

October 12 2021

**Via email:** Comments@fdic.gov

Federal Deposit Insurance Corporation  
Mr. James P. Sheesley, Assistant Executive Secretary  
Attn: Comments – RIN 3064-ZA27  
550 17th Street N.W.  
Washington, D.C. 20429

Re: Comments on Request for Information on the Federal Deposit Insurance Corporation's Supervisory Approach to Examinations During the Pandemic (RIN 3064-ZA27)

Dear Sir:

The following comments are submitted by International Bancshares Corporation ("IBC"), a publicly-traded, multi-bank financial holding company headquartered in Laredo, Texas. IBC maintains 186 facilities and 280 ATMs, serving 87 communities in Texas and Oklahoma through five separately chartered banks ("IBC Banks") ranging in size from approximately \$400 million to \$12 billion, with consolidated assets totaling approximately \$15 billion. IBC is one of the largest independent commercial bank holding companies headquartered in Texas.

This letter responds to the request for information ("Request") by the Federal Deposit Insurance Corporation ("FDIC") related to the FDIC's supervisory approach to examinations during the COVID-19 pandemic.

Prior to the pandemic, the FDIC had "been making progress in leveraging advances in technology to allow examiners to conduct certain examination functions off-site." (Request at 44364) Due to the COVID-19 pandemic and the related declaration of national emergency and myriad stay-at-home orders, the FDIC has been conducting most, if not all, examination activities in a remote environment. The Request was issued in order to collect information and feedback from financial institutions regarding what has worked well in the remote environments, and what can be done to streamline and improve the remote examination process, including information related to the impact of off-site activities on institution operations, the effectiveness of technology used to carry out off-site activities, and the effectiveness of communication methods used to support off-site activities. (Request at 44365)

### **General Comments**

IBC recommends the FDIC continue to implement and allow remote examination options. While fully-remote examinations may never be possible or prudent moving forward, the FDIC should try to conduct certain parts of the examinations, such as reconciliation or

financial reviews in a remote environment, with complex discussions and asset quality reviews remaining on-site. This would greatly decrease the costs of examinations, including travel expenses, and could potentially provide more oversight of and interaction with smaller and rural institutions. These cost savings could be used by the FDIC to research and implement even better remote examination processes and technology, and reduce costs to allow reduction in the FDIC assessment.

Increased use of remote examination options also helps decrease the disruption caused by the examination to the financial institution's day-to-day business. With a smaller physical presence of examiners, institution personnel are better able to conduct business as usual, while examination stakeholders can focus on the examination with less interruption. On-site examinations lead to significant disruption in a bank's daily operations. Remote examinations allowed bank stakeholders to thoughtfully work through examiner requests without being unexpectedly interrupted or pulled onto other examination matters.

However, IBC also believes that the increased use of remote examinations led to an increase in examiner inefficiency. When they are on-site, examiners are motivated to be efficient in order to move onto the next examination, or finish their day. With remote examinations, IBC believes there was an increased "out of sight, out of mind" approach by examiners, which led to a significant increase in examination length. Remote examinations tend to have a lack of urgency. In fact, one of IBC's examinations that should take no more than three to four weeks ended up ultimately taking seven weeks to complete, and that examination was already reduced in scope due to the pandemic and remote nature of the examination. IBC believes this issue can be addressed through FDIC training and monitoring examiners, and by examiners setting clear time tables and schedules at the beginning of an examination.

### **Specific Requests for Information**

#### **On-Site and Off-Site Activities**

1. In your experience, what FDIC examination activities have been best adapted to completion on an off-site basis? Please explain, including why these activities are performed best or are most effective using an off-site approach.

**IBC Comment:** IBC greatly appreciated the shift in examination focus from an overly-broad laundry airing to a more circumspect review based on prior examinations and audits and a concentration on high priority and risk-related items and areas. The transition to a remote environment required the FDIC and examiners to prioritize their goals, which allowed IBC to focus on working collaboratively to review priority issues without wasting time and energy on basic operations or check the box exam procedures that provide little to no risk to the safety and soundness of an institution. The remote examination process was risk-based and led to a significant narrowing of examination scope, which IBC supports and believes should be the standard going forward. The narrowed examination scope may vary depending on the risk profile of the institution being examined, the

complexity, and its examination history.

Therefore, IBC does not see any benefit to reverting to the pre-pandemic examination process. IBC also notes that neither examiners nor the agencies have been particularly adept at identifying issues that ultimately cause bank failures as a result of economic crises. By focusing examinations more on specific risk issues, the examiners can actually help banks identify and address problems that can be controlled.

IBC found that general preparation and scoping of the examination and related documentation was also more efficient and convenient in the remote environment. For example, the types of accounts and reconciliations to be reviewed can be confirmed simply by a review of the general ledger without further documentation or on-site review. The review of audit documentation and risk assessments was also convenient and efficient to complete in a remote environment. Those areas are very document-oriented, and can easily be completed remotely, leaving on-site time focused on questions and clarifications.

