INTERNATIONAL BANCSHARES CORPORATION

November 17, 2025

Via Electronic Submission: www.fdic.gov/federal-register-publications

Jennifer M. Jones, Deputy
Executive Secretary,
Attention: Comments—RIN 3064–AG16
Federal Deposit Insurance Corporation,
550 17th Street NW
Washington, DC 20429

Re: Comments on Interagency Notice of Proposed Rulemaking Regarding Unsafe or Unsound Practices, Matters Requiring Attention (RIN 3064-AG16)

Dear Ms. Jones:

International Bancshares Corporation ("IBC") is a publicly traded, multi-bank financial holding company headquartered in Laredo, Texas. IBC maintains 166 facilities and 256 ATMs, serving 75 communities in Texas and Oklahoma through five separately chartered banks ("IBC Banks") ranging in size from approximately $500 million to $9.8 billion, with consolidated assets totaling over $16.5 billion. IBC is one of the largest independent commercial bank holding companies headquartered in Texas.

IBC appreciates the opportunity to comment on the FDIC's Notice of Proposed Rulemaking regarding the Office of the Comptroller of the Currency (OCC) and FDIC's ("the agencies") proposal to define the term "unsafe and unsound practice" for purposes of section 8 of the Federal Deposit Insurance Act (12 U.S.C. 1818).

IBC strongly supports the OCC and FDIC's efforts to revise the supervisory framework for the issuance of matters requiring attention and other supervisory communications. While we strive to address all supervisory feedback (i.e, informal communications, report comments, supervisory recommendations or matters requiring board attention) with diligence, it is equally important to distinguish between recommendations that pose material financial risks and those that do not. IBC has consistently expressed its concerns regarding certain examination recommendations that, based on thorough review and analysis, do not, and are not expected to, pose a material financial risk to our institution.

IBC has previously submitted a separate comment letter expressing disagreement with the FDIC's proposal to reestablish the Office of Supervisory Appeals. IBC supports the Financial Institution

Examination Fairness and Reform Act (H.R.940) "FAIR EXAMS Act". We believe the FAIR EXAMS Act provides a legislative solution that would bring consistency, certainty, and fairness to the banking industry in the supervisory appeals process. The Office of Independent Examination Review (OIER) would be housed within the Federal Financial Examination Council (FFIEC) and led by a Board comprised of three members appointed by the President and confirmed by the Senate. This structure ensures independence from any individual regulatory agency and satisfies the statutory definition of an "independent appellate process" under 12 U.S.C. § 4806(f)(2).

IBC supports the proposal to clarify that the agencies may communicate other nonbinding suggestions to institutions orally or in writing provided such communication is not and is not treated by the agency in a manner similar to, a matter requiring attention (MRA). With this context in mind, we turn to the agencies' proposed definition of "unsafe or unsound practices," which is central to the effectiveness of supervisory communications.

Defining Unsafe or Unsound Practices

In the proposed definition, the term "if continued" is particularly relevant in the context of an exception found during an examination. An exception may exist; however, if timely remedial action is taken, there should be no expectation that this exception would rise to the level of 'likely to materially harm the institution's financial condition." This is particularly important for policies, procedural and other technical type of findings. We agree the lack of a definition of "unsafe or unsound practice" sets the stage for inconsistent interpretations at each examination cycle and unnecessary confusion.

The proposal describes that the agencies considered, but did not propose, more precisely defining the requisite likelihood under the proposed definition, such as through a minimum percentage (i.e., 10%, 51%). The proposal invites comments on whether establishing a % to meet the "*likely*" threshold is appropriate. While establishing a minimum percentage could contribute to a common risk taxonomy and promote consistency, in practice it could introduce unnecessary complications and legal risks. "Likelihood" is often qualitative and context dependent. Establishing a threshold risks over simplifying complex, judgment-based assessments. Is 49% not likely, but 51% is? Other unintended consequences may arise, such as incentivizing institutions to model their practices just below the threshold, thereby encouraging risk-averse behavior that is not aligned with sound risk management.

