

SYNCHRONY, BRIAN WENZEL

Proposal and Comment Information

Title: Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL, R-1873

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Submitter Information

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Organization Type: Company

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Please find attached



February 20, 2026

Via Electronic Mail

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

Re: Notice of Proposed Rulemaking regarding Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL (Docket No. R-1873; RIN 7100-AH05)

Dear Sirs and Madams:

Synchrony Financial (“Synchrony”) sincerely appreciates the Federal Reserve’s continued dedication to refining and enhancing the supervisory stress testing framework. We recognize the complexity and challenges involved in developing models and policies that ensure the safety and soundness of financial institutions while supporting economic growth and access to credit. The proposals outlined in this rulemaking represent an important step toward greater transparency, consistency, and robustness in capital assessment practices.

Synchrony is writing to recommend changes to the Federal Reserve’s Notice of Proposed Rulemaking regarding Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL¹ including the data and model documentation associated with the Proposal posted on the Federal Reserve’s website.

Synchrony is a premier consumer financial services company and a leading provider of credit to consumers in the United States. Our offerings include private label, dual, co-brand and general-purpose credit cards, as well as short- and long-term installment loans and consumer banking products. With approximately \$119.0B in total consolidated assets as of December 31st, 2025, Synchrony is among the smallest institutions that is subject to the Federal Reserve’s supervisory stress test in 2026.

Given Synchrony’s size and business model, we have concerns that if the Proposal is finalized substantially as proposed, the supervisory stress test and accompanying stress capital buffer requirements would continue to produce unnecessarily conservative and blunt capital

¹ *Federal Reserve, Notice of Proposed Rulemaking regarding Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL, 90 Fed. Reg. 51,856 (Nov. 18, 2025).*

requirements for Category IV institutions such as Synchrony, which would limit the supply of credit that banking organizations are able to offer consumers. This letter offers several recommendations to avoid these harmful outcomes for consumers.

Part I of this letter sets forth our recommended revisions to the Federal Reserve's stress testing models. Our detailed comments on specific models highlight critical areas where firm-level calibrations and consistent standards—such as enhancing the treatment of Revenue and Loss Sharing Arrangements (RLSAs) within supervisory models can be improved to better capture their countercyclical financial effects. Similarly, adopting a 180-day default definition in credit risk models and segmenting operational risk modeling by business model—can substantially improve the relevance and accuracy of stress test projections. For example, simplifying the deferred tax asset methodologies in aggregation models, aligned with regulatory capital rules, will foster greater consistency and reduce complexity.

Part II describes our recommended changes to enhance the transparency and public accountability of the stress test results. Maintaining the stress testing jump-off date at December 31 and extending the timeline for Stress Capital Buffer reconsiderations would enhance data reliability, reduce operational burdens, and promote transparency. Moreover, formalizing an overlay process would afford necessary supervisory flexibility to address firm-specific data limitations and emerging risk factors, cultivating a balanced, risk-sensitive capital framework.

As a committed participant in the supervisory process and a leading provider of consumer credit, Synchrony values the opportunity to engage constructively with the Federal Reserve to share insights drawn from our business model and experience. We submit the following comments and recommendations with a collaborative spirit, aiming to support the Federal Reserve's objectives while highlighting opportunities to improve model calibration, data collection, and regulatory frameworks in a manner that reflects the diversity of institutions and promotes fairness. We look forward to constructive dialogue as the agencies finalize their approach.

Part I: Comments related to Specific Federal Reserve Stress Models

A. Credit Risk Models

Credit Card Model - Revenue and Loss Sharing Arrangements (RLSAs)

Revenue and Loss Sharing Arrangements (RLSAs) are partnership contracts where a covered firm shares revenues, credit losses, or profits from a credit card portfolio with a third-party retailer. In periods of stress, when credit losses rise, a banking organization's RLSA payments to retailers decline, partially offsetting the banking organization's losses. For Synchrony, historical data shows a very strong negative correlation (-96%) between RLSA payments and net credit losses, demonstrating RLSAs' effectiveness as a financial shock absorber that mitigates the impact of credit losses on Synchrony's profitability and capital.

The Federal Reserve accounts for RLSAs within its supervisory stress testing models, specifically the Bank Card Credit Model or the Pre-Provision Net Revenue ("PPNR") Model. The Federal Reserve treatment of RLSAs varies, as RLSAs are reflected differently across firms' financial and regulatory reports. Some firms incorporate the impacts of RLSAs into charge-offs, while others include these impacts within PPNR line items.²

However, due to structural constraints of the supervisory stress test models, the models do not adequately capture the countercyclical nature of RLSA payments that stabilize earnings in economic downturns:

- The current PPNR model for Interest Income on Loans is a regression model that maintains flat loan balances and is constructed using industry-level data, which does not include RLSA payment impacts similar to those of Synchrony. The model also relies on interest rates and unrelated independent variables that do not directly drive Synchrony's RLSA performance. As a result, the model fails to capture the countercyclical nature of RLSAs payments.
- The Federal Reserve's proposed PPNR model for Interest Income on Loans is based on loan balances, interest rates and a business line-normalized industry scalar. The scalar is intended to adjust for non-structural components in reported interest income but effectively links RLSA payments proportionally with benchmark interest rates. But in reality, the contractual nature of RLSAs results in a reduced payment to partners in times of stress that is not directly linked to interest rates but strongly linked to loss rates. As a result, the proposed PPNR model fails to capture the countercyclical nature of RLSA.

Recognizing that RLSAs can have complex and bespoke contractual terms that vary by agreement, and the challenges posed by varying reporting treatments and the countercyclical sensitivity of RLSA-related revenues and losses, we propose enhancements to the Federal Reserve's data collection and modeling approaches to better capture the macroeconomic

² Synchrony reports the gain/share payments, the amount paid to retailers under contractual arrangements, net of all interest, fees and similar charges associated with the loans in its FR Y-9C report as part of the PPNR "interest and fee income on loans".

sensitivity and contractual nuances of RLSAs, while balancing simplicity, consistency, and operational feasibility.

