



USAA FEDERAL SAVINGS BANK
FDIC Resolution Plan

PUBLIC SECTION

USAA Mission Statement

The mission of the association is to facilitate the financial security of its members, associates, and their families through provision of a full range of highly competitive financial products and services; in so doing, USAA seeks to be the provider of choice for the military community.

USAA Core Values

USAA's core values of Service, Loyalty, Honesty, and Integrity are the foundation upon which the association's heritage is based, and upon which its future depends. Each and every USAA employee is expected to embody these core values.

USAA Signature

We Know What It Means To Serve has long been USAA's signature. Every day, USAA's employees come to work for one reason, to serve members. Our signature is a reminder that we know what it means to serve like no one else.

Balanced Approach to Managing USAA

In executing its mission, USAA must continually achieve the optimal balance between members' needs for high-quality, competitive products and services, the well-being of employees, and the ongoing financial strength of USAA. Operational excellence forms the foundation for this balance.





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I. Executive Summary of Resolution Plan

On January 23, 2012, the Federal Deposit Insurance Corporation (FDIC) adopted a final rule requiring insured depository institutions (IDIs) with at least \$50 billion in total assets -- Covered Insured Depository Institutions (CIDIs) -- to submit to the FDIC periodic plans for the hypothetical resolution of such institutions in the event of their failure (Resolution Plans or Plans). In accordance with the FDIC's final rule, USAA Federal Savings Bank (FSB or Bank), a Federal savings association with more than \$50 billion in assets, is submitting this Resolution Plan to the FDIC before July 1, 2018. This Resolution Plan describes how FSB could be resolved in a manner that ensures depositors receive timely access to their insured deposits, maximizes the net present value return from the sale or disposition of FSB's assets, minimizes the amount of any potential losses to the Deposit Insurance Fund (DIF) and FSB's creditors, and proposes resolution strategies intended to provide the FDIC with multiple options to resolve FSB in the most cost-effective, timely, and least complex manner.

The principal mission of United Services Automobile Association (USAA), FSB's ultimate parent, is to provide directly and through FSB and its other affiliates for the financial security of its members, who include those currently serving in the United States military, or who have honorably served in the past, and their eligible family members. FSB is a wholly-owned subsidiary of USAA Capital Corporation (CapCo), which in turn is a wholly-owned subsidiary of USAA.

FSB is a full-service retail bank that offers credit cards (through its subsidiary, USAA Savings Bank (USB)), consumer loans, home equity loans, residential mortgages, trust services, USAA BillPay, and a full range of deposit products, including sweep accounts in conjunction with USAA Investment Management Company (IMCO).

Headquartered in San Antonio, Texas, FSB operates primarily via electronic commerce through www.usaa.com, mobile banking, and direct mail. Members with Internet access are provided account information, funds transfer, product information, account applications, electronic statements for checking, savings and credit cards, pre-approvals for credit cards, consumer loans, residential mortgages, home equity loan products, and BillPay. FSB also utilizes mobile deposit capture to provide additional services to customers.

Operating as a Federal savings association with \$80.5 billion in assets and over 17.8 million client accounts, FSB's primary source of funds is its retail deposit base. Rather than a reliance on purchased funds, FSB serves as a net funds provider to the banking system (i.e., it is a seller of Fed Funds).

A. Description of Material Entities¹

Material Entities (MEs) were determined based on their functions with respect to FSB and their significance to the activities of the Core Business Lines (CBLs) of FSB. Below is a description of each ME and their importance to how FSB functions.

United Services Automobile Association (USAA)

Founded in 1922, USAA is a Texas-based reciprocal insurance company, headquartered in San Antonio, Texas, that directly offers property and casualty (P&C) insurance, life and health insurance products to members who are, or are family members of, current or retired members of the U.S. armed services. Through its subsidiaries, USAA offers other financial products and related services to its members such as annuities, mutual funds, discount brokerage services, credit cards, deposit and savings accounts, consumer and home equity loans, mortgage and relocation services, financial planning and advice, catalogue merchandise and member discounts. As of December 31, 2017, USAA serves more than 12.4 million members. As an insurance company, USAA is subject to the supervision and regulation of the Texas Department of Insurance.

