



**International Bancshares
Corporation**

September 29, 2017

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

Docket Number RIN 3064-AE56; Real Estate Appraisals

Via email: Comments@FDIC.gov

Dear Sirs:

The following comments are submitted on behalf of International Bancshares Corporation (“IBC”), a multi-bank financial holding company headquartered in Laredo, Texas. IBC holds five state nonmember banks serving Texas and Oklahoma with each bank having less than \$10 billion in assets. With over \$12 billion in total consolidated assets, IBC is the largest Hispanic-owned financial holding company in the continental United States. IBC is a publicly-traded financial holding company. Commercial real estate lending is a significant activity for the banks. Furthermore, IBC anticipated that rebuilding along the Texas Gulf Coast following the disastrous flooding of Hurricane Harvey will stimulate significant demand. With branches in Houston and other coastal cities, IBC reasonably expects to be inundated with the need to rapidly respond to loan applications. Thus, this proposed change is needed and needed quickly.

The proposal identified above basically would amend the appraisal rule threshold established in 1994 by clarifying which transactions would qualify as “commercial real estate” and increasing the exemption threshold to \$400,000 from the current, out of date level of \$250,000. IBC strongly supports this increase. We believe that it is long overdue and will facilitate commercial lending without inappropriately increasing safety and soundness risk to our bank or to the system. IBC already has a strong program in place to assure that evaluations are obtained for those transactions that do not trigger the certified appraisal. Such appraisals—whether performed by third parties or by independent bank personnel—provide the necessary underwriting information for these loans.

IBC’s branch network includes facilities in a variety of locations across South Texas, the Gulf Coast, Austin, other Texas locations and Oklahoma. Although qualified appraisers generally can be found in the metropolitan areas, it is often difficult to find and retain such appraisers in some locations—particularly rural ones. Either transactions must be delayed, or appraisers from other locales must be found to perform the needed certified appraisals.

Unfortunately, this sometimes means that the appraisers are not as aware of local conditions affecting valuations as they should be. This results in an appraisal that technically meets the requirements of the rule, but that may not be the best source of information for the banks' underwriting needs.

IBC's appraisal program includes reviews of appraisals, but this is not a substitute for the need for good appraisals in the first place. By contrast, our experience with evaluations for the smaller transactions indicates that this alternative provides valuable data—often more targeted and precise than an appraisal by an out of territory appraiser.

Effective date. As noted earlier, prompt adoption of this rule is absolutely vital to the restoration of commerce in the Gulf Coast area of Texas. Sadly, Florida has also experienced the devastation of Hurricane Irma, and other hurricanes are on track to create even more havoc along the United States' seaboard.

Definition of Commercial Real Estate (“CRE”) Transaction. IBC supports the inclusion of a loan extended to a consumer to finance the initial construction of the consumer's dwelling as part of this category. Although the loan may be a consumer one from the perspective of disclosures, it is more akin to a commercial transaction from an underwriting perspective. In fact, such initial construction transactions may be structured as a lot purchase by a builder, construction of the home for the specific consumer, and then sale. Under the Texas mechanics and materialmen's lien laws, this is an approach that is used from time to time. It would be anomalous to consider such loans as consumer ones depending on when the lot was purchased rather than on the substance of the transaction.

IBC recommends that both interim and interim to permanent loans be included in the definition of commercial real estate. Substantively the need for the appraisal is the same, and the transaction doesn't materially change (as to collateral).

Changes in Proposed Level. As noted in the proposal, values of CRE have fluctuated significantly since 1994, with significant changes due to various major events (like the 2008 real estate crisis). Similarly, the Texas Real Estate Center has an article from the October 2013 *Tierra Grande* magazine which provides extremely detailed and useful data on construction costs in Texas between 1998 to 2011. <https://assets.recenter.tamu.edu/documents/articles/2038.pdf> Lumber prices provide one of the significant factors for variance. Six years ago in 2011, the typical sales price of a single-family home in Texas was \$310,619. As noted earlier in this letter, there will be significant rebuilding along the coastal United States, putting pressure on wood and lumber prices, increasing the cost of CRE. An exemption level of \$400,000 is very supportable based on current data and could, in fact, be increased without adversely affecting safety and soundness.

IBC believes that having different levels for the CRE transactions and \$1 million for qualifying business loans does not present a significant burden. This has been a factor already for many years. However, we do recommend increasing the exemption threshold for residential mortgage loans to the \$400,000 as well. Nonetheless, if that increase is not put into place, that lower threshold should not be used as an excuse to retain an inappropriately low threshold for CRE transactions.

Evaluations. In the absence of a certified appraisal, an evaluation (performed in accordance with current guidelines) provides a financial institution with helpful information for its underwriting decision. Currently, IBC uses in-house staff for evaluations.

Qualifying Business Loans. IBC recommends that this exemption be revisited. Since the exemption requires a determination that the transaction is not dependent on the sale of, or rental income derived from, real estate as the primary source of repayment, it would appear that a significantly larger loan size could reasonably be excluded. The value of the property is simply not relevant to cash flow or ability to repay. It is a secondary source of repayment but not the primary one. Thus, the size of the transaction could be larger without creating a significant safety and soundness concern.

Thank you for this opportunity to comment. We strongly urge you to adjust the thresholds for exemptions, include construction loans for 1 to 4 family in the CRE definition, and generally clarify these rules. With the current housing and infrastructure crisis looming over our home state, it is imperative that we be able to respond to loan demand promptly and in a manner that we believe is still safe and responsible.

Respectfully,



Dennis E. Nixon
President and CEO