1. The Federal Reserve Should Introduce Consistent RLSA Reporting Standards Across Banks.

Currently, firms reflect RLSAs payments in varying ways within regulatory reports, and as a result, those reports capture RLSAs payments in different line items/accounts that map to different components of the Federal Reserve's supervisory stress-test models. For example, one bank may effectively route RLSA payments through PPNR (revenues/expenses) while another routes them through charge-offs, provisions, or the Allowance for Credit Losses (ACL) even when the underlying economics of the banks' RLSA arrangements are similar. This variation in classification across regulatory reporting accounts can create inconsistencies in supervisory projections because the FRB's models treat these accounts differently. We recommend the Federal Reserve work toward harmonizing RLSA reporting standards across banks, including clear guidance on where RLSAs payments should be reported and the associated accounting treatment, to enable consistent, comparable data submissions and improve the reliability and comparability of data underpinning stress test projections.

2. The Federal Reserve Should Adjust Supervisory Stress Models to Recognize the Countercyclical Nature of RLSAs in Stress Testing.

The Federal Reserve should adjust supervisory stress testing models to more fully recognize the countercyclical nature of RLSAs. During periods of economic stress a banking organization's RLSA payments to partners will decline, thus partially offsetting increases in the banking organization's Net Charge Offs (NCO) and improving bank card portfolio performance. Existing modeling approaches fail to capture this stress sensitivity. We propose two alternative approaches to adjustments that would better capture the realistic variation in bank card portfolio performance under stress conditions:

Option 1 – Adjust RLSA within the Pre-Provision Net Revenue Model

For cases where banks report RLSA payments as part of the PPNR, the Federal Reserve does not forecast RLSA payments separately, noting that the RLSA payments are included in Interest Income as it is reported in the financials within regulatory reports (i.e. FR Y-9C and FR Y-14 reports). Thus, RLSA payments are noted to be forecasted within the PPNR *Interest Income on Loans Model*.

The Federal Reserve's proposed Interest Income on Loans Model is a bottom-up model that calculates interest income by breaking down loan portfolios into detailed segments based on product type and interest rate features. The proposed model projects income over future quarters using scenario interest rates and static spreads, considering how fixed and variable-rate loans behave differently. To handle data gaps and discrepancies between model calculations and reported interest income, the model would apply adjustment factors ("scalars") by loan category to align with actual reported data.

While the Federal Reserve's proposed approach would provide a more detailed, realistic, and scenario-sensitive estimate of loan interest income than regression models, the proposed model still would fail to account for the observed countercyclical nature of Synchrony's RLSA

payments, mainly due to a static scalar adjustment method that does not account for behavior during stress. The industry scaler is based on the Industry Credit Card business, but RLSA payments contribute little to interest income outside Synchrony's portfolio. Thus, using this broad scaler does not properly reflect the effects of Synchrony's RLSAs. Additionally, the historical ratio of RLSA payments to calculated interest income will not remain constant during financial stress. During stress, this ratio changes because RLSA payments decrease when profits fall. The proposed model does not account for this change in the ratio of RLSA payments to calculated interest income.

Our proposed adjustment to the Federal Reserve PPNR Interest Income on Loans Model is as follows:³

$$\text{RLSA Payments}^4 = \text{Max} (\text{RLSA Payments to Earnings \%} \times \text{FRB Modeled Earnings, Min. RLSA Payment})$$

Where:

- a. RLSA Payments to Earnings Ratio % is based on observed historical ratios =
$$\frac{\text{Total Baseline RLSA Payments (\$)}^5}{\text{EBIT (\$)}}$$
 Excluding Reserve Change and RLSA Payments
- b. FRB Modeled Earnings is the total Earnings before Taxes, Reserve Change and RLSA Payments, forecasted by the Federal Reserve model suite.
- c. Minimum RLSA Payment (which for Synchrony is 2.2%⁶ of Average Receivables) accounts for guaranteed payments unrelated to earnings. These payments are mostly due to volume and certain other performance-based payments.

Steps:

1. Calculate RLSA Payments by applying observed RLSA Payments to Earnings Ratio % (Before Taxes, RLSA Payments and Reserve Change) to FRB modeled Earnings, with application of a Minimum RLSA Payment ('floor').
2. Incorporate calculated RLSA Payments from Step 1 to the Interest Income on Loans model output.

³ All data necessary to calculate RLSA adjustments and minimum payments would be provided as part of the Stress Test FR Y-14 reports at a total portfolio level.

⁴ Proposed solution requires RLSA payment impacts to be removed from historical Net Interest Income before executing the Interest Income on Loans Model.

⁵ FR Y-14M Proposed Change: Schedule D3 Portfolio Level RLSA, Profit Share Amount (Line 16) and Revenue Share Amount (Line 17).

⁶ Synchrony's 2.2% Floor is informed by 2025 Stress Testing results. Floor would be updated annually based on most recent terms and portfolio composition.

Assumptions:

- This approach assumes that RLSAs Payments are correctly embedded within the reported interest income on loans in regulatory filings, such as FR Y-9C and FR Y-14, and thus is forecast implicitly by the PPNR Interest Income on Loans Model.
- This approach also assumes that the adjustment factors (scalars) applied by loan category in the Federal Reserve’s model are sufficient to reconcile modeled and reported interest income outside of RLSA-specific dynamics.

Limitations:

- This approach is intended for banks that include RLSA payments within their reported interest income on loans in regulatory filings like FR Y-9C and FR Y-14. This method does not apply to other PPNR components (i.e. “noninterest income all other”) because the Federal Reserve uses different models for each PPNR line.
- Different banks may have different Minimum Payments (“floor”), depending on the most recent terms and the portfolio composition of their RLSA portfolio.

Option 2 – Adjust RLSA within the Credit Risk Credit Card Model even for Banks that report RLSA in their PPNR.

For banks that currently report RLSA payments within charge-offs, the Federal Reserve applies an adjustment reflecting the loss share attributable to third parties under RLSA contracts as part of loss estimates, rather than forecasting RLSA payments separately.⁷ The Federal Reserve can make analogous adjustments for banks that report RLSA payments in PPNR.

Specifically, the Federal Reserve can apply RLSA adjustments within the existing Credit Card loan loss framework—even though RLSA payments are not explicitly reported there—with the overall effect on Net Income being consistent with adjustments made in the PPNR. This approach can leverage the existing Credit Card loss rate adjustment process, using expanded data collections (such as the FR Y-14 reports or supplementary sources) to accurately estimate the loss-related impacts of RLSAs payments.

