's longstanding approach of assessing risk-based premiums that banks pay into the DIF based on factors including leverage, deposits and liabilities, liquidity ratio, and potential loss severity aligns with balancing the risks and burden when calculating Covered IDIs' loss-absorbing capacity.[18]

Just as the FDIC's DIF assessment is based on risk factors reflecting loss-absorbing capacity, the final LTD rule could likewise include adjustments to the overall LTD requirement based on capital composition, deposit base, or overall capital levels, which would similarly drive risk mitigation proportionate to the risk presented to the DIF.[19] Table 2 illustrates the difference in terms of funding mix and balance sheet composition for large banking organizations in comparison to FSB and demonstrates how considerations such as overall levels of stable, sticky funding sources combined with levels of capital in excess of the regulatory minimums could allow for risk-based calibration of LTD requirements.[20]

[17] Response to Question 23.

[18] *See* FDIC Staff Studies, Report No. 2020-01 A History of Risk Based Premiums at the FDIC (January 2020), *available at* https://www.fdic.gov/analysis/cfr/staff-studies/2020-01.pdf.

[19] *See* Assessments, Revised Deposit Insurance Assessment Rates, 87 Fed. Reg. 64314, 64318 (Oct. 24, 2022) ("This is consistent with the objectives of the DIF investment portfolio, which prioritizes preservation of funds available to absorb losses from bank failures over maximizing investment income"); *See also* FDIC Staff Studies, Report No. 2020-01 A History of Risk Based Premiums at the FDIC.

[20] Response to Question 16.

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Table 2

Large Banking Organizations in Comparison to FSB		
	LBOs[21]	**FSB**[22]
Loans	58%	38%
Cash/Securities	25%	57%
Uninsured Deposits	41%	6%
Common Equity Tier 1	10%	17%

Capital above required minimums can be used as loss-absorbing capacity and should be credited to offset the amount of LTD required.[23] The LTD Proposal notes not only that commenters on the Agencies' 2022 LTD advance notice of proposed rulemaking suggested that organizations could use excess capital toward an LTD requirement,[24] but also that the Agencies themselves "note that both equity capital and LTD can be used to absorb losses and reduce the potential impact from the failure of a large banking organization."[25] A final LTD rule allowing Covered IDIs to offset LTD requirements with excess capital would ensure Covered IDIs maintain sufficient levels of loss-absorbing capacity while providing organizations the flexibility to manage their balance sheets in alignment with their strategy and risk appetite. For instance, the final LTD rule could allow Covered IDIs with common equity tier 1 capital above the 6.5% well-capitalized level to use this surplus capital to offset the overall required amount of LTD utilizing a dollar-for-dollar ratio — e.g., the required amount of LTD would be reduced for every dollar of capital held above well-capitalized level.

Alternatively, Covered IDIs holding capital in excess of a threshold set by the Agencies above regulatory minimums could be exempt from issuing LTD altogether – e.g., if a Covered IDI held 13% or more capital, it would not be required to issue LTD at all. Covered IDIs with capital that drops below the threshold for a sustained period would be required to issue LTD.

A flexible approach to loss-absorbing capacity – in whatever form it takes – incentivizes organizations to manage risks and maintain adequate capital levels and buffers above regulatory minimums and engage in prudent risk-taking behavior rather than be subject to LTD requirements.

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[21] Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank, Table 1 (Apr. 2023) (SVB Report), *available at* https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf.

[22] As of September 30, 2023, Call Report. The denominator for Loans and Cash Securities is total assets, deposit total for Uninsured Deposits, and risk-weighted assets for Common Equity Tier 1.

[23] *See* Gregg Feldberg and Carey Mott, "The 2023 Banking Crisis: Lessons About Bail-in," Yale School of Management Program on Financial Stability (July 6, 2023), *available at* https://som.yale.edu/story/2023/2023-banking-crisis-lessons-about-bail (noting "a bail-in is supposed to prevent losses to insured depositors, and in this respect, there is no fundamental difference between holding the loss-absorbing capacity in debt or equity").