USAA Capital Corporation (CapCo)

A Delaware corporation organized in 1985, CapCo is a direct wholly-owned subsidiary of USAA. Through its other direct and indirect wholly-owned non-insurance subsidiaries, CapCo engages in various business activities including investment management and financial planning services that are intended to complement USAA's insurance offerings. In addition to its holding company operations, CapCo serves as a general purpose finance subsidiary for USAA.

USAA Federal Savings Bank (FSB)

FSB is an FDIC-insured Federal savings bank depository institution subject to primary regulation and supervision examination by the Office of the Comptroller of the Currency (OCC). FSB provides banking products and services including credit cards (through its operating subsidiary, USAA Savings Bank), consumer loans, home equity loans, mortgages, real estate brokerage services, trust services, checking, savings and time deposits. FSB is also subject to regulation by the Consumer Financial Protection Bureau and is a member of the Federal Home Loan Bank System.

¹ Material Entities as of December 31, 2014.



USAA Savings Bank (USB)

USB is an FDIC-insured Nevada industrial loan company that is a direct, wholly-owned subsidiary of FSB. USB's primary regulators are the FDIC and the State of Nevada Department of Business and Industry's Division of Financial Institutions. USB is engaged in credit card lending and related activities.

USAA Investment Corporation (IMCO)

IMCO is registered with the Securities Exchange Commission (SEC) as a broker-dealer and as an investment advisor. Also a member of the Financial Industry Regulatory Authority (FINRA), IMCO acts as a distributor of USAA's mutual funds and as a clearing broker-dealer.

USAA Financial Planning Services Insurance Agency (MX)

MX functions as the relationship management center for FSB, USB, and the P&C insurance, investments, and life insurance products of USAA. By leveraging its highly integrated call centers, digital channels, marketing, and financial centers, MX serves as the centralized shared services provider for USAA's entities while also providing financial planning services to USAA members.



B. Description of Core Business Lines

FSB’s Core Business Lines (CBLs) are those businesses that under the FDIC’s rule represent the key business activities of FSB and reflect those assets, associated operations, services and functions that, in the view of FSB, upon failure would result in a material loss of revenue, profit, or franchise value. FSB management has identified the following CBLs:

Credit Cards	Lines of credit made available via card products, including rewards programs and special military benefits.
Mortgages	Lending and refinancing products available to members where the loan is secured by real estate. Loan options include conventional fixed-rate, adjustable, and Veterans Affairs (VA).
Checking Deposits	The offering and management of transaction accounts, including check, debit card, ATM, and online services on behalf of members.
Savings Deposits	The offering and management of savings accounts, including debit card, ATM, and online services on behalf of members.
Consumer Loans	Lending products available to members where the loan is generally secured by automobile or other property and unsecured personal loans.
Home Equity Loans	Loans and lines of credit available to members where the loan is secured by residential real estate.



C. Consolidated Financial Information Regarding Assets, Liabilities, and Capital and Major Funding Sources

The following attachments: (i) USAA FSB Balance Sheet and (ii) USAA FSB Income Statement summarize the assets, liabilities, and capital position for FSB as of December 31, 2017. These attachments immediately follow page 21.

1. Regulatory Capital

As of December 31, 2017, FSB reported tier 1 and total risk-based capital ratios of 14.1% and 15.4% respectively, and a leverage ratio of 9.2%; all above the minimum regulatory requirements to be considered well-capitalized.