Incorporating RLSA adjustments within the Credit Card Credit Risk Model will not result in double counting of benefits or losses. This approach ensures that the unique economic impacts of RLSAs—particularly their stress-related reduction in payments—are properly reflected even when RLSA expenses are nominally reported within PPNR. However, as Synchrony’s RLSAs are predominately Profit Sharing, and expected to be reported accordingly in the FR Y-14M (Schedule D3 Portfolio Level RLSA), the modeling approach as proposed by the Federal Reserve would require an adjustment to apply the effective profit-sharing rate instead of the effective loss sharing rate⁸ (among accounts subject to RLSAs). The effective profit-sharing rate could be calculated as the Profit Share Amount divided by Profits Subject to Sharing. The percentage of balances subject to sharing, as noted in the Federal Reserve’s methodology could remain the same as proposed.

⁷ *Credit Risk - Credit Card Model documentation, at 483.*

⁸ *Credit Risk - Credit Card Model documentation at 485.*

3. The Federal Reserve Should Expand Data Collection and Reporting (FR-Y 14 Templates) to Include Details Regarding RLSA at the Total Portfolio Level.

We support the Federal Reserve’s expansion of data collection and reporting within the FR Y-14 templates to include essential RLSA details, specifically at the total portfolio level. Capturing key portfolio-level metrics—such as total balances subject to RLSAs, effective loss sharing rates, and associated revenues and losses—will enable more accurate and consistent adjustments of RLSA impacts in supervisory stress testing models. This approach promotes greater transparency, reduces inconsistencies stemming from diverse reporting treatment, and enhances the models’ ability to incorporate the economic and countercyclical characteristics of these arrangements, resulting in more macroeconomically sensitive and robust stress test outcomes.

Focusing on portfolio-level reporting standardizes submissions across firms with varying numbers and types of arrangements, mitigating errors and discrepancies that can arise from attempting to capture the complex and heterogeneous nature of individual contracts. While agreement-level data might theoretically improve precision, current supervisory objectives prioritize capturing the aggregate economic impact and stress sensitivity of RLSAs on credit losses and revenues. Portfolio-level data effectively present these key impacts and thus sufficiently inform stress test projections.

Moreover, portfolio-level data collection significantly reduces operational and compliance burdens on banks by aggregating information, simplifying reporting requirements without sacrificing supervisory insight. This level of detail allows the Federal Reserve to apply consistent and transparent modeling methodologies aligned with core supervisory principles of simplicity, consistency, and robustness. By avoiding unnecessary model complexity and opacity, portfolio-level reporting supports more interpretable and timely supervisory stress tests.

To support consistent reporting, the Federal Reserve should collect portfolio-level details through FR Y-14 reporting on a quarterly (or, where appropriate, annual) basis. While the underlying data can be produced monthly, monthly submission would introduce unnecessary volatility driven by partner payment timing and normal intra-quarter fluctuations, which can obscure underlying trends without improving supervisory insight. RLSA payments to partners occur on mixed cadences—most commonly monthly or quarterly—while individual gain-share constructs are typically annual. Accordingly, quarterly or annual reporting would provide a more stable and representative view of portfolio performance and would be sufficient for regulatory purposes.

If the Federal Reserve chooses to adopt Synchrony’s recommended approach to adjust RLSA within PPNR (Interest Income on Loans Model) – *Option 1*, above, that approach will require the following inputs, where Profit Sharing Amount and Revenue Sharing Amount would be added to yield Synchrony’s total RLSA payment:

Field Name	Report Reference
Profit Sharing Amount	FRB Proposed FR Y-14M, Schedule D3 Portfolio Level RLSA, Lines 16
Revenue Sharing Amount	FRB Proposed FR Y-14M, Schedule D3 Portfolio Level RLSA, Lines 17
Earnings before Taxes	FR Y-9C, Schedule HI, Line 8.c. (BHCK 4301)

Reserve Change	FR Y-9C, Schedule HI-B, Line 7 (BHCT 3123) minus Line 1 (BHCK B522) for YTD Reserve Change
Minimum RLSA Payment (percent of Loan Receivables)	SYF Proposal to add for FR Y-14A

If the Federal Reserve chooses to use Synchrony’s recommended approach to adjust RLSA within the Credit Risk Credit Card Model - *Option 2* above, the reporting elements “Month End Receivables Subject to Sharing”, “Profit Subject to Sharing”, and “Profit Share Amount” would be the most critical data fields to enable the Federal Reserve to recognize the benefits of RLSAs within the Credit Risk Model.

Field Name	Report Reference
Month End Receivables Subject to Sharing	FRB Proposed FR Y-14M, Schedule D3 Portfolio Level RLSA, Lines 5
Profit Subject to Sharing	FRB Proposed FR Y-14M, Schedule D3 Portfolio Level RLSA, Lines 13
Profit Share Amount	FRB Proposed FR Y-14M, Schedule D3 Portfolio Level RLSA, Lines 16

In conclusion, without adjusting for RLSAs, either in the PPNR or Credit Risk Credit Cards Model, the Federal Reserve stress test would not account for RLSA at all for institutions like Synchrony, causing the results to overestimate capital requirements for these institutions. By refining supervisory stress test models to capture the dynamic and contractual features of RLSAs, the Federal Reserve can ensure capital requirements reflect underlying economic risks and protections inherent in RLSAs.

Credit Card Model – Credit Risk

1. The Credit Cards Model should leverage a 180 Days Past Due (DPD) default definition.

The Federal Reserve’s model defines a bank card account as being in default if the account is five or more cycles past due (or if it is charged off), which translates into an account that is 120 days or more past due.⁹ While the Federal Reserve acknowledges a decline in data quality once accounts become seriously delinquent, it nonetheless relies on this data to justify the 120 days past due (“DPD”) default definition, citing that 98 percent of such accounts ultimately proceed to charge-off. However, this default definition is inconsistent with bank practices and results in downstream implications:

- a. Defining Default as 120 days or more past due is inconsistent with Federal Financial Institutions Examination Council (FFIEC) Uniform Retail Credit Classification and Account Management Policy¹⁰ definition, which notes that open-end retail loans that become past due 180 days from the contractual due date should be classified “Loss”

⁹ *Credit Risk – Credit Card Model documentation, at 384.*
¹⁰ See *Federal Financial Institutions Examination Council. Uniform Retail Credit Classification and Account Management Policy. June 12, 2000, <https://www.federalregister.gov/documents/2000/06/12/00-14704/uniform-retail-credit-classification-and-account-management-policy>.*

and charged off. Additionally, Synchrony and the majority of its peers use account policies that align with the FFIEC's 180 DPD loss recognition.

