



9800 Fredericksburg Road  
San Antonio, Texas 78288

May 16, 2011

**VIA ELECTRONIC SUBMISSION**

Gary A. Kuiper  
Counsel  
Attn: Comments, Room F-1086  
Federal Deposit Insurance Corporation  
550 17th Street, N.W.  
Washington, DC 20429

**Re: Consolidated Reports of Condition and Income, 3064-0052**

Dear Mr. Kuiper:

USAA appreciates the opportunity to comment on the Proposed Agency Information Collection Activities, Comment Request, which proposes revising certain reporting forms, including the Consolidated Reports of Condition and Income (Call Report) for banks and the Thrift Financial Report (TFR) for savings associations (the Proposed Reporting Revisions Rule).

USAA is a member-owned association. Our members include present and former commissioned and noncommissioned officers, enlisted personnel, retired military, and their families. Since its inception in 1922 by a group of U.S. Army officers, USAA pursues a mission of facilitating the financial security of its members and their families by providing a full range of highly competitive financial products and services, including insurance, retail banking and investment products. Our core values of service, honesty, loyalty and integrity have enabled us to perform consistently and be a source of stability for our members, even in the midst of the unprecedented financial crisis of recent years.

We believe that several aspects of the Proposed Reporting Revisions Rule could harm consumers in general, and, as most relevant to USAA, its members – the U.S. military community. In addition to the threshold industry concern of being able to assess loans on each of the criteria set forth in the definition of “subprime consumer loan,” we are particularly concerned about the use of the “subprime consumer loan” definition in its current state for purposes beyond the Proposed Reporting Revisions Rule in the future. The term’s evolution from industry guidance that included the use of a credit bureau risk score among a list an institution may consider, to rulemaking including a list an institution must consider that excluded use of a credit bureau risk score, to now a reporting rule requiring institutions to assess data on each required criteria except the one principally used – the credit bureau risk score, is very troubling. Should this problematic definition find its way into regulatory safety and soundness assessments, many creditworthy individuals would be classified as subprime borrowers. As a consequence, there could be less credit available to them as depository institutions would have to adjust their lending accordingly.

### **Deposit Insurance Assessment Rule**

As required by Section 331(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Federal Deposit Insurance Corporation (the FDIC) recently amended its regulations to redefine the assessment base used for calculating deposit insurance assessments for all large insured depository institutions (generally, institutions with at least \$10 billion in assets). As a part of these amendments, the FDIC initially proposed to define “subprime consumer loan” to include:

loans made to borrowers that display one or more of the following credit risk characteristics (excluding subprime loans that are previously included as nontraditional mortgage loans):

- Two or more 30-day delinquencies in the last 12 months, or one or more 60-day delinquencies in the last 24 months;
- Judgment, foreclosure, repossession, or charge-off in the prior 24 months;
- Bankruptcy in the last 5 years;
- **Credit bureau risk score (FICO) of 660 or below (depending on the product/collateral), or other bureau or proprietary scores with an equivalent default probability likelihood;** and/or
- Debt service-to-income ratio of 50 percent or greater, or otherwise limited ability to cover family living expenses after deducting total monthly debt-service requirements from monthly income.

Subprime loans also include loans identified by an insured depository institution as subprime loans based upon similar borrower characteristics and securitizations where more than 50 percent of assets backing the securitization meet one or more of the preceding criteria for subprime loans, excluding those securities classified as trading book.<sup>1</sup>

The final deposit insurance assessment rule, however, eliminated the FICO score characteristic from this list, which was significant for USAA and most other large depository institutions as it further removed the use of credit bureau risk scores as a primary determinant of “subprime” categorization.

The Proposed Reporting Revisions Rule would require changes to Call Reports and TFRs to support the redefined deposit insurance assessment base and revised risk-based assessment system for large institutions. This proposed rule would incorporate the definition of “subprime consumer loan” discussed above. Our reading of this definition would require classification of all consumer loans as subprime consumer loans for reporting purposes if the borrower exhibits any of the characteristics outlined above, a dramatic change from previous guidance with criteria an institution may consider.

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<sup>1</sup> *Assessments, Large Bank Pricing; Proposed Rule*, 75 Fed. Reg. 72612, 72649 (Nov. 24, 2010) (emphasis added).

### **Proposal's Negative Impact on Consumers**

USAA is concerned that the definition of "subprime consumer loan" for reporting purposes as set forth in the Proposed Reporting Revisions Rule will affect the definition of the same term in other contexts, including in regulatory reviews of an institution's safety and soundness. If this untested definition is adopted for such purposes, the result will likely be a significant increase in assets classified as subprime and a consequential significant impact on capital requirements. Credit availability in general will decrease both because less capital is available for lending and because USAA, like many other lending institutions, has in place restrictions on the amount of subprime lending on our balance sheet. One of the many further consequences of this reduction of the pool of borrowers who qualify for conventional lending will be a negative impact on the already weak housing market.

Based on our review and comparison of the performance of our own consumer loans, we believe the factors considered potential characteristics of a subprime borrower for purposes of the Proposed Reporting Revisions Rule are subjective in nature and are not effective in predicting the likelihood that a loan will perform well. Thus, a definition of "subprime consumer loan" tied to these factors will not only harm consumers, but also will not accomplish the FDIC's stated purposes of predicting a large institution's long-term performance or capturing the risk inherent in its portfolio.

### **Request**

We urge the FDIC to reconsider the definition of "subprime consumer loan" for purposes of the Proposed Reporting Revisions Rule. In particular, we strongly recommend that large institutions be permitted to include FICO scores and/or internal credit ratings, including ratings based on an empirically derived credit scoring system, as a potential characteristic of a subprime borrower. The FDIC should clarify that the inclusion of "loans identified by an insured depository institution as subprime loans based upon similar borrower characteristics" also permits institutions to use FICO scores and/or internal ratings in lieu of the expressed criteria to classify loans as subprime consumer loans for reporting purposes. Such credit ratings far more accurately reflect the credit risk characteristics that correspond with subprime loans than many of the characteristics included in the current proposed definition of "subprime consumer loan." Permitting use of credit bureau risk scores in lieu of the stated criteria also would relieve the industry of expensive, time consuming process and system changes.

Alternatively, the FDIC should delay the change in the definition of "subprime consumer loan" for at least one year during which time large institutions should be permitted to report a proxy for subprime loans based on internal credit ratings. Due to the considerable time, effort, and expense required to alter our information systems, the collection of this information would be a large burden on USAA and the industry, and may be unachievable for the June 30 regulatory reports.

In any event, the FDIC should recognize in future rulemakings the benefits of using credit bureau risk scores as the primary determinant in categorizing a loan as "subprime." The definition contained in the proposal does not do that, and any future rulemaking affecting safety and soundness should not use that definition for the reasons described above.

Mr. Gary A. Kuiper

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We appreciate the opportunity to provide comments with respect to the Proposed Reporting Revisions Rule. If you have any questions regarding our comments, please do not hesitate to contact the Bank's General Counsel, Deneen Donnley at (210) 456-3430.

Sincerely,

A handwritten signature in blue ink that reads "Steven Alan Bennett". The signature is written in a cursive style with a prominent initial "S" and "B".

Steven Alan Bennett  
Executive Vice President  
General Counsel & Corporate Secretary