

TEXAS CAPITAL BANCSHARES INC/TX

Form 10-Q

July 23, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended June 30, 2015

☐ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from _____ to _____
Commission file number 001-34657

TEXAS CAPITAL BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

2000 McKinney Avenue, Suite 700, Dallas, Texas,
U.S.A.

(Address of principal executive officers)

75-2679109

(I.R.S. Employer
Identification Number)

75201

(Zip Code)

214/932-6600

(Registrant's telephone number,
including area code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of “large accelerated filer” and “accelerated filer” Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒ Accelerated Filer ☐

Non-Accelerated Filer ☐ Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

On July 21, 2015, the number of shares set forth below was outstanding with respect to each of the issuer’s classes of common stock:

Common Stock, par value \$0.01 per share 45,819,304

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

| | June 30, 2015 (Unaudited) | December 31, 2014 |
|------------------------------------------------------------------------------------------------|---------------------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 117,387 | \$ 96,524 |
| Interest-bearing deposits | 1,321,064 | 1,233,990 |
| Federal funds sold and securities purchased under resale agreements | 16,300 | — |
| Securities, available-for-sale | 35,361 | 41,719 |
| Loans held for investment, mortgage finance | 4,906,415 | 4,102,125 |
| Loans held for investment (net of unearned income) | 11,123,325 | 10,154,887 |
| Less: Allowance for loan losses | 118,770 | 100,954 |
| Loans held for investment, net | 15,910,970 | 14,156,058 |
| Premises and equipment, net | 17,951 | 17,368 |
| Accrued interest receivable and other assets | 378,068 | 333,699 |
| Goodwill and intangible assets, net | 20,237 | 20,588 |
| Total assets | \$ 17,817,338 | \$ 15,899,946 |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Deposits: | | |
| Non-interest-bearing | \$ 6,479,073 | \$ 5,011,619 |
| Interest-bearing | 7,502,937 | 7,348,972 |
| Interest-bearing in foreign branches | 206,266 | 312,709 |
| Total deposits | 14,188,276 | 12,673,300 |
| Accrued interest payable | 4,905 | 4,747 |
| Other liabilities | 161,215 | 145,622 |
| Federal funds purchased and repurchase agreements | 109,007 | 92,676 |
| Other borrowings | 1,400,000 | 1,100,005 |
| Subordinated notes | 286,000 | 286,000 |
| Trust preferred subordinated debentures | 113,406 | 113,406 |
| Total liabilities | 16,262,809 | 14,415,756 |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value, \$1,000 liquidation value: | | |
| Authorized shares – 10,000,000 | | |
| Issued shares – 6,000,000 shares issued at June 30, 2015 and December 31, 2014 | 150,000 | 150,000 |
| Common stock, \$.01 par value: | | |
| Authorized shares – 100,000,000 | | |
| Issued shares – 45,813,388 and 45,735,424 at June 30, 2015 and December 31, 2014, respectively | 458 | 457 |
| Additional paid-in capital | 712,222 | 709,738 |
| Retained earnings | 690,826 | 622,714 |
| Treasury stock (shares at cost: 417 at June 30, 2015 and December 31, 2014) | (8 |) (8 |
| Accumulated other comprehensive income, net of taxes | 1,031 | 1,289 |
| Total stockholders' equity | 1,554,529 | 1,484,190 |
| Total liabilities and stockholders' equity | \$ 17,817,338 | \$ 15,899,946 |

See accompanying notes to consolidated financial statements.

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TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME – UNAUDITED

(In thousands except per share data)