- b. The 120 DPD definition of default adds unnecessary complexity to the total expected loss calculation, requiring the Board to smooth losses on accounts already in 120 – 180 DPD status as of the forecast data over the forecast horizon. At the end of the forecast period, this definition also effectively overstates charge-offs as defaults are recognized 2 months earlier. There does not appear to be a mechanism for offsetting this doubled beginning and end of forecast default increase.
- c. The 120 DPD default definition is inconsistent with the Loss Given Default (LGD) assumption. The Board noted that its 90% estimate of LGD is based on historical information collected on FY Y-9C, Schedule HI-B,¹¹ which is based on a default definition of 180 DPD. Using a 120 DPD for Probability of Default (PD) but a 180 DPD for LGD causes a bias upwards, as the LGD is not moderated down to match the elevated PD. For Synchrony, approximately 7% of 120 DPD accounts cure and do not charge-off (with-in a year). A total of 20% of 120 DPD accounts do not roll directly to 180 DPD. Absent a cure rate modification, the LGD from the Board's model will overstate conditional losses for a 120 DPD PD estimate.
- d. Separately, we believe that the academic literature used as a basis for the 120 DPD selection does not provide sufficient support to move away from the DPD selection used across banks. The Sengupta-Wheeler paper only uses data from 2019-2021, which likely required a shorter default definition to maximize data usage. This data period is also atypically short for inference on stress testing models. And the Gross-Soules paper was published in 2002, analyzing credit trends in the 1990s. SYF believes the inferences and model frameworks at this time are not fully applicable to current modeling approaches.

Synchrony therefore recommends that the Federal Reserve align the supervisory definition of default and charge-off timing of open-end retail credit to 180 days past due.

2. The Credit Card Model Should Identify a Mechanism for Applying Voluntary Closure Status or Rates.

We have not identified an existing mechanism for applying voluntary closure status or rates within the Federal Reserve's model framework. Closure rates help moderate the total PD by lowering the survival probability, and thus the conditional PD. Most banks subject to supervisory stress tests will use PD and voluntary closure estimates as part of a competing hazard framework for a more complete forecast of account performance. Synchrony has estimated a monthly, average voluntary closure rate of 1.5% to 2.5%. Compounded over the 27-month forecast horizon, this rate can reduce survival probability by 33% ($1 - (1 - 0.015)^{27}$).

The Federal Reserve should consider using either a flat rate or model mechanism for including an estimate of voluntary closure in the forecast. This rate, whether assumption or

¹¹ *Credit Risk – Credit Card Model documentation at 445.*

modeled, would feed into the survival probability calculation and help moderate conditional PDs in the forecast period.

3. The Credit Card Model Should Recalibrate Interest and Fee Reversal Adjustments in Exposure at Default (EAD)

The Federal Reserve's Credit Card Model adjusts the Exposure at Default (EAD) by reducing the balance by a fixed 6% to account for delinquent interest and fee reversals. These reversals represent accrued interest and fees that are typically canceled ("reversed") when an account defaults and thus, the Federal Reserve contends, should not be counted as credit losses but rather accounted for in PPNR.¹² Synchrony finds this estimate to be overly conservative (i.e., too low of an exclusion), especially if the proposed 120 DPD default definition is maintained. Our internal analysis estimates an exclusion ratio of approximately 20%, ranging between monthly rates of 19% to 22% in 2025. Additionally, if the default threshold is raised from 120 DPD to 180 DPD as we recommend above, accrued interest would also rise before fees, which will also increase the amount needing reversal.

We recommend the Federal Reserve consider recalibrating this percentage in alignment with the default timing changes (from 120 to 180 DPD) and at a level commensurate with data from more credit card issuers.

4. The Federal Reserve Should Enhance the Credit Card Loss Given Default and Recovery Modeling Framework.

We appreciate the Federal Reserve's efforts to enhance credit risk modeling; however, we believe the current approach to estimating Loss Given Default (LGD) and recoveries in the Credit Card Model is overly conservative, particularly under stressed economic scenarios. The assumption of a fixed 10% recovery rate during stress periods understates actual recovery experience, as data from 2008 defaults suggest ranges of recovery from 13% to 20%. Additionally, the misalignment between the default threshold used in the PD Model (120 days past due) and the recovery definition (180 days past due) creates inconsistencies in estimating losses and recoveries.

To address these issues, we recommend the Federal Reserve update the LGD framework by incorporating firm-specific recovery dynamics, either through fixed effects or recovery channel segmentation, and recalibrate stress LGD assumptions based on recent trends. Furthermore, aligning default definitions across PD, EEAD, and LGD models, and expanding the PD Model to include additional customer behavioral attributes, will improve model accuracy and better reflect portfolio realities, particularly under evolving economic conditions.

* * *

As described in the subsections above, the Federal Reserve's Credit Card Model projects excessively high expected losses due to multiple layers of conservatism. A summary of the compounding impacts of these layers of conservatism is shown below:

¹² *Credit Risk – Credit Card Model documentation at 457.*

	PD	x	LGD	x	EAD	=	EL	
↑	Rapid charge-off of 120-180 DPD creates influx of defaults		↑	Use of 180 DPD LGD definition too high to apply against a 120 DPD PD.		↑	The 6% interest and fee exclusion is too low.	The cumulative effect of these five potentially material discrepancies has a compounded bias upwards on the expected loss estimates from the Federal Reserve's model compared to Synchrony's internal models.
↑	End of forecast loss pick-up on 120-180 DPD defaults creates influx of defaults							
↑	No competing hazard for inactive or voluntary closure to lower conditional PDs.							

Overall, to improve modeling accuracy and alignment with bank practices, Synchrony recommends adopting a 180-day default definition, incorporating mechanisms for voluntary closure rates, and recalibrating interest and fee reversal assumptions accordingly. Addressing these issues will enhance the reliability of credit loss projections and better reflect the true risk profile of credit card portfolios.

B. Aggregation Models

Retain Earnings Model for Deferred Tax Assets (DTAs)

1. The Federal Reserve Should Apply Regulatory Deduction Thresholds to DTAs from Timing Differences, With No Valuation Allowance Equation.

The Federal Reserve's current approach in the Retained Earnings Model for calculating deferred tax assets (DTAs) under stress projections is overly complex, inconsistent with existing regulatory capital rules, and risks producing variable and non-comparable results across firms. Simplifying the methodology by applying established regulatory deduction thresholds, with no valuation allowance, would improve consistency, comparability, and accuracy in stress test projections.

