IBC
International Bank of Commerce

DENNIS E. NIXON
President

November 25, 2009

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Docket No. R-1374
Proposed Guidance on Sound Incentive Compensation Policies

Dear Ms. Johnson:

The following comments are submitted on behalf of International Bancshares Corporation ("IBC"), a multi-bank financial holding company headquartered in Laredo, Texas. IBC maintains over 280 facilities and more than 440 ATMs, which serve over 104 communities in Texas and Oklahoma. IBC is the largest Hispanic-owned financial holding company in the continental United States with over $11.7 billion in assets. IBC is a publicly-traded financial holding company.

The purpose of this comment letter is to address the Board of Governors of the Federal Reserve System's (the "Federal Reserve") "Proposed Guidance on Sound Incentive Compensation Policies (the "Guidance"). The Federal Reserve has requested comment on all elements of the Guidance as well as comment on any undue burden or unintended consequence the Guidance would place on regional and community banking organizations.

The principles contained in the Guidance are redundant. Banks are already subject to a strong and robust system of financial regulation. The Federal Reserve already has clear authority to act in this area. Section 8 of the Federal Deposit Insurance Act authorizes the Federal Reserve to take action against a banking organization if the organization is engaged, or is about to engage in, any unsafe or unsound practice. The Guidance is too vague to be helpful and the ambiguities associated with the Guidance will make compliance with the Guidance very difficult. This ambiguity will create undue burdens and unintended consequences on regional and community banking organizations because it will lead to increased costs and regulatory uncertainty.

Concerns about excessive compensation can already be addressed under the existing bank regulatory framework as well as other laws. The provisions of Sarbanes-Oxley Act of 2002 impose significant corporate governance duties related to compensation on publicly-traded banking organizations, like IBC. Moreover, the "TARP Standards for Compensation and Corporate Governance," provide compensation standards for senior executive officers and certain other employees of TARP recipients.

Any guidance adopted by the Board regarding compensation practices should be narrow and specific. Better defined principles would reduce compliance costs by providing clarity as to expectations. We suggest that the Guidance, rather than being broad and vague, should clearly and directly address certain incentive compensation practices that appear to have actually had an adverse effect on banks' safety and soundness. Specifically, incentive compensation that is tied to the interest rate obtained on a particular loan or group of loans would appear to give lenders a personal economic motive for obtaining the highest rate possible regardless of the credit characteristics of the borrower. A better constructed incentive program would tie bonuses to achieving the bank's strategic goals for loan volume in accordance with the bank's lending policies and pricing matrices. Another area where problems have been seen is where income is dependent on the sale of credit insurance products. This is currently appropriately regulated for national banks by 12 C.F.R. Part 2. In Texas, the same rules are applied to state chartered banks, but there is no national standard for such a practice. Specific guidance addressing items such as the above would provide clarity as to the practices to avoid and those to consider appropriate.

Formulaic compensation limits should not be included in the Guidance. Banking organizations are as diverse as the communities they serve and a "one size fits all" approach to compensation would be entirely inappropriate. Each organization's product line, customer base, size, and complexity vary. Each entity needs to be allowed to adopt appropriate compensation programs that fit its needs. Compensation is a critical tool that should be allowed to be effectively used to attract and retain talented bank management.

Finally, there are certain types of incentive compensation plans that should not be covered by the Guidance because they clearly do not encourage excessive risk taking. These plans provide for distributions in a manner that are not materially linked to the performance of specific employees or groups of employees. Examples of such plans include plans qualified under § 401 of the Internal Revenue Code like profit sharing plans, 401(k) plans, defined benefit plans, and money purchase plans. These plans generally cover all employees of a banking organization, and are governed by diversification requirements and prohibited transaction rules under the Employee Retirement Income Security Act and the Internal Revenue Code that restrict the investment of assets. The amount of contributions to such plans is limited by the Internal Revenue Code. Investment decisions are made by the Trustee of the plan. For all of these reasons, such plans are unlikely to affect the risk-taking incentive of all or a significant number of employees.

The widely publicized instances where the incentive compensation programs of certain large complex banking organizations have exposed the financial institution to undue risk should not be used to taint the established incentive compensation programs of thousands of regional and community banks that do not present such undue risk. Rather than presenting undue risk, the compensation programs of community banks are generally straightforward and serve as an important tool to attract and retain banking talent. In any event, the bank regulators are already authorized to prohibit any undue risk presented by the incentive compensation arrangements at regional and community banking organizations. The Guidance for the regional and community banks is unnecessary as well as burdensome and ambiguous.

Thank you for this opportunity to comment.

Respectfully,

Dennis E. Nixon

cc: Mr. Robert D. Hankins
Executive Vice President
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