USAA FEDERAL SAVINGS BANK

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February 8, 2001

Manager, Dissemination Branch
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1700 G Street N. W.
Washington, D. C. 20552

VIA FEDERAL EXPRESS

RE: Notice of Proposed Rulemaking, Savings And Loan Holding Companies Notice of Significant Transactions or Activities and OTS Review of Capital Adequacy, October 27, 2000 – Docket No. 2000-91.

Dear Sir or Madam:

These comments on the referenced notice of proposed rulemaking are submitted on behalf of United Services Automobile Association ("USAA") and its wholly owned savings association subsidiary, USAA Federal Savings Bank ("USAA FSB"). USAA is a reciprocal inter-insurance exchange that provides property and casualty insurance and through subsidiary companies, a variety of other financial products and services to members of the U.S. military services and their families. USAA FSB is a federally chartered savings association with total assets in excess of $10 billion and total deposits of approximately $7 billion, as of year-end 2000.

We believe the proposed new requirement that a savings and loan holding company ("SLHC") provide the OTS prior written notice of significant activities or transactions contemplated by the SLHC or its non-insured subsidiaries is unnecessary to ensure the safety, soundness or stability of its savings association subsidiary. In addition, we believe adoption of this new requirement will result in unintended negative consequences for SLHCs that outweigh any benefit that might result. We respectfully recommend that the proposed rulemaking be withdrawn. Alternatively, we recommend the proposed regulation be modified in certain important respects before it is finalized.

Current Regulation Makes the Proposed Notice Requirement Unnecessary

All insured depository institutions, including federal savings associations, are subject to significant capital requirements, detailed quarterly and annual financial reporting requirements, stringent safety and soundness standards, and prompt corrective action requirements. Also, federal law mandates annual safety and soundness examinations of all but the smallest insured depository institutions.

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Any company that controls a savings association is subject to quarterly and annual reporting requirements and annual examinations, to confirm that the company serves as a source of financial strength and support to, or has no worse than a neutral effect on, its subsidiary savings association. Non-insured SLHC subsidiaries also are subject to OTS examination authority.

Like commercial banks, the dollar amount of loan, investment and asset purchase transactions in which savings associations may engage with affiliates is very limited. Like banks, all transactions between savings associations and their affiliates also must be on terms that are substantially the same, or at least as favorable to the savings association, as those terms would be in comparable transactions with non-affiliated companies. Unlike banks, savings associations are prohibited from engaging in loan transactions with any affiliate that is engaged in activities other than those the Board of Governors of the Federal Reserve System (the "Federal Reserve"), by regulation, has determined to be permissible for bank holding companies (See: 12 U.S.C. §1468(a)(1)(A) (2000)).

Without regard to its financial condition, a savings association subsidiary of a SLHC may not declare a dividend until it has provided prior written notice to and received no objection from the OTS. When the OTS relatively recently dropped this prior notice requirement with respect to dividends declared by "tier 1' associations that are not part of a holding company system, the agency expressed regret that it could not eliminate this statutorily mandated requirement with respect to SLHC subsidiaries.

The regulatory oversight and substantial restrictions and prohibitions applicable to the relationships and transactions between a savings association and its parent and sister companies are part of the reason the financial strength and stability of savings associations typically are enhanced when they are part of holding company systems. Addition of the proposed notice and review of significant transactions requirement will not enhance the financial health of savings associations. On the contrary, the burdens this requirement would impose will make the savings association charter a much less desirable alternative for financial services enterprises interested in providing mortgage and other lending and insured deposit-taking services to consumers.

<u>No Similar Requirement in Financial Holding Company Regulation</u>

The Gramm-Leach-Bliley Financial Modernization Act authorizes "financial holding companies" in which insured depository institutions are permitted to affiliate with non-insured companies that engage in "financial in nature" activities and activities "incidental" or "complementary" to financial activities. The Federal Reserve is appointed the umbrella supervisor of financial holding companies. The Act carefully outlines the

extent of Federal Reserve oversight and authority with respect to financial holding companies and their non-insured affiliates. It requires the Federal Reserve to use reports filed with and examinations conducted by the "functional regulators" of those companies and affiliates, wherever possible. It prohibits the Federal Reserve from imposing capital requirements on holding company affiliates that already comply with similar requirements of another federal, state or self-regulatory body. The Act permits a state insurance regulator or the SEC to prohibit a financial holding company's compliance with a Federal Reserve requirement that the parent company infuse capital into its insured institution subsidiary. In that circumstance, Congress expressed the belief that the proper balance is to permit the Federal Reserve to force an orderly divestiture of the insured institution, rather than force a holding company to provide funding to a subsidiary contrary to the judgment of the holding company's primary regulator.

The Gramm-Leach-Bliley Act does not mandate a prior notice and approval or no objection process with respect to significant transactions and activities of financial holding companies. The Federal Reserve has not sought such a requirement. Similarly, there is no need for such a requirement to be imposed upon SLHCs.

Harmful Effects of the Proposed Requirement

If the proposal is adopted, it will negatively affect the financial ratings and performance of SLHCs. Companies whose significant activities and transactions are subject to a federal prior notice and no objection process will be disadvantaged in the marketplace, regardless of the time limit placed on the process. Doubt will be created in the minds of rating agencies, investors and others whether companies saddled with such requirements can respond quickly enough to changing market conditions and opportunities. This doubt will manifest itself in lower credit ratings and devaluation of stock prices, and higher operational expenses.

Recommended Changes

Should the OTS decide that some form of prior notice requirement must be imposed, we strongly recommend the following changes be made to the proposal. The notice requirement should apply only when the savings association subsidiary constitutes the primary business of the holding company. To accomplish this objective, the notice requirements should apply only to holding companies in which the consolidated assets of the subsidiary savings association constitute more than 75% of the SLHC's consolidated assets, instead of the proposed 20% threshold. When the holding company is an insurance company, securities firm or other business enterprise subject to capital requirements mandated by a state or federal agency or a self-

regulatory body, the notice requirement should apply only to holding companies that do not meet their mandatory minimum capital requirements, rather than the 10% consolidated tangible capital requirement proposed.

Like many other SLHCs, USAA controls its savings association subsidiary through tiers of holding companies. If adopted, the regulation should state that application of the notice requirements is determined only by reference to the ultimate parent holding company. Without this change, SLHCs will be forced to make otherwise unnecessary changes in existing corporate structures, changes that will be costly and decrease organizational and operational flexibility.

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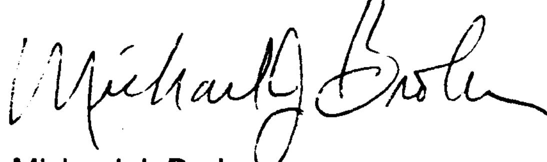
We appreciate the opportunity to provide comments concerning the proposal. Please contact the undersigned if you have questions or need to clarify or discuss any point made in this letter.

Very truly yours,

USAA FEDERAL SAVINGS BANK



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cc: Brad Rich
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