ZIONS BANCORPORATION

HARRIS H. SIMMONS
Chairman &
Chief Executive Officer

January 10, 2024

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

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

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

Re: 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-1815, RIN 7100-AG66; FDIC RIN 3064-AF86; Docket ID OCC-2023-0011)

Ladies and Gentlemen,

Zions Bancorporation, N.A. ("Zions") appreciates the opportunity to comment on the joint notice of proposed rulemaking issued by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency that would require certain large depository institution holding companies and insured depository institutions (collectively, "banks") to issue and maintain outstanding a minimum amount of long-term debt ("LTD"). While Zions' current level of total assets, at approximately $88 billion, falls below the $100 billion threshold contemplated in the proposed rule, we expect that organic growth will bring us to exceed this threshold over the next several years.

We estimate that the proposed rule will result in an *annual* incremental pretax cost to Zions of over $125 million – substantially in excess of the average impact as estimated in the analysis in the proposed rule. To put the figure in context, the annual incremental cost to Zions will be roughly 40% greater than the cost of the FDIC's "special assessment" to resolve the large bank failures in March, 2023.

We believe the proposed rule should be reconsidered for reasons including, but not limited to, the following factors:

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1. **The proposed rule is totally contrary to the spirit and requirement of the law that prudential standards for larger banks be "tailored[1]."**

The law requires regulators to take into consideration a variety of factors, beyond the size of an institution, in prescribing more stringent requirements. Congress did not intend for all large banks to be subject to the same set of enhanced requirements; among banks with more than $100 billion in assets, the smaller ones are supposed to be subject to fewer requirements.[2] Ironically, not only is the proposed rule <u>not</u> tailored, it is in fact regressive.

Both the issuance and interest costs for Category IV banks are proportionally more than those for Category III or Category II banks. All else being equal, rating agencies have a bias toward size that impacts credit spreads for smaller issuers. Likewise, there is a less liquid market for smaller issuers' debt, resulting in a liquidity premium much greater than that experienced by the largest institutions that issue debt frequently, and in greater volumes. These factors contribute to a cost of debt that can easily exceed 100 basis points, relative to pricing for larger issuers. This disparity in funding costs is ignored in the analysis of the rule's potential impact.

We estimate that, upon crossing the $100 billion asset threshold, we will need to incrementally issue over $4 billion in debt, at a credit spread in excess of 300 basis points over the cost of alternative funding sources. To place this in perspective, ***the resulting increased annual cost will be well over three times greater than our average annual FDIC premium expense for the five years ended December 2022***.

Regional banks with reasonably simple and traditional business models and conservative loan-to-deposit ratios, such as Zions, typically do not need much debt to meet their operational needs, which will result in a disproportionate incremental debt requirement for these banks relative to Category II and III banks. Furthermore, the actual amount of debt required will be greater than the 6% of risk-weighted assets/3.5% of total assets requirement set out in the proposal. Banks will need to maintain a cushion to allow for unexpected fluctuations in asset size, as well as periodic inhospitable market conditions. This may particularly be the case for the smaller banks subject to the rule, which will find it uneconomic to market smaller but more frequent issuances of debt.

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[1] Section 165 (a)(2) of the Dodd-Frank Act, as amended by the Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRRCPA"), requires that "In prescribing more stringent standards, the Board of Governors *shall*...differentiate among [large bank holding companies and systemically significant nonbank financial companies] on an individual basis or by category, *taking into consideration their capital structure, riskiness, complexity, financial activities..., size,* and any other factors that the Board of Governors deems appropriate." [Emphasis added]

[2] Senator Warner stated "Under [EGRRCPA], the Fed can apply enhanced prudential standards to a bank with assets larger than $100 billion for financial stability reasons or to promote the safety and soundness of the bank--part of their traditional prudential regulations as they stand, <u>but I don't think every enhanced prudential standard should apply to every bank with assets larger than $100 billion</u>. There is a <u>broad agreement</u> that standards should be tailored for this group.") 164 Cong. Rec. at S1360 (Mar. 6, 2018) [Emphasis added].