Under the Retained Earnings Model, the Federal Reserve would calculate pre-tax net income, and then subtract tax expense from (or add the impact of a tax benefit to) pre-tax income.¹³ The components of tax expense projections under stress would include quarterly: (1) taxes owed; (2) "changes in deferred tax assets that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances and net of deferred tax liabilities" ("DTAs from NOL"); (3) "change in deferred tax assets arising from temporary differences, net of deferred tax liabilities" ("DTAs from Timing"); and (4) change in valuation allowance.¹⁴

¹³ *Aggregation Model Documentation at 29.*

¹⁴ *Aggregation Model Documentation at 29.*

According to the Aggregation Model Documentation, the Federal Reserve aims to calculate tax expense “in a simple, consistent manner.”¹⁵ However, the Retained Earnings Model would determine the amount of DTAs able to be realized in a manner that unnecessarily introduces complexity into the model. The Federal Reserve should instead apply the thresholds used under the regulatory capital rules to determine whether DTAs are subject to deduction to simplify the model and to increase consistency and uniformity across firms.

The Federal Reserve uses the valuation allowance equation in its Retained Earnings Model to determine “whether a firm will have sufficient taxable income to realize its deferred tax assets from temporary differences.”¹⁶ The valuation allowance equation includes a four-quarter look forward, where DTAs are realizable only to the extent of projected taxes owed in that period.¹⁷ The valuation allowance is therefore “the gap between a firm’s stock of DTAs from Timing and the next four quarters of future taxes owed” and is recorded as a “contra-asset” against a firm’s DTAs, thereby reducing DTAs by the amount of the valuation allowance (*i.e.*, the amount of DTAs the firm is projected not to be able to realize) and increasing tax expense.¹⁸

DTAs may only be realized to the extent that there is taxable income they can offset. As the agencies have recognized, a bank will realize temporary difference DTAs over time by recognizing interest and fees (and the resulting taxable income) on the loans, including when borrowers repay their loans, which most borrowers do. Moreover, the capital rules are largely premised upon banking organizations as going concerns, not failed entities,¹⁹ and therefore the agencies’ concern that future taxable income would not exist against which DTAs could be used or realized should not be a driving consideration, particularly with respect to DTAs arising from timing differences.

Under the current regulatory capital rules, non-advanced approaches firms such as Synchrony must make deductions for certain designated items (including DTAs from Timing) that exceed 25 percent of CET1 capital.²⁰

Aligning the approach in the stress test to the approach used in determining non-stress capital requirements makes sense given firms continue as going concerns in the stress test. Therefore, DTAs should be taken into account in projected, stressed CET1 in the same manner in which they are taken into account for non-stress capital requirements. Not doing so ignores the

¹⁵ *Aggregation Model Documentation at 29.*

¹⁶ *Aggregation Model Documentation at 34–5.*

¹⁷ *Aggregation Model Documentation at 35.*

¹⁸ *Aggregation Model Documentation at 34–5.*

¹⁹ *82 Fed. Reg. 8,266, 8,267 (Jan. 24, 2017) (Federal Reserve stating that “regulatory capital requirements are intended to ensure that a banking organization has sufficient capital to remain a going concern”); Basel Committee on Banking Supervision, Basel III Definition of Capital, Definition of Eligible Capital, available at https://www.bis.org/basel_framework/chapter/CAP/10.htm?inforce=20191215&published=20200605 (June 5, 2020) (describing Tier 1 capital – the dominant form of capital and the type of capital from which temporary difference DTAs are applied – as “going-concern” capital).*

²⁰ *12 C.F.R. §§ 3.22(d)(1); 217.22(d)(1); 324.22(d)(1). Advanced approaches firms must deduct from CET1 the amount of any of a list of certain designated items (including DTAs from Timing) that individually exceeds 10% of CET1 capital. The aggregate of those items that do not exceed 10% of CET1 may not exceed 15% of CET1, and any amount above that threshold would also be deducted from CET1. 12 C.F.R. §§ 3.22(d)(2)(ii); 217.22(d)(2)(ii); 324.22(d)(2)(ii).*

tailoring principle of the capital framework, and results in an approach that is more punitive to non-advanced approaches firms. In addition, applying the thresholds to temporary difference DTAs in the stress test projections would be consistent with the Federal Reserve’s principles of consistency and comparability across firms.²¹ Calculating a look-forward valuation allowance would increase variability in the results and is unnecessarily complex.²² Eliminating the valuation allowance would also avoid debate over the length of the look forward period—as the Federal Reserve noted in the Aggregation Model Documentation, “a wide range of alternative look-ahead and look-behind specifications are possible.”²³ In addition, when the federal banking agencies adopted the 10% and 15% (25% for non-advance approach institutions) thresholds in connection with their implementation of Basel III, in response to commenters’ assertions that the thresholds were too “punitive,” the agencies acknowledged that this approach was “stricter” than the previous approach, which involved a one-year look-forward similar to the valuation allowance equation.²⁴ The Federal Reserve’s proposed approach essentially combines the Basel III framework (by applying numerator deductions) and Basel I framework (by applying a look-forward analysis) in a manner that is punitive, complex, a source of inconsistency across firms, and inconsistent with the current capital framework. Therefore, the Federal Reserve should eliminate the valuation allowance equation, and rely solely on the thresholds used in the regulatory capital rules.

C. PPNR Models

As a guiding principle in the evaluation of Pre-Provision Net Revenue (PPNR) models, it is essential that all modeling approaches adequately reflect material firm heterogeneity. Models that apply broad industry averages or uniform assumptions risk failing to represent the unique risk profiles, pricing constructs, and business economics of institutions like Synchrony. This especially holds true within the Credit Card business line, where firm-specific factors such as partner programs and underwriting strategies heavily influence profitability and stress outcomes. For Synchrony, in particular, the dynamics of its partner programs significantly influence expected outcomes under stress across multiple PPNR components. Therefore, it is recommended that the PPNR model integrate additional elements to capture these firm-specific impacts.

