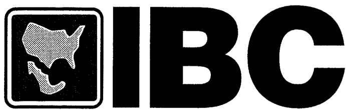

International Bancshares Corporation

March 23, 2009

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C 20429

Re: Special Assessment
RIN 3064-AD35

As a Texas community banker who survived the economic vagaries of the 80's and early 90's, I would like to share my strong opposition to the current proposal to impose a 20 basis point special assessment across the board on all FDIC insured institutions in the United States. Our bank is healthy and a critical source of lending in our communities, but this assessment would significantly reduce our ability to lend locally. At the same time, I believe that there are innovative alternative solutions to replenishment of the fund that should be more seriously considered. Here are my thoughts, concerns, and recommendations.

International Bancshares Corp.
First, I would note that I am the CEO of International Bancshares, the largest Hispanic owned bank holding company in the continental United States. This company holds four state chartered banks, which operate in Texas and Oklahoma. We have an extensive branch network along the Texas border and in South Texas in general. However, we also have branches in the major metropolitan areas of Texas and Oklahoma. Our banks are well capitalized, with leverage capital ratios between 7.5% and 11.8% and risk weighted capital ratios between 12.4% and 28.4%. Our return on assets averages 1.4%.

The proposed assessment would cost our banks $13,719,646. In our experience, we can typically leverage funds eight times. Therefore, this additional, special assessment would mean that $ 109,757,168 million in loans would not be available from our institutions in our local communities. Furthermore, this increased hit to our earnings will decrease our capacity to provide funding to local charities and community projects like the bank's award winning financial literacy program, which has reached over 3,000 individuals and its "Houstonville" school branch. The bank has committed resources not only to these programs but also to assisting others in developing their own programs. For example, Senior Vice President Dora Brown recently met with the FDIC's Advisory Committee on Economic Inclusion to present our program.

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IBC-6011-01

Economic Impact of Proposal
Currently, the Texas economy is healthier than the nation's. However, the stresses are building, and the painful dislocations in construction, high tech, and other industries are beginning to be felt in our markets. We are not recession proof. From our painful experiences of two decades ago, we know that contraction in the credit markets only deepens the economic downturn and lengthens the recovery period. At this point, the financial system needs creative solutions from all federal regulators and Treasury that work collaboratively to stimulate reasonable loan growth and responsible banking products. This assessment takes money out of capital and reduces loan capacity at the same time that Treasury is exhorting bankers to lend more and provide the fuel for business growth. This fee, in effect, becomes a tax.

Lessons Learned?
In analyzing the crisis in Texas, James L. Sexton, banking commissioner for Texas from November 1983 to November 1986 and later Director of Supervision for the FDIC, observed in the Texas Department of Banking anniversary publication *Without Compromise, Fear or Favor* (page 155): "FDIC and RTC were convinced that nothing in Texas was worth more than pennies on the dollar, so they set a devastating financial paradigm, which continued to wreak havoc on real estate holdings and on loans supported by those holdings." Further, S.C. Gwynne of *Texas Monthly* wrote: "One of the biggest causes of the 1980s crisis in the banking and savings and loan business was the federal government itself." In writing on the crisis, Gwynne noted that the biggest banks in the U.S. were permitted to reschedule their loans to third world nations and remain afloat. However, medium sized independent banks were forced to mark assets to market immediately, which forced many into insolvency.

Current Regulatory/Economic Context
Further, in order to evaluate fully the impact of the proposed assessment, it is critical to consider the more complete regulatory environment and economic pressures on financial institutions at this time. There are many factors affecting profitability. Increasing premiums will simply result in a piling on of additional costs on top of earnings pressures. Here are some concerns.

Investments in the bank's portfolio are less attractive and yielding significantly less. Mortgage backed securities, including the GSEs, have virtually no yield, and yet there is no reasonable place to earn rational returns due to the lack of marketability of non-agency paper. Traditionally, we have made our profits through net interest margin, which is now squeezed to a very low level. In addition, our costs of supporting our loan portfolio have gone up due to collection and legal expenses.

In the recent past, bank profits were bolstered by fee income through innovative deposit products such as overdraft courtesy products. Recent proposals from the Federal Reserve will have the effect of reducing or eliminating that source of revenue. In short, we are facing a "perfect storm"!