| | Three months ended June 30, | | Six months ended June 30, | |
|--------------------------------------------------------------------------------------------------|-----------------------------|------------|---------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Interest income | | | | |
| Interest and fees on loans | \$ 151,606 | \$ 124,234 | \$ 290,780 | \$ 240,106 |
| Securities | 323 | 471 | 681 | 1,011 |
| Federal funds sold and securities purchased under resale agreements | 118 | 8 | 234 | 48 |
| Deposits in other banks | 1,327 | 100 | 2,587 | 259 |
| Total interest income | 153,374 | 124,813 | 294,282 | 241,424 |
| Interest expense | | | | |
| Deposits | 5,642 | 4,246 | 11,270 | 8,276 |
| Federal funds purchased | 93 | 115 | 161 | 210 |
| Repurchase agreements | 4 | 4 | 8 | 8 |
| Other borrowings | 528 | 181 | 918 | 253 |
| Subordinated notes | 4,191 | 4,241 | 8,382 | 7,720 |
| Trust preferred subordinated debentures | 631 | 619 | 1,249 | 1,235 |
| Total interest expense | 11,089 | 9,406 | 21,988 | 17,702 |
| Net interest income | 142,285 | 115,407 | 272,294 | 223,722 |
| Provision for credit losses | 14,500 | 4,000 | 25,500 | 9,000 |
| Net interest income after provision for credit losses | 127,785 | 111,407 | 246,794 | 214,722 |
| Non-interest income | | | | |
| Service charges on deposit accounts | 2,149 | 1,764 | 4,243 | 3,460 |
| Trust fee income | 1,287 | 1,242 | 2,487 | 2,524 |
| Bank owned life insurance (BOLI) income | 476 | 521 | 960 | 1,030 |
| Brokered loan fees | 5,277 | 3,357 | 9,509 | 6,181 |
| Swap fees | 1,035 | 410 | 3,021 | 1,634 |
| Other | 2,547 | 3,239 | 4,818 | 6,060 |
| Total non-interest income | 12,771 | 10,533 | 25,038 | 20,889 |
| Non-interest expense | | | | |
| Salaries and employee benefits | 48,200 | 39,896 | 94,028 | 81,952 |
| Net occupancy expense | 5,808 | 5,073 | 11,499 | 9,841 |
| Marketing | 3,925 | 3,795 | 8,143 | 7,554 |
| Legal and professional | 5,618 | 7,181 | 9,666 | 12,583 |
| Communications and technology | 5,647 | 4,361 | 10,725 | 8,285 |
| FDIC insurance assessment | 4,211 | 2,544 | 8,001 | 5,269 |
| Allowance and other carrying costs for OREO | 6 | 11 | 15 | 56 |
| Other | 7,861 | 6,904 | 15,716 | 13,542 |
| Total non-interest expense | 81,276 | 69,765 | 157,793 | 139,082 |
| Income before income taxes | 59,280 | 52,175 | 114,039 | 96,529 |
| Income tax expense | 21,343 | 18,754 | 41,052 | 34,843 |
| Net income | 37,937 | 33,421 | 72,987 | 61,686 |
| Preferred stock dividends | 2,437 | 2,437 | 4,875 | 4,875 |
| Net income available to common stockholders | \$ 35,500 | \$ 30,984 | \$ 68,112 | \$ 56,811 |
| Other comprehensive income (loss) | | | | |
| Change in net unrealized gain on available-for-sale securities arising during period, before-tax | \$(321 |) \$43 | \$(397 |) \$(118 |

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| | | | | | |
|-------------------------------------------------------------------------------------------------|----------|----------|----------|----------|---|
| Income tax expense (benefit) related to net unrealized gain on available-for-sale securities | (112 |) 15 | (139 |) (41 |) |
| Other comprehensive income (loss), net of tax | (209 |) 28 | (258 |) (77 |) |
| Comprehensive income | \$37,728 | \$33,449 | \$72,729 | \$61,609 | |

Basic earnings per common share \$0.78 \$0.72 \$1.49 \$1.33

Diluted earnings per common share \$0.76 \$0.71 \$1.47 \$1.30

See accompanying notes to consolidated financial statements.

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TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - UNAUDITED

(In thousands except share data)

| | Preferred Stock | | Common Stock | | | | Treasury Stock | | Accumulated Other Comprehensive Income (Loss), Net of Taxes | | Total |
|----------------------------------------------------------------------------------|-----------------|-----------|--------------|--------|----------------------------|-------------------|----------------|--------|-------------------------------------------------------------|------|-------------|
| | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Retained Earnings | Shares | Amount | | | |
| Balance at December 31, 2013 | 6,000,000 | \$150,000 | 41,036,787 | \$410 | \$448,208 | \$496,112 | (417) | \$(8) | \$1,628 | | \$1,096,350 |
| Comprehensive income: | | | | | | | | | | | |
| Net income | — | — | — | — | — | 61,686 | — | — | — | | 61,686 |
| Change in unrealized gain on available-for-sale securities, net of taxes of \$41 | — | — | — | — | — | — | — | — | (77) | (77) | (77) |
| Total comprehensive income | | | | | | | | | | | 61,609 |
| Tax benefit related to exercise of stock-based awards | — | — | — | — | 1,479 | — | — | — | — | | 1,479 |
| Stock-based compensation expense recognized in earnings | — | — | — | — | 2,528 | — | — | — | — | | 2,528 |
| Issuance of preferred stock | — | — | — | — | — | — | — | — | — | | — |
| Preferred stock dividend | — | — | — | — | — | (4,875) | — | — | — | | (4,875) |
| Issuance of stock related to stock-based awards | — | — | 94,845 | 1 | (824) | — | — | — | — | | (823) |
| Issuance of common stock | — | — | 1,875,000 | 19 | 106,529 | — | — | — | — | | 106,548 |
| Issuance of common stock related to warrants | — | — | 99,229 | 1 | (1) | — | — | — | — | | — |
| | 6,000,000 | \$150,000 | 43,105,861 | \$431 | \$557,919 | \$552,923 | (417) | \$(8) | \$1,551 | | \$1,262,816 |