Interest Income Model

The Federal Reserve’s transition to structural models for Interest Income represents an improvement over previous regression-based approach. However, current model assumptions

²¹ *Stress Testing Policy Statement, 12 C.F.R., pt. 252, App. B.1 (2021). The Federal Reserve did not propose changing these principles in the Policy Statement. See Proposal at 51,859, 51,952-53.*

²² *The Federal Reserve acknowledges that “the impact of different DTA types depends on various factors, such as size, pre-tax net income stress path, and amortization and depreciation schedules.” Aggregation Model Documentation at 34. These differences would be exacerbated by applying a look forward valuation analysis.*

²³ *Aggregation Model Documentation at 37.*

²⁴ *Office of the Comptroller of the Currency and Federal Reserve, Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule, 78 Fed. Reg. 62,018, 62,069 (Oct. 11, 2013).*

and subsequent adjustments to the structural calculation output lack sufficient granularity to fully capture the distinct characteristics of Synchrony's results.

1. The Federal Reserve Should Calibrate the Variable Versus Fixed Rate Assumptions on a Firm-Specific Basis.

The Consumer Credit Card Interest Income on Loans model uniformly assumes that all credit card balances carry variable rates that reprice quarterly in line with projected base rate changes. This assumption is reportedly based on the premise that most credit cards have variable rates, with approximately 10 percent exhibiting short-term fixed rates²⁵. However, this assumption does not reflect Synchrony's pricing reality, as ~60%²⁶ of Synchrony's loan receivables are priced at a fixed-rate to our customer, again more representative of the economics of Private Label Credit Card portfolio.²⁷

To properly incorporate firm-level heterogeneity in pricing constructs, the Federal Reserve should consider calibrating the variable versus fixed rate assumption on a firm-specific basis. This is consistent with the Board's firm-level calibration of revolve rates. Although the 100 percent variable rate assumption may hold broadly across the industry, it is critical that revenue forecasts align with the actual pricing constructs and risk profiles of individual firms. The Board could leverage the FR Y-14M report submissions to derive a more accurate firm-level variable pricing assumption.

2. The Federal Reserve Should Replace Broad Industry Scalers With Firm-Specific Scalers.

Currently, data deficiencies prevent forecasting of Other Interest Income components. For Synchrony, material Interest Income elements not captured structurally include Late Fees, Merchant Discount, Interest and Fee Charge-offs, and Retailer Share Arrangements. The Federal Reserve's Interest Income Model compensates for these data deficiencies by including a structural forecast that applies an industry scaler by business line to reconcile calculated values with reported figures.²⁸

However, applying a credit card industry-wide scaler insufficiently accounts for firm-specific dynamics. In particular, Synchrony's pricing construct, risk profile, and partner relationship economics differ meaningfully from industry averages. For instance, the loss model may project losses exceeding the industry norm, due to Synchrony's revolving credit behavior and risk appetite; accordingly, a higher corresponding level of late fee revenue should be recognized. Additionally, an industry scaler neglects RLSAs and Merchant Discount Revenues (i.e., fees paid to Synchrony by partners to compensate for foregone interest associated with promotional financing) derived from partner relationships, which are significant drivers of Synchrony's business model.

²⁵ PPNR Model - Interest Income on Loans Model documentation - Credit Cards at 178 -184

²⁶ Synchrony's 2024 10K report at 53.

²⁷ Credit under a private label credit card is often extended pursuant to a promotional financing offer involving a reduced, often fixed, interest rate during a set promotional period. In almost all cases, we receive a merchant discount from our partners to compensate us for all or part of the foregone interest income associated with promotional financing.

²⁸ PPNR Model - Interest Income on Loans Model documentation - Credit Cards at 183-184.

The Federal Reserve should therefore apply a firm-specific scaler to bridge the gap between calculated and reported interest income, capturing each bank's unique business characteristics and revenue streams.

Non-Interest Expense Model

Currently, the Federal Reserve's Non-Interest Expense Model synthesizes firm-submitted and Board internal projections to estimate total noninterest expenses, excluding operational risk. The model derives stress efficiency ratio paths, controlled for variation in the mix of the bank's business activities, which are then applied to projected revenue to derive Non-Interest Expense.²⁹ This approach results in the application of industry-wide (normalized for business line) efficiency ratios to yield individual firm forecasted Non-Interest Expenses.

This methodology fails to adequately capture bank-specific cost structures and business models as reflected at the starting point. Even within the same business line, banks differ in their fee and benefit structure, resulting in materially different expense bases. Moreover, the approach does not fully account for the economics of Synchrony's retail partnerships and private label credit products.

1. The Federal Reserve Should Apply Firm-Specific Efficiency Ratios for Non-Interest Expenses

Within the Credit Card Loan business line, efficiency ratios can vary substantially based on a firm's economics. Applying industry-average efficiency measures to firms like Synchrony, which exhibits a distinct profitability profile, risks materially misrepresenting capital requirements as informed by stress testing. For example, Synchrony's lower rewards and card benefit expenses contribute to a notably lower efficiency ratio. These reduced expenses allow Synchrony to continue to lend to borrowers that may exhibit higher charge-off rates in the stress test. Thus, it would be inconsistent to reflect firm-specific losses while applying industry-level operational expense assumptions.

Additionally, Synchrony's RLSAs positively influence its efficiency ratio by aligning bank and retailer incentives to optimize portfolio performance through collaborative marketing and customer engagement. Such partnerships result in substantially lower marketing expenses compared to other credit card portfolios, as evidenced by Synchrony's historically lower efficiency ratio.

To better capture these firm-specific factors, Synchrony proposes two adjustment alternatives:

Option 1: Apply Firm-Specific Efficiency Ratios

Continue to leverage the Federal Reserve's 2026 proposed approach but apply a firm-specific adjustment grounded in the bank's starting point efficiency ratio (or longer-term historical average) relative to the industry average based on reported results. For example, if a firm's

²⁹ PPNR Model – Noninterest Expense Model at 246-250.

efficiency ratio is 200 basis points lower than the industry average, it should remain ~200 basis points lower throughout the projection period.

Option 2: Maintain Non-Interest Expenses Flat to the Jump-off Point

Assume Non-Interest Expense remains flat at each institution's starting point level (or longer-term historical average). This straightforward approach can be consistently implemented across institutions and aligns with the assumption that the business balance sheet does not contract under stress.

In conclusion, a one-size-fits-all modeling approach risks misrepresenting the financial realities of institutions like Synchrony, with materially distinct pricing structures, risk appetites, revenue sources, and expense profiles. To produce accurate, fair, and economically meaningful supervisory stress test results, the Federal Reserve should implement firm-level calibrations across key PPNR components, including both interest income and non-interest expense. These refinements will enhance model sensitivity across the board and will reflect Bank's unique business economics and improve the overall robustness of supervisory capital assessments.

