International Bancshares
Corporation

October 27, 2016

Via Email: thirdpartylending@fdic.gov

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

RE: IBC Comments on Proposed Guidance for Third-Party Lending

Ladies and gentlemen:

The following comments are submitted on behalf of International Bancshares Corporation (IBC) (NASDAQ: IBOC), a multi-bank financial holding company headquartered in Laredo, Texas with four bank subsidiaries operating throughout Texas and Oklahoma. With over $12 billion in total consolidated assets, IBC is the largest Hispanic-owned financial holding company in the continental United States. We appreciate the opportunity to provide these comments on the FDIC's Proposed Guidance for Third-Party Lending.

<u>Clarification of Covered Practices and Risk Areas</u>

First, we respectfully request that the FDIC provide additional explanation as to the purpose of this guidance. It is not clear what specific practices are meant to be addressed by this guidance, nor any particular steps the agency expects supervised institutions to take (or refrain from taking), beyond those generally applicable to third-party relationships already.

In the proposal, the FDIC states that it is meant to supplement the FDIC's existing *Guidance for Managing Third-Party Risk*, which, since it is broadly applicable to all third-party relationships, already covers third-party lending. The new guidance, as currently written, reiterates longstanding principles related to managing third-party relationships. This includes the expectation that a bank's board of directors and senior management are ultimately responsible for managing third-party lending arrangements as if the lending activity were handled within the bank, and that banks should have robust compliance management systems (CMS) that incorporate their third-party relationships.

Because the document seems largely focused on reiterating such well-established expectations, it would be helpful for the FDIC to explain what else it means to communicate.

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It is not clear why the FDIC is issuing guidance at this time specifically focused on third-party lending, especially since it does not cite any specific practices involving third-party lending that it has found to involve violations of law, unsafe or unsound practices, or other concerns. If the FDIC were to provide examples of such practices that have motivated the issuance of this guidance, that would be very useful so that supervised institutions could better understand practices to avoid.

For instance, it would be helpful to specify particular types of third-party relationships about which the FDIC has particular concern. The proposal broadly defines third-party lending as "an arrangement that relies on a third party to perform a significant aspect of the lending process." It further states that "Categories include but are not limited to: institutions originating loans for third parties; institutions originating loans through third parties or jointly with third parties; and institutions originating loans using platforms developed by third parties." While this very broad definition makes sense as a general matter, the proposal does not identify specific types of third parties or relationships within that larger definition that pose the greatest concerns or risks from the FDIC's perspective.

As the FDIC expressly observes in the draft guidance, depository institutions already are subject to numerous requirements and supervisory expectations regarding relationships with third parties, including existing guidance such as the FDIC's *Guidance for Managing Third-Party Risk*, FIL 44-2008. Without additional details, It is not clear that this new document adds any additional guidance beyond what is provided in that existing document.

If the FDIC simply means for this guidance to remind banks that lending relationships are subject to the same principles that apply to other third-party relationships, it would be helpful to state that explicitly, as the FDIC and other agencies have done in other contexts in the past. For instance, the FFIEC agencies repeatedly stated in issuing the 2013 *Social Media: Consumer Compliance Risk Management Guidance* that it did not establish any new or heightened compliance obligations, and instead was being issued at least partly in response to requests from the industry since, to date, the FFIEC agencies had not published any issuances on the topic.[1] By contrast, here, there is already a copious amount of issuances from regulators on third-party risk management and it is not apparent that supervised institutions have been asking for guidance in this area. Thus, banks are left to wonder what the underlying motivation and true purpose of this guidance is, and what the FDIC expects banks to focus on.

Examination Cycle Frequency

The most significant change the proposed guidance would make appears to be in regard to examination frequency.

[1] See, e.g., "Financial Regulators Issue Final Guidance on Social Media," FFIEC press release (December 11, 2013), available at https://www.ffiec.gov/press/pr121113.htm ("The guidance does not impose any new requirements on financial institutions. Rather, it is intended to help financial institutions understand potential consumer compliance and legal risks, as well as related risks such as reputation and operational risks, associated with the use of social media, along with expectations for managing those risks. The guidance provides considerations that financial institutions may find useful in conducting risk assessments and crafting and evaluating policies and procedures regarding social media").

The FDIC states that "For institutions that engage in significant lending activities through third parties the proposal includes increased supervisory attention, including a 12-month examination cycle, concurrent risk management and consumer protection examinations, offsite monitoring, and possible review of third parties." The draft further states that "More frequent examination activities, such as visitations or ongoing examinations should be performed if significant risk is identified[.]" Thus, the 12-month cycle is a mandatory floor. Rigidly mandating that the examination cycle for all institutions "that engage in significant lending activities through third parties" can be no less frequent than 12 months seems a drastic step to take, especially without more information about what will lead to such a result.

First, we suggest that the FDIC withdraw this inflexible timeframe and continue to allow discretion to examiners and other supervisory staff to consider an institution's particular risk profile, as well as feedback from the institution, in determining an appropriate exam cycle. At a time when the FDIC has been trying to relieve examination burden on community banks in particular, this plan seems to be a step in the opposite direction without a clear rationale.

Particularly if the 12-month timeframe is maintained in the final version, we urge the FDIC to define more clearly what "significant" means in this context. According to the draft guidance, "Third-party lending arrangements will be considered significant if, for example, they have a material impact on revenues, expenses, or capital; involve large lending volumes in relation to the bank's balance sheet; involve multiple third parties; or present material risk of consumer harm." We understand that it is necessary to allow some degree of examiner judgment in determining what a "significant" activity is. However, we request some additional detail in the final guidance as to what "significant" will mean, such as specific (non-exhaustive) examples with numerical metrics or qualitative standards.

Again, we appreciate the FDIC providing additional guidance as to supervisory expectations about third-party lending relationships. In order to provide guidance that is truly helpful to supervised institutions, though, it would be helpful to clarify the matters above.

Thank you again for considering our comments on this proposal. As always, we would be happy to discuss them further with you.

Sincerely,

Marisa V. Santos

Marisa V. Santos
Secretary