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Balance at
June 30, 2014

| | | | | | | | | | | |
|-----------------------------------------------------------------------------------------------|-----------|-----------|------------|-------|-----------|-----------|-------|-------|---------|-------------|
| Balance at December 31, 2014 | 6,000,000 | \$150,000 | 45,735,424 | \$457 | \$709,738 | \$622,714 | (417) | \$(8) | \$1,289 | \$1,484,190 |
| Comprehensive income: | | | | | | | | | | |
| Net income | — | — | — | — | — | 72,987 | — | — | — | 72,987 |
| Change in unrealized gain on available-for-sale securities, net of taxes of \$139 | — | — | — | — | — | — | — | — | (258) | (258) |
| Total comprehensive income | | | | | | | | | | 72,729 |
| Tax benefit related to exercise of stock-based awards | — | — | — | — | 736 | — | — | — | — | 736 |
| Stock-based compensation expense recognized in earnings | — | — | — | — | 2,103 | — | — | — | — | 2,103 |
| Preferred stock dividend | — | — | — | — | — | (4,875) | — | — | — | (4,875) |
| Issuance of stock related to stock-based awards | — | — | 77,964 | 1 | (355) | — | — | — | — | (354) |
| Balance at June 30, 2015 | 6,000,000 | \$150,000 | 45,813,388 | \$458 | \$712,222 | \$690,826 | (417) | \$(8) | \$1,031 | \$1,554,529 |
| See accompanying notes to consolidated financial statements. | | | | | | | | | | |

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TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS—UNAUDITED

(In thousands)

| | Six months ended June 30, | |
|-----------------------------------------------------------------------------------|---------------------------|--------------|
| | 2015 | 2014 |
| Operating activities | | |
| Net income from continuing operations | \$72,987 | \$61,686 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | 25,500 | 9,000 |
| Depreciation and amortization | 8,289 | 6,693 |
| Amortization and accretion on securities | — | — |
| Bank owned life insurance (BOLI) income | (960) | (1,030) |
| Stock-based compensation expense | 6,641 | 7,233 |
| Excess tax expense from stock-based compensation arrangements | (779) | (1,479) |
| Gain on sale of assets | 24 | (709) |
| Changes in operating assets and liabilities: | | |
| Accrued interest receivable and other assets | (50,485) | (51,854) |
| Accrued interest payable and other liabilities | 12,090 | (1,324) |
| Net cash provided by operating activities | 73,307 | 28,216 |
| Investing activities | | |
| Maturities and calls of available-for-sale securities | 1,950 | 8,474 |
| Principal payments received on available-for-sale securities | 4,011 | 5,292 |
| Originations of mortgage finance loans | (45,359,254) | (23,694,564) |
| Proceeds from pay-offs of mortgage finance loans | 44,554,964 | 22,778,580 |
| Net increase in loans held for investment, excluding mortgage finance loans | (976,122) | (671,896) |
| Purchase (disposal) of premises and equipment, net | (2,635) | (6,193) |
| Proceeds from sale of foreclosed assets | 1,164 | 5,763 |
| Net cash used in investing activities | (1,775,922) | (1,574,544) |
| Financing activities | | |
| Net increase in deposits | 1,514,976 | 1,499,937 |
| Net expense from issuance of stock related to stock-based awards | (354) | (823) |
| Net proceeds from issuance of common stock | — | 106,548 |
| Preferred dividends paid | (4,875) | (4,875) |
| Net increase (decrease) in other borrowings | 299,995 | (149,473) |
| Excess tax benefits from stock-based compensation arrangements | 779 | 1,479 |
| Net increase in Federal funds purchased and repurchase agreements | 16,331 | 124,391 |
| Net proceeds from issuance of subordinated notes | — | 172,375 |
| Net cash provided by financing activities | 1,826,852 | 1,749,559 |
| Net increase in cash and cash equivalents | 124,237 | 203,231 |
| Cash and cash equivalents at beginning of period | 1,330,514 | 153,911 |
| Cash and cash equivalents at end of period | \$1,454,751 | \$357,142 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for interest | \$21,830 | \$13,780 |
| Cash paid during the period for income taxes | 42,934 | 33,702 |
| Transfers from loans/leases to OREO and other repossessed assets | 1,177 | 851 |
| See accompanying notes to consolidated financial statements. | | |

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TEXAS CAPITAL BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—UNAUDITED

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

Texas Capital Bancshares, Inc. (the “Company”), a Delaware corporation, was incorporated in November 1996 and commenced banking operations in December 1998. The consolidated financial statements of the Company include the accounts of Texas Capital Bancshares, Inc. and its wholly owned subsidiary, Texas Capital Bank, National Association (the “Bank”). We serve the needs of commercial businesses and successful professionals and entrepreneurs located in Texas as well as operate several lines of business serving a regional or national clientele of commercial borrowers. We are primarily a secured lender, with our greatest concentration of loans in Texas.

Basis of Presentation

Our accounting and reporting policies conform to accounting principles generally accepted in the United States (“GAAP”) and to generally accepted practices within the banking industry. Certain prior period balances have been reclassified to conform to the current period presentation.