D. Operational Risk Model

The Federal Reserve's operational risk stress model aims to project potential losses during economic stress but faces inherent challenges in realistically capturing complex risk dynamics. Although the model incorporates several design assumptions to ensure simplicity and comparability, these assumptions—many acknowledged in the Federal Reserve's own documentation—limit its ability to reflect actual loss experiences accurately. Key limitations include the exclusion of recoveries that mitigate losses, reliance on simple asset-based scaling rather than more nuanced bank-specific characteristics, and aggregation of losses across event types without accounting for dependencies or the unique patterns of different loss categories and business lines.

These modeling choices can lead to operational risk loss estimates that are overly cautious—often substantially surpassing actual losses observed during both severe stress periods and stable economic environments.

1. The Operational Risk Model Should be Enhanced Through Business Model Segmentation to Reflect Firm-Specific Risk Profiles.

The current Federal Reserve modeling approach, which treats all firms identically by using pooled industry event loss data, does not capture the unique risk profile of firms like Synchrony. Not accounting for product or business model differences results in distortions that could understate or misrepresent operational risk for certain types of firms.

The Federal Reserve methodology to estimate operational risk losses under stress uses industry-wide loss data categorized by event types, but Synchrony's operational loss distribution significantly differs from the industry's distribution, particularly with Synchrony experiencing mostly External Fraud losses versus the industry's high proportion of losses emanating from Clients, Products, and Business Practices (CPBP).

The table below illustrates the Federal Reserve industry reported operational loss data³⁰ categorized by event type, and Synchrony’s distribution of losses for the same event types.

Event Type	Industry reported % of Total Losses	Synchrony’s* % of Total Losses
Clients, Products, and Business Practices (CPBP)	72.5	7.2
Execution, Delivery, and Process Management (EDPM)	14.8	4.1
External Fraud (EF)	4.9	88.4
Employment Practices and Worker Safety (EPWS)	3.0	~ 0
Internal Fraud (IF)	2.3	
Business Disruption and System Failures (BDSF)	1.3	
Damage to Physical Assets (DPA)	1.2	

* Data based on average of 2023 and 2024 distributions

For Synchrony, the above distribution of losses by event type is very different than the industry-wide distribution, as most of its operational risk losses emanate from External Fraud with a small percentage from CPBP, EDPM and other categories. These data confirm that firms like Synchrony that specialize mainly in credit card products and other forms of consumer credit have different operational risk profiles than firms that have different portfolios (e.g., mortgages and commercial loans).

The discrepancy in loss type distribution between Synchrony and the broader industry dataset has unintended consequences on the Federal Reserve operational risk modeling framework, which blends firm-specific and industry parameters equally and relies on industry data for event draws in simulations. Specifically, two aspects of the methodology could have an outsized role in favor of industry distribution:

- i) In the Tail Loss Event modeling process, the Federal Reserve calculates the frequency parameter ($\lambda_{j,e}^{tail}$) for each loss category by averaging the firm-specific parameter with the industry parameter on an equal (50-50) basis. This combined parameter is then utilized within a Poisson distribution to determine the number of tail loss events (“m”) in each Monte Carlo simulation. This averaging can dilute Synchrony’s actual risk profile due to its concentration in external fraud losses.
- ii) During the Monte Carlo simulations, the selection of tail loss events (“m” draws) is based exclusively on the pool of tail events derived from the industry data. This could introduce bias or misrepresent Synchrony’s risk exposure.

Given the substantial variance between Synchrony’s loss distribution — which is predominantly driven by External Fraud — and that of the overall industry, reliance on aggregated industry data raises material concerns regarding the accuracy and appropriateness of the model outputs for Synchrony. While the industry dataset captures a broad range of firms and thus reflects heterogeneity, it does not appear to sufficiently represent the operational loss experience of credit card-focused institutions. Furthermore, even though modeling is conducted separately for each loss type, the nature and severity of losses within these categories can differ materially depending on the firm’s primary business line, such as credit card issuers compared to mortgage lenders or foreign banks operating under distinct structural contexts.

³⁰ Operational Risk - Operational Risk Model Documentation at 10.

To address the challenges arising from differences in loss distributions between Synchrony and the broader industry, we propose that the Federal Reserve implement a segmentation approach in its operational risk modeling. Specifically, banks should be grouped according to their primary business models or product offerings. For instance, Synchrony would be categorized alongside other institutions that predominantly offer consumer credit products, while separate groups could be established for foreign banks, firms with a diversified suite of commercial and other lending products, and other business models.

By allowing parameters and event pools that better represent each group's risk, this targeted segmentation approach would enable the Board's modeling framework to capture the distinct operational risk profiles and loss patterns inherent to each group, thereby enhancing the precision and relevance of stress test loss estimates for institutions with differing business focuses.

Part II: Other Comments Related to Enhanced Transparency and Public Accountability

1. The Federal Reserve Should Retain the December 31 Jump-Off Date.

This proposal would move the jump-off date for the supervisory and company-run stress tests from December 31 to September 30. For a category IV bank, maintaining December 31 as the stress testing jump-off date ensures the use of finalized, reliable, and timely data; aligns stress testing with regulatory and internal business cycles; reduces operational burdens; and produces stress test projections that are consistent with how the bank plans and manages its capital and strategy. Moving the date forward to September 30 would introduce data staleness, estimation uncertainty, and operational inefficiencies, thereby reducing the overall effectiveness of the stress testing process.

- December 31 aligns with the fiscal year-end, so the financial and regulatory data used for stress testing is final, not estimated. Items like taxes, discretionary compensation, and other accruals are finalized at year-end, whereas intermediate periods like September 30 rely heavily on estimates and interim figures which introduce variability and uncertainty into the stress test projections.
- Using December 31 as the jump-off date ensures stress tests incorporate the most current and relevant data. Moving the date to September 30 would mean the stress capital buffer becomes based on data that is one quarter older (i.e., staler), reducing the reliability and timeliness of the stress test results.
- December 31 coincides with the year-end reporting dates used for regulatory filings (such as the FR Y-9C) and financial statements for most firms. This alignment facilitates consistency and comparability in the data used for stress testing.
- Banks have established capital planning, budgeting, governance, and strategic planning processes structured around the year-end date. These processes culminate in finalized strategic plans that are implemented starting January 1. If the jump-off date moved to September 30, banks would have to manage two separate processes: One based on the September 30 data for regulatory stress testing (which uses staler data and occurs before

the strategic plans are finalized), another process based on December 31 year-end data for internal business and financial planning. This duplication increases operational complexity, cost, and risk of misalignment between regulatory stress test results and management’s business strategy.