[24] *See* LTD ANPR.

[25] LTD Proposal at 64528-64529.

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II. Considerations for Covered IDIs of SIOs

a. Leverage Impacts

The issuance of LTD in the amounts required by the LTD Proposal will impact an SIO's capital market and funding strategies, especially for SIOs that historically maintained high financial ratings by carrying low levels of debt. Increasing levels of debt will increase an IDI's leverage levels. Increased leverage will disproportionately affect SIOs due to differences in the insurance business model – banking is a highly leveraged business, but insurance typically is not.[26] Therefore, higher leverage levels for SIOs as a result of LTD requirements imposed on a subsidiary of an SIO could affect perceptions of an SIO's financial strength and reputation in a way that negatively impacts their insurance business, such as by negatively influencing the holding company's financial ratings and ability to participate in capital market programs with competitive pricing that keep funding costs low.[27] Low funding costs aid smaller organizations' ability to compete and provide a wide range of products and services to their customers. A risk-based approach to the LTD Proposal would reduce disproportionate impacts on SIOs and support financial system diversity by providing flexibility to balance policy goals and funding strategies without unduly burdening SIOs based on their activities or structures.[28]

b. Optionality for Covered IDIs

We recommend that the final LTD rule permit an SIO to meet its LTD requirement by allowing the LTD to be issued by the IDI's mid-tier holding company that is not a covered entity. Allowing SIOs with mid-tier holding companies to issue LTD would allow for additional loss-absorbing capacity to be bailed into the IDI in the event of resolution and utilizing existing debt programs. A mid-tier holding company may have the ability to participate in various capital market programs and explore different funding strategies than its Covered IDI. This approach would support the Agencies' goals of ensuring that sufficient loss-absorbing capacity exists for Covered IDIs while providing additional flexibility to meet LTD requirements in a way that best fits the SIO. Additionally, the flexibility to issue LTD through a mid-tier holding company could help mitigate potential difficulties unique to SIOs. We also suggest that this option omit the clean holding company requirements in the LTD Proposal due to difficulties and constraints caused by financial and operational arrangements within an SIO to support compliance by both the IDI and insurance companies.[29]

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[26] *See* Bank for International Settlements, CGFS Papers No. 44: Fixed income strategies of insurance companies and pension funds (2011), *available at* https://www.bis.org/publ/cgfs44.pdf.

[27] *See* FDIC "Leveraged Lending: Evolution, Growth and Heightened Risk," (March 23, 2023), *available at* https://www.fdic.gov/regulations/examinations/supervisory/insights/sifall19/sifall2019-article02.html.

[28] *See id.*

[29] Response to Question 14; *See*, e.g., Home Owners' Loan Act, 12 USC 1468, restricting transactions with affiliates. These restrictions, including prohibiting a loan or other extension of credit to any affiliate except under circumstances, apply above and beyond the typical restrictions in Regulation W, which also is applicable to federal savings associations.

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III. Interaction with Other Regulatory Requirements

We acknowledge the supervisory goal of promoting safety and soundness by establishing frameworks like the LTD Proposal and the outstanding Capital Proposal, which seeks to improve risk-based capital requirements that reflect large banking organizations' risks. In aggregate, however, the LTD and Capital Proposals introduce multiple layers of conservative protections without assessment or analysis of the holistic impact and potential risks that these layers of conservatism can cause.[30] This is particularly acute for organizations like USAA, for example, that are now subject to the Federal Reserve's Building Block Approach Consolidated Capital Framework ("**BBA**"). As Governor Bowman of the Federal Reserve noted in her statement on the LTD Proposal:

> "The [LTD Proposal] also lacks information that commenters may need to conduct an analysis of the costs and benefits of the [LTD Proposal], because it would be implemented together with the Board's pending Basel III [Capital Proposal]. As published, the Basel III [Capital Proposal] would significantly increase capital requirements for the same banks, and the corresponding impact of this [LTD Proposal] together with the increased capital requirements is unclear."[31]

The unintended and still-unknown consequences of the interplay between the LTD Proposal and the Capital Proposal on banking organizations warrant further review prior to implementing both proposals concurrently. Additional data and analysis examining ramifications across banking organizations is needed first.[32]

Other recent changes, such as the implementation of Current Expected Credit Loss Standard ("**CECL**"), could also affect capital in ways that are not yet fully understood and certainly have not been considered holistically with the LTD Proposal, the Capital Proposal, and BBA. The LTD Proposal does not account for the impacts of CECL to capital or reporting of total consolidated assets.[33] Federal Reserve staff found that the variation of allowance for loan and lease losses under CECL through the business cycle "has important implications on bank earnings and directly affects bank capital, which in turn influences the availability of credit to the economy."[34] With CECL

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[30] In the Capital Proposal, the Agencies acknowledge that it would interact with other rules, including the LTD requirements, due to the modification of RWA used to calculate such requirements. *See* Regulatory Capital Rule: Large Bank Organizations and Banking Organizations with Significant Trading Activity, 88 Fed. Reg. 64028, 64031 (Sept. 18, 2023) ("Capital Proposal").

[31] Press Release, Governor Michelle Bowman, Board of Governors of the Federal Reserve System, Statement on the Proposed Long-term Debt Requirements and Proposed Guidance for Resolution Plan Submissions of Domestic Triennial Full Filers (Aug. 29, 2023).

[32] Response to Question 1.

[33] *See,* e.g., Loudis, Bert, Sasha Pechenik, Ben Ranish, Cindy M. Vojtech, and Helen Xu (2021). "New Accounting Framework Faces Its First Test: CECL During the Pandemic," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, December 03, 2021, https://doi.org/10.17016/2380-7172.3025 ("by changing the timing and level of allowances, CECL also impacts the timing and level of capital").

[34] Chae, Sarah, Robert F. Sarama, Cindy M. Vojtech, and James Wang (2019), "The Effect of the Current Expected Credit Loss Standard (CECL) on the Timing and Comparability of Reserves," Finance and Economics Discussion Series 2018-020, Washington: Board of Governors of the Federal Reserve System, *available at* https://doi.org/10.17016/FEDS.2018.020r1.

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implementation delayed and the transition period ongoing, it is not clear how the LTD Proposal, Capital Proposal, and BBA, in addition to CECL, will ultimately impact banking organizations' capital levels. The Federal Reserve indicated that a holistic review of regulatory requirements "is important because the requirements function as a system – each component treats risks and associated capital needs differently, but all components together result in a certain amount of required capital."[35] We recommend that the Agencies carefully consider the impact on Covered IDIs based on the interactions of the LTD Proposal, the Capital Proposal, and other related requirements, such as CECL and BBA, that have an impact on organizations' capital strategies.

a. Impacts to Regulatory Capital

The LTD Proposal's requirements are calibrated to the greater of an organization's asset size, RWA, or supplementary leverage ratio. The Capital Proposal is expected to significantly increase RWA in its aim to support increased resilience – the Agencies estimate RWA will increase by 20% for holding companies and by 9% for IDIs.[36] These considerable increases to RWA expected as a result of the Capital Proposal could substantially raise the levels of LTD that organizations are required to carry. However, the LTD Proposal was developed without the benefit of prior public notice, comment, and study of the Capital Proposal. The existing data is insufficient to determine whether such calibrations are appropriately aligned based on the increased RWAs as neither the Agencies nor banking organizations will know what the increased RWAs will be until the Capital Proposal is finalized.[37]