The consolidated interim financial statements have been prepared without audit. Certain information and footnote disclosures presented in accordance with GAAP have been condensed or omitted. In the opinion of management, the interim financial statements include all normal and recurring adjustments and the disclosures made are adequate to make the interim financial information not misleading. The consolidated financial statements have been prepared in accordance with GAAP for interim financial information and the instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2014, included in our Annual Report on Form 10-K filed with the SEC on February 19, 2015 (the “2014 Form 10-K”). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for loan losses, the fair value of stock-based compensation awards, the fair values of financial instruments and the status of contingencies are particularly susceptible to significant change in the near term.

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(2) EARNINGS PER COMMON SHARE

The following table presents the computation of basic and diluted earnings per share (in thousands except per share data):

| | Three months ended June 30, | | Six months ended June 30, | |
|------------------------------------------------------------------------------------------------------|--------------------------------|------------|------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Numerator: | | | | |
| Net income | \$37,937 | \$33,421 | \$72,987 | \$61,686 |
| Preferred stock dividends | 2,437 | 2,437 | 4,875 | 4,875 |
| Net income available to common stockholders | 35,500 | 30,984 | \$68,112 | 56,811 |
| Denominator: | | | | |
| Denominator for basic earnings per share— weighted average shares | 45,790,093 | 43,075,213 | 45,774,461 | 42,735,580 |
| Effect of employee stock-based awards(1) | 229,378 | 336,993 | 219,448 | 359,794 |
| Effect of warrants to purchase common stock | 423,942 | 432,809 | 411,281 | 486,113 |
| Denominator for dilutive earnings per share—adjusted weighted average shares and assumed conversions | 46,443,413 | 43,845,015 | 46,405,190 | 43,581,487 |
| Basic earnings per common share | \$0.78 | \$0.72 | \$1.49 | \$1.33 |
| Diluted earnings per common share | \$0.76 | \$0.71 | \$1.47 | \$1.30 |

(1) Stock options, SARs and RSUs outstanding of 173,382 at June 30, 2015 and 46,000 at June 30, 2014 have not been included in diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

(3) SECURITIES

Securities are identified as either held-to-maturity or available-for-sale based upon various factors, including asset/liability management strategies, liquidity and profitability objectives and regulatory requirements.

Held-to-maturity securities are carried at cost, adjusted for amortization of premiums or accretion of discounts.

Available-for-sale securities are securities that may be sold prior to maturity based upon asset/liability management decisions. Securities identified as available-for-sale are carried at fair value. Unrealized gains or losses on available-for-sale securities are recorded as accumulated other comprehensive income in stockholders' equity, net of taxes. Amortization of premiums or accretion of discounts on mortgage-backed securities is periodically adjusted for estimated prepayments. Realized gains and losses and declines in value judged to be other-than-temporary are included in gain (loss) on sale of securities. The cost of securities sold is based on the specific identification method. At June 30, 2015, our net unrealized gain on the available-for-sale securities portfolio was \$1.6 million compared to \$2.0 million at December 31, 2014. As a percent of outstanding balances, the unrealized gain was 4.70% and 4.99% at June 30, 2015, and December 31, 2014, respectively. The decrease in the unrealized gain percentage at June 30, 2015 is related to the reduction in the portfolio balance due to paydowns and maturities.

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The following is a summary of available-for-sale securities (in thousands):

| | June 30, 2015 | | | |
|----------------------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Available-for-sale securities: | | | | |
| Residential mortgage-backed securities | \$24,945 | \$1,781 | \$— | \$26,726 |
| Municipals | 1,308 | 5 | — | 1,313 |
| Equity securities(1) | 7,522 | 12 | (212) |) 7,322 |
| | \$33,775 | \$1,798 | \$(212) |) \$35,361 |
| | December 31, 2014 | | | |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Available-for-sale securities: | | | | |
| Residential mortgage-backed securities | \$28,957 | \$2,108 | \$— | \$31,065 |
| Municipals | 3,257 | 10 | — | 3,267 |
| Equity securities(1) | 7,522 | 16 | (151) |) 7,387 |
| | \$39,736 | \$2,134 | \$(151) |) \$41,719 |

(1) Equity securities consist of Community Reinvestment Act funds.

