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

Attention: Comments – RIN 3064-AD35

Re: Notice of Proposed Rulemaking - Deposit Insurance Assessments

Dear Mr. Feldman:

I am writing on behalf of International Bancshares Corporation (IBC) and its subsidiary banks regarding the Federal Deposit Insurance Corporation's (FDIC) proposed rule concerning deposit insurance assessments. IBC is a multi-bank financial holding company headquartered in Laredo, Texas with over 260 facilities and more than 400 ATMs serving over 100 communities in Texas and Oklahoma. IBC is the largest minority-owned financial holding company in the continental United States with over $11 billion in assets. In particular, IBC is concerned about the FDIC proposal to increase deposit insurance premiums and apply potentially higher premiums on federal insured depository institutions that use secured liabilities to manage risk and complement core deposits.

Specifically, IBC is concerned that this proposal could increase the cost of funding through the increased assessments relating to securities sold under repurchase agreements (repos) and Federal Home Loan Bank (FHLB) advances. IBC banks use repos and FHLB advances as consistent, reliable sources of reasonably priced liquidity. Penalizing this usage at a time when the markets are extremely volatile and uncertain could result in a host of unintended negative consequences. By contrast, delaying the rule's implementation as it relates to FHLB advances until markets settle makes more sense. The facts that motivated this proposal may no longer be relevant, and in fact increasing assessments based on FHLB's advance usage may prove unnecessary as well as undesirable.

IBC banks use FHLB advances to fund responsible lending in their trade territory. Needless to say, IBC believes that its lending is prudent and responsible. However, if this were not so, then that would be reflected in each bank's CAMELS rating. We believe that the CAMELS rating is a better predictor of risk than the presence of FHLB advances or repos. Furthermore, these advances and repos allow the banks to better match maturities in a prudent asset/liability program.

FHLB advances are an appropriate part of a well-managed liquidity program. Currently there is significant competition for deposits. Use of FHLB advances allows the banks to better manage their balance sheets. In addition, these advances are less volatile in today's marketplace. Unfortunately, Texas banks remember all too well the bidding wars that can occur for deposits

when customers become concerned about the placement of their deposits and when banks are competing against other markets for such deposits.

Similarly, repos are an effective and safe tool for managing a bank's liquidity program. There is a matching one for one between the deposit/proceeds of sale and the security sold. Thus, it is difficult to see how repos present an increased risk to the FDIC deposit insurance fund. Furthermore, repos are an important tool in attracting core commercial depositors who need yield and flexibility with their own funding sources. Since currently commercial deposits can't receive interest, nor can they be secured, repos serve two important functions in maintaining these vital local commercial deposits in community banks.

Assessing higher costs on FHLB advances could result in significant lesser use of such advances. In turn, this could result in less liquidity in IBC banks. This means that less credit will be made available in the banks' market areas. This is a terrible result at the very time that the economy needs more credit available at reasonable cost to mitigate the current recessionary trends. Alternatively, credit could become more expensive as more expensive funds are needed to fund the balance sheet.

IBC would suggest that there are several alternatives that the FDIC could consider rather than implementing a higher risk assessment on secured lending and more particularly, FHLB advances at this time. First, the proposal to increase risk assessments based on FHLB advances could be suspended for 12 months. At the end of that time, the FDIC could re-evaluate market conditions and determine whether utilizing this as a risk factor makes sense in light of market trends.

Second, the FDIC could use its power under its "extraordinary circumstances" authority to extend the time period to rebuild the deposit insurance fund from five to 10 years. This extension will limit unnecessary financial stress on insured depository institutions.

Next, the 15% threshold as a risk trigger should be revised upward. It is our understanding that approximately 25% of the banking industry uses FHLB advances in at least this amount. Further, Congress has encouraged the use of FHLB advances through provisions in the Gramm Leach Bliley Act as a way to promote community lending. The 15% threshold will discourage such lending activities through increased cost.

Finally, the FDIC could segregate FHLB advances and repos from other secured lending in its rule as it relates to the risk assessment factor for secured lending. IBC banks believe that FHLB advances and repos are more reliable, flexible and better priced than other sources of funding.

In addition, the use of advances strengthens the participating banks since income earned by the federal home loan banks is largely paid to members in the form of dividends.

IBC and its subsidiary banks strongly urge you not to adopt a policy that could inadvertently result in a tightening of credit and an increased cost of lending with restructuring of balance sheets to accommodate the rise in premiums. As the largest minority owned bank holding company in the continental United States, IBC is proud of its record as a reliable, responsible community lender. This proposal relating to secured advances focuses on balance sheet funding sources that are critical to community banks like those of IBC while ignoring the significant off-balance sheet sources of funding utilized by the mega institutions. Again, we urge you to balance the impact on credit availability against a realistic analysis of real risk and revise this proposal. Thank you for this opportunity to comment.

Sincerely,

Karen M. Neeley

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