2. **The substantial cost entailed with this proposal will fall on every borrowing customer, raising interest costs particularly on small and middle-market borrowers.**

   Conservatively assuming a 300 basis point increased cost of funding on 6%[3] of a borrower's loan, borrowers will experience – everything else being equal – an increased interest cost of .18%. Regulators should consider that, by expanding this proposal to Category IV regional banks, the cost and diminished credit availability will be disproportionately borne by smaller businesses.

   Regional banks provide a disproportionate share of financing to these types of businesses, and that is certainly the case with Zions. September 30, 2023 call report data shows that, **for small business and small farm loans between $100,000 and $1,000,000 in size – the types of loans these businesses use to purchase productive equipment – Zions Bancorporation's outstanding volume of such loans was 34.3% as great as that of JPMorgan Chase; 20% as great as Bank of America; and 24.2% as great as Wells Fargo.** That's despite being between 2.2% to 4.6% the size of each of these banks, as measured by total assets. And while call report data is not captured for loans between $1 million and, say, $10 million, one may intuit that regional banks are very substantial providers of credit to the vast population of businesses with such borrowing needs, all of whom will feel the impact of this proposal.

3. **The proposed rule may create the incentive for greater risk taking.**

   Given the impact on earnings, and the highly competitive banking market in the United States, it isn't unreasonable to think that, absent the ability to fully pass these increased costs along to borrowers, banks subject to the rule may expand their risk tolerances in an attempt to generate sufficient income to compensate for the rule's additional costs.

4. **By failing to adequately tailor this proposal, banks such as Zions will be placed at a competitive disadvantage to regional banks, community banks and credit unions that are not subject to this tax on asset size.**

   As noted above, we compete less with the nation's largest banks in the small and middle market space than we do with smaller institutions that would not be subject to this expensive debt requirement. This exacerbates an already unlevel playing field as pertaining to requirements such as the OCC's "Heightened Standards" when competing with smaller banks, and the substantial advantages arising from the income tax exemption enjoyed by larger credit unions with whom we routinely compete. Parenthetically, one might ask why Navy Federal Credit Union, an Insured Depository Institution with $168 billion in total assets, is not subject to this rulemaking. Over time, as other large credit unions cross the $100 billion threshold, they, too would be exempt from the debt requirement, further aggravating the already substantial competitive advantage such institutions enjoy vis-à-vis commercial banks.

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[3] A typical small business or middle market commercial loan has a 100% risk weight, against which the proposal would require that a minimum of 6% of the funding for the loan consist of qualifying long-term debt.

5. **The three recent bank failures that appear to have been the catalyst for expanding the proposed debt requirement beyond the Category II and III banks contemplated in the Announcement of Proposed Rulemaking shared the common characteristic of rapid organic growth. Regulators should consider basing any debt requirement on business models or profiles that have been shown to produce greater risk.**

   The three bank failures this past Spring were all characterized not only by failures to remediate previously identified deficiencies in asset/liability, interest rate risk and liquidity management practices that were not commensurate with these banks' funding and asset composition profiles, *but in each case by very rapid growth*. Growth in total assets at SVB Financial Group, Signature Bank and First Republic Bank over the five-year period from 2017-2022 was respectively 8.7, 4.3 and 3.9 times higher than the growth in average industry assets during this period. Rather than painting with a broad brush, regulators should consider applying the debt rule to banks with abnormally rapid organic growth, and/or other specific identifiers that correlate with higher risk.

6. **If the proposed rule is enacted, there should be a corresponding decrease in deposit insurance premiums for institutions subject to the rule.**

   The proposal notes that, by providing a fresh source of capital in the event of a failure, resolutions would be less costly to the Deposit Insurance Fund than a payout of insured deposits. Assuming this is the case, it should warrant a reduction in deposit insurance premiums for banks that have raised such debt.

In conclusion, we encourage the regulatory agencies to reconsider this proposed rule. In recent years, larger U.S. banks have materially increased their capital levels and have been subject to a variety of more robust regulatory and supervisory requirements and expectations. A major consequence has been the rapid growth witnessed in the unregulated shadow banking system. The proposed debt requirement for non-GSIB banks will further exacerbate this trend by making the nation's regional banks less competitive. This will, over time, further limit borrowers' access to credit, and increase, rather than reduce, risk throughout the nation's financial system.

Thank you for the opportunity to comment.

Sincerely,

[redacted]

Harris H. Simmons
Chairman and CEO