The amortized cost and estimated fair value of available-for-sale securities are presented below by contractual maturity (in thousands, except percentage data):

| | June 30, 2015 | | | | | |
|--------------------------------------------|-----------------------|------------------------------------|------------------------------------|--------------------|----------|---|
| | Less Than One Year | After One Through Five Years | After Five Through Ten Years | After Ten Years | Total | |
| Available-for-sale: | | | | | | |
| Residential mortgage-backed securities:(1) | | | | | | |
| Amortized cost | \$71 | \$6,800 | \$4,890 | \$13,184 | \$24,945 | |
| Estimated fair value | 72 | 7,105 | 5,479 | 14,070 | 26,726 | |
| Weighted average yield(3) | 5.53 | % 4.77 | % 5.54 | % 2.40 | % 3.67 | % |
| Municipals:(2) | | | | | | |
| Amortized cost | 745 | 563 | — | — | 1,308 | |
| Estimated fair value | 747 | 566 | — | — | 1,313 | |
| Weighted average yield(3) | 5.51 | % 5.69 | % — | — | 5.59 | % |
| Equity securities:(4) | | | | | | |
| Amortized cost | 7,522 | — | — | — | 7,522 | |
| Estimated fair value | 7,322 | — | — | — | 7,322 | |
| Total available-for-sale securities: | | | | | | |
| Amortized cost | | | | | \$33,775 | |
| Estimated fair value | | | | | \$35,361 | |

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| | December 31, 2014 | | | | | |
|--------------------------------------------|-----------------------|------------------------------------|------------------------------------|--------------------|----------|---|
| | Less Than One Year | After One Through Five Years | After Five Through Ten Years | After Ten Years | Total | |
| Available-for-sale: | | | | | | |
| Residential mortgage-backed securities:(1) | | | | | | |
| Amortized cost | \$ 1 | \$9,151 | \$5,661 | \$14,144 | \$28,957 | |
| Estimated fair value | 1 | 9,662 | 6,333 | 15,069 | 31,065 | |
| Weighted average yield(3) | 6.50 | % 4.79 | % 5.54 | % 2.36 | % 3.75 | % |
| Municipals:(2) | | | | | | |
| Amortized cost | 1,669 | 1,588 | — | — | 3,257 | |
| Estimated fair value | 1,674 | 1,593 | — | — | 3,267 | |
| Weighted average yield(3) | 5.78 | % 5.79 | % — | — | 5.79 | % |
| Equity securities:(4) | | | | | | |
| Amortized cost | 7,522 | — | — | — | 7,522 | |
| Estimated fair value | 7,387 | — | — | — | 7,387 | |
| Total available-for-sale securities: | | | | | | |
| Amortized cost | | | | | \$39,736 | |
| Estimated fair value | | | | | \$41,719 | |

(1) Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

(2) Yields have been adjusted to a tax equivalent basis assuming a 35% federal tax rate.

(3) Yields are calculated based on amortized cost.

(4) These equity securities do not have a stated maturity.

Securities with carrying values of approximately \$25.5 million were pledged to secure certain borrowings and deposits at June 30, 2015. Of the pledged securities at June 30, 2015, approximately \$8.4 million were pledged for certain deposits, and approximately \$17.1 million were pledged for repurchase agreements.

The following table discloses, as of June 30, 2015 and December 31, 2014, our investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months (in thousands):

| June 30, 2015 | Less Than 12 Months | | 12 Months or Longer | | Total | |
|-------------------|---------------------|-----------------|---------------------|-----------------|------------|-----------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Equity securities | \$— | \$— | \$6,288 | \$(212) | \$6,288 | \$(212) |
| | | | | | | |
| December 31, 2014 | Less Than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Equity securities | \$— | \$— | \$6,349 | \$(151) | \$6,349 | \$(151) |

At June 30, 2015, we owned one security with an unrealized loss position. This security is a publicly traded equity fund and is subject to market pricing volatility. We do not believe this unrealized loss is “other than temporary”. We have evaluated the near-term prospects of the investment in relation to the severity and duration of the impairment and based on that evaluation have the ability and intent to hold the investment until recovery of fair value.

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(4) LOANS AND ALLOWANCE FOR LOAN LOSSES

At June 30, 2015 and December 31, 2014, loans were as follows (in thousands):

| | June 30, 2015 | December 31, 2014 |
|---------------------------------------------------|------------------|----------------------|
| Commercial | \$6,388,707 | \$5,869,219 |
| Mortgage finance | 4,906,415 | 4,102,125 |
| Construction | 1,837,532 | 1,416,405 |
| Real estate | 2,834,005 | 2,807,127 |
| Consumer | 23,789 | 19,699 |
| Leases | 97,025 | 99,495 |
| Gross loans held for investment | 16,087,473 | 14,314,070 |
| Deferred income (net of direct origination costs) | (57,733) | (57,058) |
| Allowance for loan losses | (118,770) | (100,954) |
| Total | \$15,910,970 | \$14,156,058 |

Commercial Loans and Leases. Our commercial loan and lease portfolio is comprised of lines of credit for working capital and term loans and leases to finance equipment and other business assets. Our energy production loans are generally collateralized with proven reserves based on appropriate valuation standards and take into account the risk of oil and gas price volatility. Our commercial loans and leases are underwritten after carefully evaluating and understanding the borrower's ability to operate profitably. Our underwriting standards are designed to promote relationship banking rather than to make loans on a transactional basis. Our lines of credit typically are limited to a percentage of the value of the assets securing the line. Lines of credit and term loans typically are reviewed annually and are supported by accounts receivable, inventory, equipment and other assets of our clients' businesses.