In addition, the proposal defines the term "unsafe or unsound practice" to be a practice, act, or failure to act that "is contrary to generally accepted standards of prudent operation". However, we recommend clarifying that expectations for prudent operations will change depending on the institutions risk profile. Although we acknowledge that general standards for prudent operations do exist, the lack of proactive clarification may create the perception of an overly broad, uniform definition of 'prudent operations,' which may not be appropriate given the diversity of institutional risk profiles.

This nuanced understanding of prudent operations should also inform supervisory expectations regarding stress testing and scenario analysis. To qualify for an unsafe or unsound practice under the proposed definition, the practice would have to be "likely", as opposed to merely possible. We support this clarification, especially in the context of supervisory expectations for stress testing analysis to incorporate scenarios that although possible, are unlikely to occur, all else being equal.

Standards for MRA's and MRBA's

We strongly agree with the FDIC's perspective that the lack of a definition has resulted in a proliferation of supervisory criticism for immaterial procedural, documentation or other deficiencies that distract management from conducting business and that do not clearly improve the financial condition of institutions.

The agencies' proposed standards for MRAs and MRBAs reflect a welcome shift toward materiality; however, our experience suggests that further safeguards are needed to prevent the elevation of immaterial findings. We have observed a recurring pattern where examination teams elevate isolated, immaterial details within regulatory guidance and the examination manual (together, "guidance"), or even introduce their own criteria not found in the guidance, while explicitly disregarding the sections that emphasize evaluation of material factors. The guidance clearly prioritizes a holistic assessment of significant elements, yet these reviews often hinge on narrow points that do not meaningfully affect the overall risk profile. This selective and subjective approach undermines the purpose of the guidance, which is to ensure evaluations are grounded in materiality and context.

When such deviations occur, there is rarely an explanation as to why these inconsequential details are treated as determinative, nor why the more prominent and clearly emphasized factors are ignored. This lack of transparency creates uncertainty for institutions and erodes confidence in the consistency of supervisory assessments.

As an example, we believe it is critical to address the consistent application of regulatory definitions, particularly as they pertain to loan classifications. The FDIC's own Risk Management Manual of Examination Policies provides a clear definition of "substandard" loans, emphasizing that such loans must be inadequately protected by the borrower's current worth or the collateral pledged, and must possess well-defined weaknesses that jeopardize repayment. Importantly, the definition concludes that substandard classification is warranted only when there is a distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

In practice, however, we have observed that examiners at times classify well-secured loans as substandard, even when there is no reasonable possibility of loss. This approach not only diverges from the FDIC's own definition but also risks misleading the users of public financial reports, who may reasonably assume that all substandard loans carry embedded losses. Such misclassification can distort the institution's risk profile and undermine the transparency that the regulatory framework is intended to support.

To preserve the integrity of supervisory assessments, it is essential that examiners apply regulatory definitions consistently and within the boundaries of the examination manual. The FDIC's definition

of "substandard" loans clearly requires well-defined weaknesses that jeopardize repayment and a distinct possibility of loss if deficiencies are not corrected. Yet, when well-secured loans with no realistic risk of loss are classified as substandard, the result is both misleading and contrary to the intent of that definition. This issue underscores the need for structural safeguards: the Examination Manual should explicitly identify which elements require judgment, set clear limits on subjectivity, and prohibit reliance on factors outside its scope. Any departure from these standards should be documented and justified. Such measures would ensure that examinations, including loan classifications, focus on material risk rather than examiner preference, reinforcing transparency and consistency.

IBC strongly supports the agencies' initiative to clarify the definition of unsafe or unsound practices and to establish uniform standards for supervisory communications. We urge the agencies to maintain a qualitative, context-sensitive approach to risk assessment and to ensure that supervisory criticisms remain focused on material financial risks. We appreciate the opportunity to comment and welcome continued engagement on these important issues.

Thank you for the opportunity to provide these comments.

Sincerely,

[redacted]

Dennis E. Nixon
President and CEO
International Bancshares Corporation