FSB Capital Levels and Requirements

<i>As of December 31, 2017</i>	<i>Actual</i>		<i>Minimum for Capital Adequacy Purposes</i>		<i>To be Well-Capitalized under Prompt Corrective</i>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Tier 1 leverage capital, and ratio to average total assets	\$7,131,272	9.2%	\$3,092,516	4.0%	\$3,865,645	5.0%
Common Equity Tier 1 and ratio to risk-weighted	\$6,856,272	13.6%	\$2,276,014	4.5%	\$3,287,576	6.5%
Tier 1 risk-based capital, and ratio to risk-weighted	\$7,131,272	14.1%	\$3,034,685	6.0%	\$4,046,247	8.0%
Total risk-based capital, and ratio to risk-weighted	\$7,766,723	15.4%	\$4,046,247	8.0%	\$5,057,809	10.0%
<i>As of December 31, 2016</i>						
Tier 1 leverage capital, and ratio to average total assets ratio to adjusted total assets	\$6,687,502	8.9%	\$2,994,973	4.0%	\$3,743,716	5.0%
Common equity Tier 1, and ratio to risk-weighted	\$6,412,502	12.9%	\$2,237,000	4.5%	\$3,231,223	6.5%
Tier 1 risk-based capital, and ratio to risk-weighted	\$6,687,502	13.5%	\$2,982,667	6.0%	\$3,976,889	8.0%
Total risk-based capital, and ratio to risk-weighted	\$7,312,055	14.7%	\$3,976,889	8.0%	\$4,971,112	10.0%

2. Liquidity and Major Funding Sources

Liquidity levels are maintained to ensure FSB's safety and soundness and provide an adequate base for growth and expansion. Liquidity risk management strategies are performed by both Treasury and FSB's Senior Financial Officer department to assure (1) FSB's ability to generate or obtain cash or cash equivalents (collateral) in a timely, cost- efficient manner so that obligations can be met as they fall due; and (2) that profitable business opportunities can be pursued through stressed market environments for an extended period of time without liquidating assets prematurely.

To stay apprised of the Bank's liquidity position, Treasury and the Bank's SFO department monitor cash flows in combination with other financial and non-financial information at the Bank. Non-financial information utilized as early warning indicators of a potential liquidity event include member feedback and media coverage of USAA. Treasury also evaluates systemic and/or idiosyncratic events when they occur that could lead to liquidity positions outside Board/Committee-approved risk triggers or policy thresholds.

FSB relies on core deposits as its primary sources of funds. Funds generated from deposits are used to support loans and investments with the remainder held as cash and cash equivalents. Cash and cash equivalents are available to meet any immediate liquidity needs.

Additional Funding Sources Available

FSB was highly liquid at year-end 2017; additional sources of funds in a business as usual environment include, but are not limited to the following:

- Cash & Short-term Investments: cash, money market funds and securities with maturities less than 90 days at time of purchase.
- The Federal Home Loan Bank of Dallas (FHLB Dallas): a contractual relationship maintained with the FHLB Dallas allows FSB to borrow against the value of certain investment securities and mortgage loans in first lien position.
- Investment Portfolio Liquidation: sale of unencumbered investment securities.
- Asset Securitization: collateralized borrowing primarily against FSB's auto and credit card loan portfolios. Primary investor base of asset backed securities includes large investment and pension funds, insurance companies, and banks.
- Commercial Paper and Medium-Term Note Debt Issuance: USAA Capital Corporation, which serves as a centralized funding source for USAA, its subsidiaries and affiliates, maintains access to funds through established programs and revolving committed lines of credit with money center banks.
- Federal Reserve Discount Window: FSB is approved to borrow from the Federal Reserve Bank of Dallas (FRB Dallas) using its consumer loans and credit card receivables purchased from USB as collateral. USB is approved to borrow against approved securities at the Federal Reserve Bank of San Francisco (FRB San Francisco).



FSB also has a borrower-in-custody (BIC) arrangement with the Federal Reserve Bank of Dallas. This capacity is limited only to the acceptable collateral (loan receivables) that FSB is able to pledge. Currently, FSB has pledged only nominal amounts under each facility for testing purposes. FSB also has Daylight Overdraft (DLOD) capacity at the Federal Reserve Bank of Dallas and the Federal Reserve Bank of San Francisco. FSB follows the de minimis capital methodology for its master account with the Federal Reserve Bank of Dallas.