Mortgage Finance Loans. Our mortgage finance loans consist of ownership interests purchased in single-family residential mortgages funded through our mortgage finance group. These interests are typically on our balance sheet for 10 to 20 days. We have agreements with mortgage lenders and purchase interests in individual loans they originate. All loans are underwritten consistent with established programs for permanent financing with financially sound investors. Substantially all loans are conforming loans. Balances as of June 30, 2015 and December 31, 2014 are stated net of \$541.0 million and \$358.3 million participations sold, respectively.

Construction Loans. Our construction loan portfolio consists primarily of single- and multi-family residential properties and commercial projects used in manufacturing, warehousing, service or retail businesses. Our construction loans generally have terms of one to three years. We typically make construction loans to developers, builders and contractors that have an established record of successful project completion and loan repayment and have a substantial equity investment in the borrowers. Loan amounts are derived primarily from the bank's evaluation of expected cash flows available to service debt from stabilized projects under hypothetically stressed conditions. Construction loans are also based in part upon estimates of costs and value associated with the completed project. Sources of repayment for these types of loans may be pre-committed permanent loans from other lenders, sales of developed property or an interim loan commitment from us until permanent financing is obtained. The nature of these loans makes ultimate repayment sensitive to overall economic conditions. Borrowers may not be able to correct conditions of default in loans, increasing risk of exposure to classification, non-performing status, reserve allocation and actual credit loss and foreclosure. These loans typically have floating rates and commitment fees.

Real Estate Loans. A portion of our real estate loan portfolio is comprised of loans secured by properties other than market risk or investment-type real estate. Market risk loans are real estate loans where the primary source of repayment is expected to come from the sale, permanent financing or lease of the real property collateral. We generally provide temporary financing for commercial and residential property. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Our real estate loans generally have maximum terms of five to seven years, and we provide loans with both floating and fixed rates. We generally avoid long-term loans for commercial real estate held for investment. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Appraised values may be highly variable due to market conditions, the

impact of the inability of potential purchasers and lessees to obtain financing and a lack of transactions at comparable values.

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At June 30, 2015 and December 31, 2014, we had a blanket floating lien on certain real estate-secured loans, mortgage finance loans and certain securities used as collateral for Federal Home Loan Bank ("FHLB") borrowings.

Portfolio Geographic Concentration

As of June 30, 2015, a substantial majority of our loans held for investment, excluding our mortgage finance loans and other national lines of business, were to businesses with headquarters and operations in Texas. This geographic concentration subjects the loan portfolio to the general economic conditions within this area. Additionally, we may make loans to these businesses and individuals secured by assets located outside of Texas. The risks created by this concentration have been considered by management in the determination of the appropriateness of the allowance for loan losses. Management believes the allowance for loan losses is appropriate to cover probable losses inherent in the loan portfolio at each balance sheet date.

Summary of Loan Loss Experience

The reserve for loan losses is comprised of specific reserves for impaired loans and an estimate of losses inherent in the portfolio at the balance sheet date, but not yet identified with specified loans. We regularly evaluate our reserve for loan losses to maintain an appropriate level to absorb estimated loan losses inherent in the loan portfolio. Factors contributing to the determination of reserves include the credit-worthiness of the borrower, changes in the value of pledged collateral and general economic conditions. All loan commitments rated substandard or worse and greater than \$500,000 are specifically reviewed for loss potential. For loans deemed to be impaired, a specific allocation is assigned based on the losses expected to be realized from those loans. For purposes of determining the general reserve, the portfolio is segregated by product types to recognize differing risk profiles among categories, and then further segregated by credit grades. Credit grades are assigned to all loans. Each credit grade is assigned a risk factor, or reserve allocation percentage. These risk factors are multiplied by the outstanding principal balance and risk-weighted by product type to calculate the required reserve. A similar process is employed to calculate a reserve assigned to off-balance sheet commitments, specifically unfunded loan commitments and letters of credit, and any needed reserve is recorded in other liabilities. Even though portions of the allowance may be allocated to specific loans, the entire allowance is available for any credit that, in management's judgment, should be charged off.

We have several pass credit grades that are assigned to loans based on varying levels of risk, ranging from credits that are secured by cash or marketable securities, to watch credits which have all the characteristics of an acceptable credit risk but warrant more than the normal level of monitoring. Within our criticized/classified credit grades are special mention, substandard and doubtful. Special mention loans are those that are currently protected by the current sound worth and paying capacity of the borrower, but that are potentially weak and constitute an additional credit risk. The loan has the potential to deteriorate to a substandard grade due to the existence of financial or administrative deficiencies. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Some substandard loans are insufficiently protected by the current sound worth and paying capacity of the borrower and of the collateral pledged and may be considered impaired. Substandard loans can be accruing or can be on non-accrual depending on the circumstances of the individual loans. Loans classified as doubtful have all the weaknesses inherent in substandard loans with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high. All doubtful loans are on non-accrual.