2. In your experience, what FDIC examination activities have not been as well suited to completion on an off-site basis? Please explain, including why these activities are best suited for completion on or are most effective using an on-site approach.

**IBC Comment:** Generally, any activities that involve voluminous hardcopy files, such as call report workpapers or loan reviews, are not well-suited to remote examination. One area specifically that is not suited to a remote examination process is trust management and activities. In IBC's experience, the remote access tools did not allow the opportunity for a full review of the physical trust files, given the age and structure of the physical file. While the transition to electronic storage of documentation is certainly accelerating, trust documents are uniquely difficult to transition, and may be better suited for in-person examination for a while longer.

IBC also believes that asset quality review processes function better in person as opposed to off-site. Not only can loan files be unwieldy and large, the review typically benefits from an in-person discussion with the lender in order to provide detail and context that may not otherwise be apparent on the face of the loan file. Furthermore, examiners typically have more questions and follow-up related to asset quality and loan file reviews, which are more efficiently and comprehensively answered when an examiner is on-site.

Overall, it is more difficult to build collaborative relationships with examiners in the remote environment. Especially as examinations become more broad and frequent, IBC's relationships with its examiners are crucially important. These relationships provide intangible benefits and allow financial institutions to demonstrate to examiners the institutions' expertise, knowledge, and commitment to compliance, which in turn helps mitigate operational risk. IBC values its relationships with its examiners, and while increased use of off-site examination activities is greatly appreciated, IBC hopes that the FDIC will continue to appreciate the importance of face-to-face interaction.

3. What criteria are useful in determining FDIC examination activities best suited for completion on either an off-site or on-site basis? Please explain.

**IBC Comment:** The FDIC should consider how hardcopy-dependent a particular activity is in deciding whether it can be completed remotely. For activities involving large volumes of paper documents, on-site examination will be the best option. For activities that are already primarily electronic, remote examination should be the preferred method.

#### Use of Technology

4. In your experience, what FDIC technologies used in conjunction with off-site examination activities have worked well? Please explain.

**IBC Comment:** As discussed below, IBC believes the use of videoconferencing technology was greatly beneficial to the remote examination process, and allowed discussions that were more like an in-person examination. IBC also found FDICConnect's upload capability to be much easier and quicker than in the past. IBC recommends the FDIC continue improving and investing in the FDICConnect portal.

5. In your experience, what FDIC technologies used in conjunction with off-site examination activities could be improved? Please explain.

**IBC Comment:** One area that can, and will, be improved is the conversion or copying of physical documents into electronic documents. IBC spent an enormous amount of time and effort scanning and converting physical documents for examiners' review. In the past, examiners would have simply been provided the physical documents. This pain point will decrease as electronic documents are more broadly accepted and implemented, but it is a concern for the near future.

IBC was also frustrated with the difficulty of setting up FDICConnect, as well as certain technology connection issues, including systems becoming unavailable or disconnecting when providing documentation or information. Specifically, FDICConnect worked well, unless voluminous documentation needed to be transferred through the portal. Size limitations also required IBC to reformat and break up many large documents in order to complete the transfer. It was also IBC's experience that FDICConnect would force users to log off and log in again in order to confirm whether a file had been uploaded to the portal. IBC recommends the FDIC focus on upgrading and strengthening its secure transfer portals to decrease transfer failures and connectivity issues.

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IBC also asks that the FDIC acknowledge and understand that remote access to both financial institutions and the FDIC takes time to set up and acclimate to. The FDIC should ensure that examiners are sensitive to the time needed to set up and support remote access, and allot sufficient time and planning in the examination process. This issue could be greatly ameliorated if, as IBC recommends, the agencies and examiners work together to designate a single (or the fewest) points of contact for remote access. IBC spent a

sizable amount of time simply training examiners on how to access and navigate its remote portal and applications. It may be quicker and more efficient for the FDIC to have one examiner manage remote access and applications.

6. What new or emerging technologies would support additional off-site examination activities? Please explain, including any potential impediments to adoption or deployment.

**IBC Comment:** IBC asks that the FDIC acknowledge and consider the increased security risks when conducting remote examinations and include appropriate technology support and security enhancements in any solutions it includes as part of remote examinations. Of particular concern is examiners accessing confidential financial institution data from their homes or on a public network. All examiners should be trained extensively on best practices for remote work and the FDIC should stay up-to-date on emerging concerns and threats.

#### Communication Methods

7. What communication methods used during FDIC off-site examinations worked well? Please explain.

**IBC Comment:** IBC had great success in examinations that included standing weekly meetings for open discussion, specific follow up, and status updates with the applicable examiners. Even when there was no express agenda, these standing meetings allowed a solid touchpoint with the examiners and supported the accountability of all parties involved. A standing meeting also made it easier to address non-urgent questions and issues because it was not necessary to send multiple emails and check multiple different calendars in order to schedule an independent time.