D. Description of Derivative Activities and Hedging Activities

Derivative transactions are evaluated against the risks they are expected to mitigate. The derivative transaction itself should not increase FSB's overall risk without a commensurate increase in return/cost reduction. Other risks associated with derivatives (e.g., market, liquidity, credit, legal, etc.) are evaluated to determine if the benefits outweigh these risks. Prohibited derivative transactions include:

- Any transaction in which speculation is the primary purpose.
- Complex derivative transactions for which the value at risk cannot be internally calculated.
- Derivative transactions that are motivated primarily for accounting, as opposed to economic, reasons.
- Highly customized derivative transactions for which there is no liquid market, unless approved in advance by the Bank's Asset/Liability Committee (ALCO).
- Writing options to hedge the pipeline.

Derivative counterparties must have a credit rating from either Moody's, Standard & Poor's, or a rating agency whose rating is approved by FSB's ALCO. For derivative transactions involving exchange traded instruments, the exchange is the counterparty and will be assumed to have a AAA rating. Any counterparty below AAA may be allowed if adequate credit enhancement is provided by the counterparty. The ALCO must approve all counterparties requiring enhancement. Should a counterparty be downgraded below an "A" rating during the life of the derivative contract, FSB will evaluate alternative courses of action, including:

- Obtaining collateral or other credit enhancement to mitigate increased credit risk; and
- Terminating the transaction where appropriate.

Hedges on the mortgage pipeline and warehouse are used to protect the profitability of the rate lock and loans in the position. All aspects of the hedge program, including approved instruments, risk limits, counterparties, and traders are approved by FSB's ALCO and are governed by the Bank's Secondary Marketing Hedge Policy approved by the Board of Directors. The Secondary Marketing Committee, a sub-committee of ALCO, provides oversight of these activities weekly.

Hedges on the retained mortgage servicing rights asset are used to protect the FSB from losses on the asset from a decrease in interest rates. Similarly to the Pipeline and Warehouse activity,



approved instruments, risk limits, counterparties, and traders are approved by FSB's ALCO and are governed by the Bank's Secondary Marketing Hedge Policy approved by the Board of Directors. The Secondary Marketing Committee provides oversight of these activities weekly.

E. Memberships in Material Payment, Clearing and Settlement Systems

For small value electronic payments,² FSB uses the FedACH Services product suite. The Federal Reserve Banks' FedACH Services provides for the electronic exchange of debit and credit transactions among business and consumer accounts at depository financial institutions. FedACH Services are used for preauthorized recurring payments, such as payroll, corporate payments to vendors, Social Security, insurance premiums, and utility payments, as well as nonrecurring payments such as point-of-purchase, telephone-initiated, and Internet-initiated entries. FSB shares one line for transmission for both ACH and wire activity via Fedline Direct.

FSB utilizes Fedwire Funds via the Fedline Direct service through the LAPS wire application for processing large value payments. The FHLB and several large money-center U.S. banks are also used to channel large corporate settlements, which are non-member related.

FSB uses Fedline Direct for the daily processes and connections that are available in the primary and backup centers. For business continuity purposes, FSB would most likely initiate only the most critical wires via telephone with the Federal Reserve. A major money-center U.S. bank would be used for back-up purposes if either FSB were unable to access the LAPS wire application or the Fed were experiencing issues specific to FSB's Fedline Direct connection.

International Wire Transfer requests are handled through a major money-center US bank. These payments are channelled using LAPS wire application via the Federal Reserve's Fedline Direct connection. The U.S. money-center bank in turn forwards the wire transfers via their SWIFT address to various international correspondents.

Demand Deposit Account (DDA) deposits are processed in-house by FSB employees in San Antonio, Texas. The applications used are described in more detail in the confidential portion of the Plan.

FSB utilizes Bloomberg and Tradeweb for trading. Bloomberg facilitates the trading of investment securities, Eurodollar Futures, market information, and live mortgage backed securities prices. USB also utilizes the same systems as FSB (i.e., Bloomberg and TradeWeb) when facilitating investment securities acquisition. Tradeweb is used for trading Mortgage Backed Security Forwards. USAA Asset Management Company uses Bloomberg while both applications are utilized for the Mortgage business line.

² Defined as payments less than \$100,000.