The reserve allocation percentages assigned to each credit grade have been developed based primarily on an analysis of our historical loss rates. The allocations are adjusted for certain qualitative factors for such things as general economic conditions and changes in credit policies and lending standards. Changes in the trend and severity of problem loans can cause the estimation of losses to differ from past experience. In addition, the reserve reflects the results of reviews performed by the Company's independent Credit Review function as reflected in their confirmations of assigned credit grades within the portfolio. The Credit Review function reports to the Credit Risk Committee of the Company's board of directors with administrative oversight from the Company's Chief Risk Officer. The portion of the allowance that is not derived by the allowance allocation percentages compensates for the uncertainty and complexity in estimating loan and lease losses including factors and conditions that may not be fully reflected in the determination and application of the allowance allocation percentages. Examples of risks that support the Company's

maintaining an unallocated reserve include the possibility of precipitous negative changes in economic conditions and borrowers' submission of financial statements or certifications of collateral value that subsequently prove to be materially inaccurate for reason of either misstatement or omission of critical information. These situations, while not common, do not necessarily correlate well with the general risk profile presented by assigned credit grade and product type categories. We evaluate many factors and conditions in determining the unallocated portion of the allowance, including amount and frequency of losses attributable to issues not specifically addressed or included in the determination and application of the allowance allocation percentages. We consider the allowance to be appropriate, given management's assessment of probable losses within the portfolio as of the evaluation date, the significant growth in the loan and lease portfolio, current economic conditions in the Company's market areas and other factors.

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The methodology used in the periodic review of reserve appropriateness, which is performed at least quarterly, is designed to be dynamic and responsive to changes in portfolio credit quality. The changes are reflected in the general reserve and in specific reserves as the collectability of larger classified loans is evaluated with new information. As our portfolio has matured, historical loss ratios have been closely monitored, and our reserve appropriateness relies primarily on our loss history. The review of the reserve appropriateness is performed by executive management and presented to a committee of our board of directors for their review. The committee reports to the board as part of the board's review on a quarterly basis of the Company's consolidated financial statements.

The following tables summarize the credit risk profile of our loan portfolio by internally assigned grades and non-accrual status as of June 30, 2015 and December 31, 2014 (in thousands):

June 30, 2015

| | Commercial | Mortgage Finance | Construction | Real Estate | Consumer | Leases | Total |
|---------------------------------|-------------|---------------------|--------------|-------------|----------|----------|--------------|
| Grade: | | | | | | | |
| Pass | \$6,142,326 | \$4,906,415 | \$1,819,735 | \$2,804,448 | \$23,568 | \$89,990 | \$15,786,482 |
| Special mention | 100,638 | — | — | 20,330 | 7 | 505 | 121,480 |
| Substandard-accruing | 53,678 | — | 1,048 | 1,558 | 214 | 93 | 56,591 |
| Non-accrual | 92,065 | — | 16,749 | 7,669 | — | 6,437 | 122,920 |
| Total loans held for investment | \$6,388,707 | \$4,906,415 | \$1,837,532 | \$2,834,005 | \$23,789 | \$97,025 | \$16,087,473 |

December 31, 2014

| | Commercial | Mortgage Finance | Construction | Real Estate | Consumer | Leases | Total |
|---------------------------------|-------------|---------------------|--------------|-------------|----------|----------|--------------|
| Grade: | | | | | | | |
| Pass | \$5,738,474 | \$4,102,125 | \$1,414,671 | \$2,785,804 | \$19,579 | \$91,044 | \$14,151,697 |
| Special mention | 53,839 | — | 1,734 | 8,723 | 11 | 4,363 | 68,670 |
| Substandard-accruing | 43,784 | — | — | 2,653 | 47 | 3,915 | 50,399 |
| Non-accrual | 33,122 | — | — | 9,947 | 62 | 173 | 43,304 |
| Total loans held for investment | \$5,869,219 | \$4,102,125 | \$1,416,405 | \$2,807,127 | \$19,699 | \$99,495 | \$14,314,070 |

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The following table details activity in the reserve for loan losses by portfolio segment for the six months ended June 30, 2015 and June 30, 2014. Allocation of a portion of the reserve to one category of loans does not preclude its availability to absorb losses in other categories.

