USAA FEDERAL SAVINGS BANK

March 23, 2007

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street N.W.
Washington, DC 20552

Attention: No. 2006-33
regs.comments@ots.treas.gov

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal
Reserve System
20th St. and Constitution Ave., N.W.
Washington, DC 20551

Attention: Docket No. R-1261
regscomments@federalreserve.gov

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

comments@FDIC.gov

Office of the Compt. of the Currency
250 E. Street, S.W.
Mailstop 1-5
Washington DC, 20219

Attention: No. 06-09
regs.comments@occ.treas.gov

Re: Risk-Based Capital Guidelines; Capital Adequacy Guidelines; Capital Maintenance Domestic Capital Modifications; 71 FR 55830 (December 26, 2006)

Ladies and Gentlemen:

USAA Federal Savings Bank ("USAA") appreciates the opportunity to provide comments with respect to the U.S. Banking Agencies' Notice of Proposed Rulemaking ("NPR") proposing revisions to the existing risk-based capital framework (as published in the Federal Register on December 26, 2006).

USAA has comments concerning three aspects of the NPR.

1. Questions 13 and 14: The proposed risk-based capital treatment for home equity loans and lines of credit.

Currently, home equity loans and lines of credit ("junior lien mortgages") are risk weighted at 100%. The Agencies propose a 150% risk weighting for any junior lien mortgage with a (combined) LTV greater than 90%. USAA strongly disagrees with this proposal. As recognized by the Agencies in the NPR explanatory material, this proposal imposes a higher risk weight on this type of secured loan than is imposed on unsecured credit made to the same borrower. Generally, regardless of LTV, a secured loan presents less risk of default than an unsecured loan made to the same borrower.

Loan to value ratio is only one indicator of the risk a particular loan presents to the lender. USAA urges the Agencies to adopt a modified approach to risk weighting junior lien mortgages that considers the credit standing or score of the borrower in combination with LTV. This modified approach will more accurately risk weight loans originated by depository institutions that choose to adopt the Basel 1A standards, and align more closely with the proposed Basel II risk weighted capital standards.

2. Question 11: Private Mortgage Insurance.

The NPR suggests that LTV ratios be computed after taking into account private mortgage insurance (PMI) provided by an insurance company with a long-term credit rating of "A" or higher. However, the NPR proposes that PMI not be considered at all in determining LTV unless the PMI was issued on an individual loan basis. This means that PMI issued on a "pool" or portfolio basis ("pool level PMI") would not be considered in the determination of LTV and the resulting risk weighting for capital purposes.

USAA urges the Agencies to consider pool level PMI coverage as an appropriate element of the LTV calculation. Pool level PMI, if properly structured, is a measure for reducing risk to the lender that is just as effective as loan level PMI. For example, pool level PMI that has a high pool cap, relative to the portfolio of loans insured and the loss experience relating to those loans, serves as an efficient and cost effective method of managing default risk. USAA recommends that pool level, as well as loan level PMI be considered in the development of the Basel 1A framework.

3. Question 16: Risk Based Capital Charge for Early Amortization

The Agencies propose imposition of a flat capital charge, or a capital charge determined by reference to excess spread, with respect to a revolving credit securitization structure that contains an early amortization feature. The stated purpose of the capital charge is to guard against the risks that in an early amortization event, the investing public will be more likely to be made whole and the originating lender will be more likely to absorb any losses, and that the originating lender's ability to obtain liquidity will be reduced and the likelihood increased that a sponsoring depository institution would attempt to prop up a troubled revolving securitization.

USAA does not believe a capital charge is appropriate for revolving credit securitizations containing an early amortization feature. Early amortization events occur only very infrequently. Further, the organization that sells the revolving receivables into the securitization trust retains a "seller's interest" that does absorb losses, and for which the seller holds capital under the current rules. The size of the required seller's interest is determined by the parties to the securitization in their assessment of the risks inherent in the receivables. Rather than impose a capital charge to address the risks presented by these securitization structures, the Agencies should continue to monitor and regulate those risks. Through the supervisory process, the Agencies can require depository institutions to mitigate those risks by assuring the availability of alternative sources of funding in the event of an early amortization, the credit quality of the assets, and the size and reliability of third party commitments and guarantees.

If the Agencies do impose a capital charge on revolving credit securitization structures that have an early amortization feature, the capital charge should not be the proposed flat 10 percent conversion factor. Rather, the Agencies should consider imposing a charge that is determined based upon the level of excess spread in the particular transaction.

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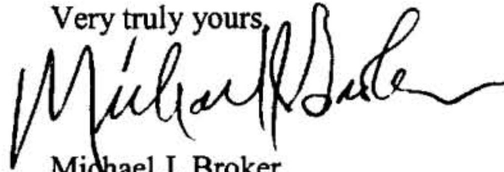
USAA urges the Agencies to provide U.S. depository institutions with options for determining the regulatory capital requirements most appropriate for each institution. In particular, institutions should have the choice to remain subject to the current capital system, or to elect to become subject to the new Basel 1A system. As capital standards evolve, institutions should have the flexibility to determine, subject to supervisory oversight, the regulatory capital requirements that best fit the institution's objectives and operations.

If you have any questions or wish to further discuss the matters stated in this letter, please contact the undersigned.

Very truly yours,



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