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July 9,2004

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Attention: Ms. Jennifer J. Johnson, Secretary

Re: Notice of Proposed Rulemaking With Respect to Risk-Based Capital: Trust Preferred Securities and the Definition of Capital Docket No. R-1193

Dear Ms. Johnson:

On behalf of our client, International Bancshares Corporation, we appreciate the opportunity to comment on the proposed rule referenced above (the "Proposed Rule") and its impact on the treatment of trust preferred securities for regulatory capital purposes.

To begin with, we commend the Proposed Rule because it would continue to permit trust preferred securities to be treated as Tier 1 capital. Our comments will focus on the impact the stricter quantitative limits will have on bank holding companies that are active acquirors of other financial institutions.

Since 1996, the Federal Reserve has permitted a bank holding company to count trust preferred securities, together with cumulative preferred stock issued by the bank holding company up to 25% of the bank holding company's amount of Tier 1 capital, without regard to the amount of goodwill of the bank holding company. Under the Proposed Rule, the 25% limit would be calculated with respect to the amount of Tier 1 capital minus goodwill, and the limit would include certain minority interest in equity accounts in addition to the trust preferred securities and the preferred stock. Because of the netting of goodwill and the inclusion of the minority interests in equity accounts, the

amount of trust preferred securities that may be included in Tier 1 capital is reduced for any bank holding company with goodwill and/or minority interests in equity accounts.

Bank holding companies that are active acquirors generally have a considerable amount of goodwill related to the acquisitions. Accordingly, the Proposed Rule will limit the amount **of** trust preferred securities to be included in Tier 1 capital of bank holding companies with an active acquisition program to a greater degree than bank holding companies that do not have goodwill associated with acquisitions. Further, the netting **of** the goodwill will greatly limit the usefulness of trust preferred securities as a funding source for bank holding companies that have goodwill related to acquisitions. In view of these observations, we believe the Proposed Rule has an inequitably harsh impact on bank holding companies with goodwill related to acquisitions and, in this regard, we would oppose the Proposed Rule.

Under the Proposed Rule, prior to March 31, 2007, any bank holding company with trust preferred securities in excess of the limits permitted after March 31,2007, the effective date of the new limit, is required to consult with the Federal Reserve to ensure the bank holding company is not unduly relying on the trust preferred securities or the other restricted core capital elements and, if determined appropriate by the Federal Reserve, to develop a plan to reduce reliance on restricted core capital elements. The three year window before the new limit becomes effective appears inadequate for bank holding companies with active acquisition programs who have been managing their capital requirements under the existing standard since 1996.

In view of the harsh impact of the Proposed Rule on bank holding companies with active acquisition programs, we would respectfully request that the netting of the goodwill provision of the Proposed Rule be phased in over a six to ten year period whereby 10% to 15% of the goodwill would be netted per year from the Tier 1 capital calculation. This approach would be more equitable for bank holding companies that have accumulated significant amounts of goodwill through acquisitions without any notice that the Tier 1 capital calculation would change to require the netting of the goodwill. Again, in view of the impact of the Proposed Rule on active acquirors, we respectfully request that the grandfather **period** of the Proposed Rule be extended for at least another two years to provide adequate time for the bank holding companies to arrange for their capital needs under the new Rule. Finally, we further respectfully suggest that the Proposed Rule specifically address the impact of the new provisions on

bank holding companies with an active acquisition program by providing more flexibility and a greater period of time for healthy active acquirors to develop a plan with the Federal Reserve to reduce reliance on restricted core capital elements in the event the bank holding company exceeds the new limit.

We thank you for the opportunity to comment on the Proposed Rule. Please contact the undersigned should you have any questions about our comments or if you would like any additional information.

Very truly yours,

Cary Plotkin Kavy

CPK:jb

cc: Dennis E. Nixon