We understand that the Federal Reserve’s motivation for proposing a September 30 jump-off date is to prevent firms from “gaming” the stress tests by changing their portfolios following the publication of proposed scenarios. To address this concern, we recommend that the Federal Reserve publish proposed scenarios shortly before the December 31 jump-off date (e.g., by December 15), with a 15-day comment period and final scenarios published in early February, which would allow the Federal Reserve to retain more of the current framework (including an early-April capital plan due date) while avoiding unnecessary disruption to the stress test cycle. We do not believe firms could materially change their portfolios during a 15-day window.

2. The Federal Reserve Should Extend the SCB Reconsideration Process Timeline.

Currently, the Federal Reserve permits banks only 15 calendar days following receipt of their preliminary SCB notice to submit a reconsideration request. The request process requires banks to provide extensive and detailed explanations justifying reconsideration, often including in-depth analysis of complex data and potential errors in projections or supervisory assumptions. The existing 15-day timeframe is insufficient to conduct the thorough review and validation necessary to develop a fully substantiated request.

Extending the reconsideration window to at least 30 calendar days would significantly enhance the quality and effectiveness of the review process. Importantly, this extended period should commence only after the Federal Reserve has delivered all enhanced disclosure materials, including firm-specific data. This adjustment would provide banks with the necessary time to comprehensively verify results, critically assess whether a reconsideration request is warranted, and prepare well-founded submissions.

The benefits of such an extension are substantial: a longer timeline supports more accurate and robust challenge of preliminary SCB determinations, reduces the risk of oversight or error, promotes greater transparency and dialogue between regulators and banks, and ultimately strengthens the integrity and credibility of the SCB framework. By affording firms adequate time to engage meaningfully in the reconsideration process, regulators can enhance confidence in the supervisory capital standards and more effectively capture nuanced risk profiles.

3. The Federal Reserve Should Formally Adopt an Overlay Process.

The current Stress Testing Policy statement provides that “The Federal Reserve does not make firm-specific overlays to model results used in the supervisory stress test. This policy ensures that the supervisory stress test results are determined solely by the industry-level supervisory models and by firm-specific input data.”³¹ The proposal would not amend this aspect

³¹ 12 C.F.R. Part 252, Appendix B, § 2.8.

of the Stress Testing Policy Statement. The Federal Reserve has, however, indicated that it does occasionally use overlays to firm results.

Under certain circumstances, the application of overlays may be appropriate, and therefore, the Federal Reserve should retain the necessary flexibility to implement overlays when warranted. The overlay process would serve as an important complement to existing models by addressing data limitations, methodological gaps, and emerging risk considerations that may not be fully captured—especially for smaller, less complex institutions like ours. We view this enhancement as consistent with the principles embodied in the Federal Reserve’s Tailoring Rule, which seeks to calibrate supervisory expectations according to institution size and complexity.

Stress testing models currently reflect strong industry-level methodologies but may insufficiently capture the risk profile of Category IV institutions due to data gaps or model design focused on larger banks. An overlay process enables the Federal Reserve to utilize calibrated supervisory judgment to ensure results appropriately reflect firm-specific risk exposures without imposing undue burden or distortion.

We believe that formalizing an overlay process within the Federal Reserve’s stress testing framework represents a balanced and necessary evolution that enhances the accuracy, transparency, and fairness of supervisory outcomes.

4. The Federal Reserve Should Aim for a ‘Holistic’ Capital Framework.

The Federal Reserve should address overlaps between stress testing and Basel III endgame standards to ensure the entire capital framework works as a cohesive system.

The current capital framework is overly conservative. Some redundancies would be intensified by the Basel III endgame package, which will lead to excessive capital requirements. Operational Risk will be capitalized twice: once through the RWA calculations of the Basel III endgame and again through loss projections in regulatory stress tests. The proposed Basel III endgame package would require that operational risk be calculated using a standardized approach based on historical operational losses. At the same time, the Federal Reserve’s stress test models project PPNR (income), which already accounts for historical operational-risk events. Similar overlaps exist for DTAs that arise from temporary differences. The capital rules further limit the recognition of DTAs in regulatory capital, treating them less favorably, and applying high risk weights (like 250%) to them, effectively increasing the capital charge. Then, in stress scenarios, regulators assume banks might struggle to generate future taxable income, making DTAs less likely to be used, thus requiring a larger valuation allowance and reducing capital. The combination of these rules results in excessive capital charges because the capital rules and stress test framework apply punitive adjustments in two different ways that are not harmonized with each other.

The regulatory framework should have tailoring that reflects actual risk profiles, avoiding a one-size-fits-all approach. The recently disclosed FRB Stress Test models use in many cases a "one-size-fits-all" approach that can lead to distortions in the market by disproportionately penalizing smaller institutions or by failing to capture the unique risks of larger, more complex ones. Proportionality avoids imposing the same burden on all institutions. For example, and as described above, stress testing parameters based on industry averages can disproportionately

affect Synchrony. As described above, we have proposed to introduce scaling and segmentation based on banks' risk profiles, assets or business lines to address this issue.

Conclusion

In closing, Synchrony appreciates the Federal Reserve's meaningful efforts to improve supervisory stress testing model consistency, transparency, and public accountability, as well as the Federal Reserve's demonstrated willingness to listen to and incorporate stakeholder feedback. The proposed updates to the stress test framework present important opportunities to improve the accuracy, consistency, and fairness of capital assessments across diverse banking organizations.

We are committed to working collaboratively with the Federal Reserve to support the implementation of these enhancements and help ensure the supervisory stress testing framework is robust, transparent, and reflective of the economic realities faced by banks of all sizes. We respectfully urge the Federal Reserve to consider these comments as it finalizes the rule and accompanying models, so that the resulting framework is both rigorous and appropriately risk-sensitive for Category IV institutions like Synchrony.

If you have any questions, please contact Karl Kaufmann, Senior Vice President, Chief Banking & Regulatory Counsel, at karl.kaufmann@syf.com.

Respectfully Submitted,

A handwritten signature in black ink that reads "Brian Wenzel Sr." The signature is written in a cursive style with a large initial "B" and "W".

Brian Wenzel
EVP & Chief Financial Officer
Synchrony Financial