International Bancshares
Corporation

December 4, 2019

Via Email: regs.comments@federalreserve.gov
comments@fdic.gov

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

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Docket No. OP-1681;
RIN 3064-ZA08
Request for Information on Application of the Uniform Financial Institutions Rating System

Dear Ms. Misback and Mr. Feldman:

The following comments are submitted by International Bancshares Corporation ("IBC"), a multi-bank financial holding company headquartered in Laredo, Texas. IBC maintains over 189 facilities and more than 286 ATMs, serving 89 communities in Texas and Oklahoma. With approximately $12.0 billion in total consolidated assets, IBC is one of the largest independent commercial bank holding companies headquartered in Texas. IBC is a publicly-traded financial holding company.

This letter responds to the Board of Governors' and the FDIC's request for comment regarding the consistency of ratings assigned by their respective agencies under the Uniform Financial Institutions Rating System (UFIRS), commonly known as CAMELS ratings, as well as their use of these ratings in the bank application and enforcement processes. As instructed by the agencies, these comments will refrain from describing specific instances or details regarding our ratings and examinations in order to maintain confidentiality.

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IBC has four broad concerns regarding the agencies' assignment of CAMELS ratings. First and foremost, they often deviate from the risk-focused approach that the agencies are supposed to follow to assess institutions' safety and soundness. We see administrative lapses used as a basis for a CAMELS downgrade or lower rating when the underlying risk to the institution is not affected. Second, they are too subjective and disconnected from criteria that institutions can identify, track, and control for. Third, the agencies' communication of the ratings and their underlying rationale for assessing them is inadequate and not conducive to the open communication and exchange of views with management and board members that should occur. Fourth, field ratings are virtually never changed by supervisors when management has strong disagreement with the ratings.

Ratings should be based upon examinations that are risk-focused evaluations of institutions' safety and soundness. This should mean that examiners are focusing on substantive issues rather than technicalities and administrative criticisms. Unfortunately, often this is not the case for us, and we find our ratings negatively affected by items that do not have any real bearing upon the safety and soundness of our banks. This is particularly a problem for us in the compliance portion of the exams. We find the operations review more accurately covers areas that could pose potential risks.

Examiners should consider issues they identify within the full context relevant to an institution, including the scope and complexity of its business activities and its prior track record, rather than focus upon one transaction or customer relationship in a vacuum. We find examiners often ignore our strong culture of compliance and history of diligent follow-through to adopt recommendations and correct any issues that are identified in prior examinations. And they do not take into account the relative simplicity of our business and operations, despite this being a key component to a risk-focused examination approach. If an institution has a simple model, is well-managed, and has a demonstrated commitment to compliance, the agencies should assign their ratings against that backdrop rather than treat the institution the same as others that do not share the same characteristics. Highly compliant institutions should be encouraged, not nit-picked.

Further, there is a lack of consistency in our guidance from examiners and their assessment of ratings due to overreliance on examiners' subjective impressions. Ratings should be based on objective criteria that are tangible and measurable, and not examiners' vague opinions. In the instances where examiners do reference metrics, they do not apply them consistently. For example, examiners have told us that our banks need to take a certain action or meet a particular metric in order to achieve a certain rating, but they nonetheless withhold the rating when we have met the expectations communicated to us. It is unfair and frustrating to have the goalposts moved like this, and it creates mistrust and concern that examiners have prejudged their ratings before the exam and are not giving proper regard to the facts as they actually find them. Examiners use outlier examples to justify their recommendations instead of focusing on the core condition of the bank.

Examiners' failure to use objective criteria for ratings also makes it very hard for our management to have effective communications with them at the end of an exam when examiners are to discuss the key factors that they considered. Examiners should be able to support their findings and recommendations with tangible evidence that they can compare and contrast with existing agency guidelines and guidance. When they fail to do so, we have trouble engaging them in a meaningful discussion or providing a substantive response because the examiners are relying upon their own opinions. We find the explanations we receive for ratings inadequate, and too often we feel examiners fail to consider what we have to say or show them in response to their feedback. This is true for both field examiners and their supervisors. Where our management has major disagreement with a rating, we find that the field determinations are almost never changed by supervisors to account for our feedback.

We also believe that there are too many variances between banks in terms of how they are rated. Through our participation in many industry meetings with the various trade associations, we understand there are substantial differences between banks regarding how examiners approach credit reviews, BSA processes and procedures, compliance more generally, and CRA evaluations. We believe these differences are most pronounced between the mega banks and the midsize banks. Based upon publicly available information, it appears that the mega banks are receiving far fewer negative examiner actions than the midsize and smaller banks. In IBC's opinion, this appears to especially be the case with the BSA examination process, where it seems the large banks escape public enforcement actions far more frequently than midsize and smaller banks, which have been much more heavily scrutinized. We urge you to define examination standards clearly and apply them evenly, and to understand that these differences in treatment have a negative effect on institutions' ability to compete in the financial-services sector.

The agencies should take this opportunity to adopt a true risk-focused approach to examinations and ratings that is based upon substantive matters that truly relate to institutions' safety and soundness and that gives proper consideration to the characteristics and history of the institution being examined. Findings and recommendations should be grounded in identifiable, measurable items that are clearly connected to existing regulatory guidance and guidelines and not driven by the individual opinion of the examiner. Together, this would bring a significant improvement to the oversight of banking institutions in the United States.

Thank you for this opportunity to share our views.

INTERNATIONAL BANCSHARES CORPORATION

Dennis E. Nixon
President & CEO