Systemic Risk
Like many community banks, the institutions I serve did not engage in exotic mortgages or make ill-considered development loans. We stick to basics. Our activities did not generate the systemic risk that now creates anxiety among the public, but we did do business in our markets and are subject to the economic realities of these markets. Yet, unlike the recently adopted final rule on Risk-Based Assessments, the proposed special assessment makes no distinctions, but rather it imposes a significant premium across the board on all institutions, regardless of risk profile. When our institutions are examined, the examiners are quite clear that in virtually every aspect of the bank, risk factors must be quantified and used to manage the various activities. Here, where excessive risk is at the heart of the problem for the deposit insurance fund, risk is totally ignored. We understand that you believe that risk cannot be used as a factor in this premium calculation as it would "discriminate." We respectfully suggest that discrimination is exactly what is needed in a fair assessment, but we recognize that we should and must help struggling main street banks so they can have a chance to survive.

Assessment Rate
Alternatively, I would recommend that the rate be reduced below twenty basis points to no more than ten basis points. Deposits have been on an upward trajectory among insured banks. By June 30, we believe that the total deposits would result in more funding than currently projected. With the stock market in turmoil, the increased deposit insurance coverage (including the TLGP) is resulting in more deposits in banks as customers engage in a "flight to safety."

Assessment Base
However, I would oppose efforts to use "assets" rather than "deposits" as the assessment base. For our banks, such a change in base would increase the assessment by about 30%. This is due at least in part to our prudent use of FHLB funding. This secured borrowing allows our banks to match maturities and to price our loans in a safe and sound manner. Further, the just-adopted changes to the FDIC premium rules already take into consideration that borrowing in our risk-based premiums. Assessing based on assets for this premium would result in a double-whammy for our banks. We believe that our funding plan is reasonable, prudent, and has been employed for decades. It should not be used to increase our costs over those of our local competitors.

Treasury Line of Credit
A better solution for FDIC to adopt would be injection of funding from the Treasury line of credit. That line is for emergency funding, but the public statements of the FDIC have sounded the alarm bell and created a clear perception that the fund is in crisis. Chairman Bair has suggested that tapping that line would give the appearance of a "bailout." However, the public already believes that banks are being bailed out. Just open the editorial page of any newspaper and note the editorial cartoon. "Banks" generically are considered to have already been bailed out.

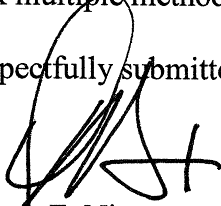
Amortization
One of the significant disadvantages of the special assessment is its immediate, fully loaded impact on banks. There are several ways that this could be mitigated. First, banks could be authorized to amortize the payment over a period of years. If generally accepted accounting principles do not permit this, then either FASB needs to reconsider the principles or Congress should provide rational relief.

Alternative Funding Sources
Next, the funding could be accomplished through convertible bonds, amortized over a period of years. Again, this would spread the cost in a more rational fashion. This type of funding was used effectively through FICO bonds during the so-called S&L crisis.

Recapitalization of DIF—Extension of Time
Finally, the period for recapitalization of the deposit insurance fund should be stretched to seven to ten years to provide for an adequate breathing space. Although the 80's clearly showed the danger of keeping unhealthy institutions on life support, that period also clearly showed how inappropriate regulatory mark downs to a misperceived "market" value can destroy institutions. Too often, complete write-offs would be required of identifiable portfolios (like ag loans or residential real estate) based on an irrational concern for a type of lending. The resulting stress caused banks that could have weathered the storm to precipitously fail. A meat ax was used where a surgical scalpel was called for. With a reasonable approach to bank examination and loan portfolio review, a longer recovery period for the fund is rational and sustainable. We strongly urge the FDIC to engage in dialog with FASB regarding slavish—and wrong-headed—adoration of mark to market. Temporary impairments are being used to write down investments to zero. This is unnecessary and contributing factor to the perceived risk to the deposit fund.

Conclusions
In conclusion, I strongly urge reconsideration of this special assessment and instead recommend utilization of other funding opportunities. The choice is stark: immediate weakening of medium sized institutions which can survive with time versus a measured response. We also must recognize the need to manage through this process by making certain we have prudent examination expectations to give the banks and their loan customers an opportunity to survive and be successful. Banks should be assessed at levels that recognize the industry is in an earnings crisis that will probably worsen, but in this extreme crisis, the FDIC should demonstrate that it clearly understands the magnitude of this problem and will seek multiple methods to deal with the needs of the country and the industry.

Respectfully submitted,



Dennis E. Nixon
President and CEO