F. Description of Foreign Operations

FSB does not have any material components that are based or located outside the United States, including foreign branches, subsidiaries and offices. It also does not have any foreign locations, deposits, or assets.



G. Material Supervisory Authorities

FSB is a Federal Deposit Insurance Corporation-insured Federal savings association subject to primary regulation and supervision examination by the Office of the Comptroller of the Currency. FSB is also subject to regulation and supervision of its consumer lending activities by the Consumer Financial Protection Bureau.

H. Principal Officers

- 🔍 Chad Borton, *President FSB*
- 🔍 Jeff Medeiros, *Senior Vice President, Bank General Counsel*
- 🔍 Vicki Myers, *Vice President, Bank Operations*
- 🔍 Ryan Barth, *Vice President, Financial Foundations*
- 🔍 Matthew Bomersbach, *Senior Vice President, Head of Credit*
- 🔍 Colleen Oxbrough, *Senior Vice President, Bank Senior Financial Officer*
- 🔍 Winston Wilkinson, *Senior Vice President, Long Term Borrower*
- 🔍 Marcos Rosenberg, *Vice President, Savings Assurance*
- 🔍 Mark Cuthbert, *Vice President, Bank Senior Strategy Officer*
- 🔍 Matt Bruhn, *Vice President, Borrow Wisely*
- 🔍 George Bruns, *Assistant Vice President, Head of Trust*
- 🔍 Paul Loree, *Executive Director, HR Business Partner (Interim)*
- 🔍 Paul Azevdo, *Vice President, Senior Risk Officer*
- 🔍 Jessica Mobley, *Vice President, Bank Business Controls*
- 🔍 Jay Christoff, *Vice President, Bank Chief Compliance Officer*
- 🔍 David Fersdahl, *President USB*

I. Resolution Planning Corporate Governance Structure and Processes Related to Resolution Planning

The development of the Resolution Plan leverages the existing business-as-usual (BAU) FSB governance structure, risk management principles, and control processes. These governance principles and processes serve as the basis and foundation in which FSB scopes, resources, and executes the completion of its Resolution Plan.

In developing FSB's Resolution Plan, senior management worked with the Bank's central project team to focus on different elements of the IDI requirements stated in the rule. A working group, consisting of senior members of FSB's Management team, was established to facilitate the development of the resolution strategies. Along with the Executive Sponsor, this group was charged with the task of ensuring the strategy development and considerations were aligned with the underlying assumptions. The working group also provided feedback and guidance to the work streams over the course of the project, in order to validate and refine the content of the Resolution Plan during its development and completion.

In addition, FSB business lines, legal counsel, supporting functions, and operations groups assisted in data gathering, analysis, and the drafting of content for this Resolution Plan. As subject matter experts in their particular area of business or support function, these groups are essential to the resolution planning process, participating in strategy sessions and team discussions, while also providing ideas and recommendations to address the tactical implications of each Plan requirement for their respective area.

J. Description of Material Management Information Systems (MIS)

USAA utilizes MIS for accounting, cash management, risk management, financial and regulatory reporting, and internal management reporting and analysis. The Core Business Lines use MIS to perform necessary business functions. USAA generates and distributes management reports on a periodic basis that are utilized by Executive Management to monitor the financial health, risks, and operation of FSB and its Core Business Lines.

Systems and applications at FSB are essential to smooth and effective operations and are managed through a best practices Business Continuity approach. The program is built to assure USAA's commitment to uphold its mission to facilitate the financial security of its members, associates, and families. The Business Continuity Plan's strategy is to mitigate risk from evolving threats, increase resiliency through dynamic business continuity planning, and improve operational effectiveness through enhanced command, control, and communication across USAA.

The majority of the MIS software used by FSB has been developed internally and is supplemented with third-party vendor developed applications. Governance, control, and maintenance of critical applications are critical components of the technology process, which emphasizes minimal recovery times in the event of material financial distress or disruption.

Business areas perform a risk assessment to identify activities within the Bank's products and services which must be performed in order to stay in business; avoid penalties, fines, and lawsuits; or avoid significant adverse customer impact. Prioritizations and Maximum Tolerable Downtime (MTDs) are determined through this assessment.