The Capital Proposal recognizes that increases in RWA will increase LTD requirements for Category I bank holding companies by 2% but does not include any additional information about impacts to other large banking organizations.[38] Without additional data, it is difficult to assess whether the burdens of the LTD Proposal are commensurate with the risks mitigated for Covered IDIs. We recommend that prior to releasing a final LTD rule, the Agencies analyze the LTD Proposal's interaction with other regulatory requirements to ensure LTD requirements are set in a way that does not unduly burden organizations with limited benefit to the Agencies' goals.

b. Transition Periods

We recommend that any final LTD requirement for Covered IDIs not previously subject to an LTD rule provide both a five-year (20% per year) phase-in period as well as a delayed implementation of three years to minimize capital impacts and allow sufficient time for organizations to develop, operationalize, and adapt capital strategies to new LTD requirements.

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[35] Press Release, Michael Barr, Vice Chair for Supervision, Board of Governors of the Federal Reserve System, Bipartisan Policy Center, Holistic Capital Review (Jul. 10, 2023).

[36] Capital Proposal at 64168.

[37] *See* Press Release, Federal Reserve, *Federal Reserve Board launches data collection to gather more information from the banks affected by the large bank capital proposal it announced earlier this year*, Oct. 20, 2023; *See also* Endgame Special Data Collection Instructions *available at* https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20231020b3.pdf ("In particular, the Board seeks to assess the risk-weighted asset impact of the proposed revisions along with the potential impact of certain policy options").

[38] *See* Capital Proposal at 64171.

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A five-year phase-in period, as opposed to three years in the LTD Proposal, would provide more flexibility and allow Covered IDIs to operationalize strategies to address the impacts from multiple proposals and position funding in a measured manner.[39] This would allow adequate time to establish or expand funding programs, compliance and operational processes, strategies, and maturity schedules and to "adapt to the changes while minimizing any potential adverse impacts."[40] Also, a longer phase-in period would provide additional time for Covered IDIs to adjust to other regulations that would also impact LTD requirements and strategies, including any final capital rule.[41]

A delayed implementation would also be consistent with the original LTD requirements for GSIBs – the Agencies provided GSIBs the largest, most well-resourced organizations, almost two years before the initial LTD rule took effect.[42] Many Covered IDIs have fewer resources to implement the LTD requirement and will need longer transition periods. The Agencies indicated "that large banks have recently maintained roughly 75 percent of the required amount" of LTD, but many Covered IDIs are not represented in that figure.[43] Even Covered IDIs with existing LTD below the proposed LTD requirements would require extra time to issue LTD to adjust to increased funding costs over time.

Additionally, we request clarification regarding the timing for issuing required LTD amounts due to fluctuations in an organizations' final metrics, such as changes in the balance sheet or in asset size. For example, as an organization's balance sheet mix changes (e.g., increased RWA), grows (e.g., larger average assets), or contracts, the extent and timing to increase or reduce LTD is not clear in the LTD Proposal. We suggest the final LTD rule allow at least two calendar quarters to comply with new amounts based on changes to the LTD calculations.

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[39] Response to Question 53.
[40] *See* FDIC Fact Sheet.
[41] Response to Question 56.
[42] *See* Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Company Requirements for Systemically Important U.S. Bank Holding Companies and Intermediate Holding Companies and Intermediate Holding Companies of Systemically Important Banking Organizations, 82 Fed. Reg. 8266 (Jan. 24, 2017) (establishing an effective date of 1/1/2019 for the final LTD rule).
[43] *See* FDIC Fact Sheet.

9800 Fredericksburg Road
San Antonio, Texas 78288

USAA appreciates the Agencies' consideration of these comments. If you have any questions, please do not hesitate to contact Tate Wilson, Vice President, Corporate Regulatory Counsel, at 210-722-2312 or Tate.Wilson@usaa.com, or me.

Sincerely,

Robert J. Johnson, Jr.
Executive Vice President
Chief Legal Officer & General Counsel