As discussed below, IBC experienced a great deal of duplicative and redundant document and information requests in the remote environment and recommends that FDIC implement a policy of designating one examiner as the sole point of contact for such requests. Related to that recommendation, the requests that IBC did receive were easily recorded, filed, and managed because they were primarily in written form and not on an ad-hoc basis. One frustration with in-person examinations is that the examiners feel entitled to make requests on a rolling basis at any time, and that unpredictable, piecemeal, and informal process can result in mistakes in responses and responsiveness. In a remote environment, examiners were required to thoughtfully consider and draft requests and typically provided requests in a more complete manner, which allowed faster and higher quality responses.

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IBC designated just two specific points of contact to the examiners, and all requests flowed through those individuals. This was incredibly efficient and ensured that requests were forwarded on to the correct personnel at IBC.

IBC also believes video conferencing greatly helped bridge the divide between in-person and remote examinations, and allowed opportunities for the same comprehensive discussions that would normally take place during an examination.

8. What communication methods used during FDIC off-site examinations could be improved? Please explain.

**IBC Comment:** IBC experienced significant issues with remote examiners failing to coordinate amongst themselves, resulting in duplication of efforts, redundant documentation, and general confusion. From the very beginning of the examinations, the agencies miscommunicated the timeline to each other and to IBC and failed to designate an agency in charge, which resulted in delays and inefficiencies. It was also more difficult to plan and organize meeting times that worked for every examiner, since most had increased conflicts due to not being on-site during the examination. IBC notes that its remote examination experiences varied greatly based on the examiner and his or her ability to function in a remote environment. IBC set clear communication expectations and contacts at the beginning of every examination. Communication expectations included a requirement that meetings be scheduled appropriately in advance, because on-demand access is simply not feasible for the FDIC or IBC. Examinations where those expectations and methods were followed went well. Where those expectations and methods were not followed, the examination was more protracted, confusing, and inefficient. For example, one examination was left open over five months longer than necessary due to examination staff and training issues. The examiner “in charge” failed to keep IBC updated on the status of the examination and any delays, and provided no feedback during the process unless IBC specifically requested it or affirmatively reached out.

As previously mentioned, a specific area of disorganization was document and information requests. It has been IBC’s experience that, when dealing with multiple examiners and examining agencies, the examiners assign one single examiner to be the point of contact for document and information requests and that examiner is responsible for communicating those requests and distributing responses accordingly. In the remote examination environment, IBC frequently received duplicative and redundant requests, and was required to respond to each applicable examiner, instead of having one point of contact for such requests. For example, at one point IBC had five different examiners from both the FDIC and state regulator making requests to the sole IBC point of contact. This duplication and increased volume of requests led to increased delays as compared to in-person examination.

IBC recommends establishing a procedure for designating one lead examiner to handle information and document requests. IBC also recommends evaluating examiners to determine which were successful in the transition to remote examinations.

IBC also found that examiners preferred emails and formal video conference meetings, as opposed to quick telephone calls. This decreased efficiency even more as compared to on-site examinations. IBC recommends examiners exercise their best judgment in

reaching out via telephone when an issue only requires a quick or simple answer from the financial institution.

One area of concern to IBC was the decreased professionalism of examiners working remotely. While IBC kept its offices open and respected all applicable federal and local government guidelines, examiners working from home would frequently join video conferences from their bedrooms or in extremely casual athletic wear and often not turn on their cameras for the calls. IBC was left with the impression that the examinations were not a priority for many examiners. IBC is sensitive to the drastic changes and unforeseen complications of the past year, but the serious nature of regulatory oversight and examinations requires a heightened level of focus and professionalism.

Finally, IBC notes that it experienced delays in examination reports pre-pandemic, and that those delays have only gotten worse in the remote examination environment. It is difficult for IBC and its personnel to be expected to provide immediate responses and full access to examiners, while examiners are not held to anywhere near the same standard. While examination exit interviews are helpful, it is incredibly frustrating to then wait three months or more for the final report to be issued.

9. Should the FDIC continue to use secure email as an alternative to hardcopy mail, including when providing outgoing supervisory correspondence? Please explain.

**IBC Comment:** Yes. However, IBC recommends the FDIC allow institutions the option to receive outgoing supervisory guidance by hardcopy mail. Obviously, confidential supervisory information is one of the most protected types of information and is carefully protected and maintained by supervised institutions. Some institutions may prefer to receive that information in hardcopy by mail, as opposed to secure email. IBC believes the secure email option is a convenient and safe delivery option that the FDIC should continue to offer.

A final point IBC would like to make is that the remote examination process reduces the ability of examiners to learn and become familiar with bank operations. No one really knows what a cow is like unless you actually go to the barn to see one. Social interaction and exchange is also critical to fully understanding a bank through its management team. Not developing examiner knowledge about the bankers or the bankers knowing the examiners will, over time, create a fatal flaw. Examiner on-the-job training is critical. Remote examinations greatly impede that educational process.

Thank you for the opportunity to share IBC's view.

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INTERNATIONAL BANCSHARES CORPORATION

  
Dennis E. Nixon  
President and CEO