Though all systems and applications at FSB are essential to smooth and effective operations, MIS with activities that are reported to Executive Management are considered "key" and vital to the business and operations.

K. High-Level Description of Resolution Strategy

Consistent with supervisory guidance, including the FDIC's Guidance for Covered Insured Depository Institution Resolution Plan Submissions release on December 17, 2014, and for Resolution Plan purposes, FSB developed its fourth submission under the assumption that FSB would have experienced an idiosyncratic stress event that resulted in the failure of the institution. It is anticipated that the stress event would also lead FSB to experience material financial distress resulting in deterioration in liquidity and restricted access to funding. It is also assumed that markets would be functioning normally (albeit subject to the three macroeconomic scenarios specified in the baseline, adverse, and severely adverse economic conditions from the Federal Reserve's February 2018 Stress Test Guidance) and no unusual barriers would exist that would preclude the execution of the identified strategic actions. It is further assumed that no extraordinary government support would be provided to FSB in advance of failure. For this Plan, a number of resolution strategies and alternatives were considered as to how FSB should be resolved once it is placed into FDIC receivership, including a purchase and assumption of FSB in its entirety ("Whole Bank P&A"), the creation of a bridge bank, a purchase and assumption of FSB in its parts, and a wind-down and liquidation of the FSB.

FSB and USB

A purchase and assumption of FSB in its entirety, which would include USAA Savings Bank (USB), would be the easiest option to execute from an operational perspective and also provide for limited adverse effects on FSB's members. This preferred strategy would most likely minimize interrupted continuity of the CBLs in addition to retaining synergies amongst the business activities.

Carrying minimal balance sheet risk, FSB would be an attractive strategic investment considering its robust levels of liquidity, stable earnings generation, and the intangible value of its unique and loyal member base. Given the size of FSB, the transaction would require a large acquirer with the capacity to absorb the institution in its entirety. Potential buyers could include domestic commercial banks seeking balance sheet diversification, major retail banks attempting to build a military niche, or competing financial institutions that possess similar cultures and missions focused on serving the military community.

The Whole Bank P&A transaction would involve all the assets and liabilities of the Bank (excluding any liability that directly caused the failure of the Bank) and would occur

immediately after the failure of the Bank (i.e., over a “Resolution Weekend”). FSB believes the Whole Bank P&A option would be optimal for the FDIC, as it would limit the adverse effects on the Bank’s members (i.e., its depositors) and the public. This option would also prove to be the least complex strategy from an operational perspective.

In addition to providing the least disruption for FSB members, a Whole Bank P&A would maximize the value of the combined CBLs, as an acquirer would gain access to an extremely loyal membership base of customers affiliated through the U.S. military, in addition to receiving strong credit quality and highly marketable retail banking assets. Pursuing a Whole Bank P&A would also preserve key products that are jointly offered through the aligned activities of the CBLs to the members, while maximizing the value of the combined business lines. FSB believes that this strategy would more than likely be the most cost-effective, timely, and least complex among all the options considered.

In the event the preferred resolution strategy could not be executed, the submission describes asset and business line divestitures the FDIC receivership could execute as an alternative to a Whole Bank P&A transaction. Asset and CBL dispositions proposed consider both the impact to Members and cost to the FDIC receivership.

As a Whole Bank P&A presents unique and attractive investment opportunity to certain larger banks, FSB assets and CBLs present attractive investment opportunities outside of a Whole Bank P&A to an even wider universe of potential buyers. Like a Whole Bank P&A, FSB assets and CBLs have historically experienced strong liquidity, generated stable earnings, and benefitted from a loyal membership base. Both banks and non-bank financial institutions are among the potential acquirers of FSB assets and CBLs. These transactions would be executed by a Bridge Bank established by the FDIC receivership. While we believe that a Whole Bank P&A is the best resolution strategy, we believe that the multiple asset and CBL disposition is the best alternative in the event a Whole Bank P&A cannot be executed.