June 30, 2015

| (in thousands) | Commercial | Mortgage Finance | Construction | Real Estate | Consumer | Leases | Unallocated | Total |
|---------------------------------------------|------------|------------------|--------------|-------------|----------|---------|-------------|-----------|
| Beginning balance | \$ 70,654 | \$— | \$ 7,935 | \$15,582 | \$240 | \$1,141 | \$ 5,402 | \$100,954 |
| Provision for loan losses | 37,666 | — | (4,066) | (6,509) | 144 | (831) | (1,778) | 24,626 |
| Charge-offs | 8,520 | — | — | 346 | 62 | — | — | 8,928 |
| Recoveries | 1,710 | — | 355 | 20 | 10 | 23 | — | 2,118 |
| Net charge-offs (recoveries) | 6,810 | — | (355) | 326 | 52 | (23) | — | 6,810 |
| Ending balance | \$ 101,510 | \$— | \$ 4,224 | \$8,747 | \$332 | \$333 | \$ 3,624 | \$118,770 |
| Period end amount allocated to: | | | | | | | | |
| Loans individually evaluated for impairment | \$ 13,717 | \$— | \$ — | \$337 | \$— | \$1 | \$ — | \$14,055 |
| Loans collectively evaluated for impairment | 87,793 | — | 4,224 | 8,410 | 332 | 332 | 3,624 | 104,715 |
| Ending balance | \$ 101,510 | \$— | \$ 4,224 | \$8,747 | \$332 | \$333 | \$ 3,624 | \$118,770 |

June 30, 2014

| (in thousands) | Commercial | Mortgage Finance | Construction | Real Estate | Consumer | Leases | Unallocated | Total |
|---------------------------------------------|------------|------------------|--------------|-------------|----------|----------|-------------|----------|
| Beginning balance | \$ 39,868 | \$— | \$ 14,553 | \$24,210 | \$149 | \$3,105 | \$ 5,719 | \$87,604 |
| Provision for loan losses | 13,714 | — | 199 | (3,891) | 114 | (1,930) | (139) | 8,067 |
| Charge-offs | 7,526 | — | — | 296 | 101 | — | — | 7,923 |
| Recoveries | 2,239 | — | — | 47 | 31 | 1,049 | — | 3,366 |
| Net charge-offs (recoveries) | 5,287 | — | — | 249 | 70 | (1,049) | — | 4,557 |
| Ending balance | \$ 48,295 | \$— | \$ 14,752 | \$20,070 | \$193 | \$2,224 | \$ 5,580 | \$91,114 |
| Period end amount allocated to: | | | | | | | | |
| Loans individually evaluated for impairment | \$ 6,293 | \$— | \$ — | \$722 | \$— | \$3 | \$ — | \$7,018 |
| Loans collectively evaluated for impairment | 42,002 | — | 14,752 | 19,348 | 193 | 2,221 | 5,580 | 84,096 |
| Ending balance | \$ 48,295 | \$— | \$ 14,752 | \$20,070 | \$193 | \$2,224 | \$ 5,580 | \$91,114 |

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Our recorded investment in loans as of June 30, 2015, December 31, 2014 and June 30, 2014 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of our impairment methodology was as follows (in thousands):

June 30, 2015

| | Commercial | Mortgage Finance | Construction | Real Estate | Consumer | Leases | Total |
|---------------------------------------------|-------------|------------------|--------------|-------------|----------|----------|--------------|
| Loans individually evaluated for impairment | \$93,944 | \$— | \$16,749 | \$10,565 | \$— | \$6,437 | \$127,695 |
| Loans collectively evaluated for impairment | 6,294,763 | 4,906,415 | 1,820,783 | 2,823,440 | 23,789 | 90,588 | 15,959,778 |
| Total | \$6,388,707 | \$4,906,415 | \$1,837,532 | \$2,834,005 | \$23,789 | \$97,025 | \$16,087,473 |

December 31, 2014

| | Commercial | Mortgage Finance | Construction | Real Estate | Consumer | Leases | Total |
|---------------------------------------------|-------------|------------------|--------------|-------------|----------|----------|--------------|
| Loans individually evaluated for impairment | \$35,165 | \$— | \$— | \$13,880 | \$62 | \$173 | \$49,280 |
| Loans collectively evaluated for impairment | 5,834,054 | 4,102,125 | 1,416,405 | 2,793,247 | 19,637 | 99,322 | 14,264,790 |
| Total | \$5,869,219 | \$4,102,125 | \$1,416,405 | \$2,807,127 | \$19,699 | \$99,495 | \$14,314,070 |

June 30, 2014

| | Commercial | Mortgage Finance | Construction | Real Estate | Consumer | Leases | Total |
|---------------------------------------------|-------------|------------------|--------------|-------------|----------|----------|--------------|
| Loans individually evaluated for impairment | \$27,679 | \$— | \$— | \$19,790 | \$— | \$22 | \$47,491 |
| Loans collectively evaluated for impairment | 5,267,689 | 3,700,253 | 1,567,667 | 2,212,130 | 15,847 | 95,892 | 12,859,478 |
| Total | \$5,295,368 | \$3,700,253 | \$1,567,667 | \$2,231,920 | \$15,847 | \$95,914 | \$12,906,969 |

We have traditionally maintained an unallocated reserve component to compensate for the uncertainty and complexity in estimating loan and lease losses including factors and conditions that may not be fully reflected in the determination and application of the allowance allocation percentages. We believe the level of unallocated reserves at June 30, 2015 is warranted due to the continued uncertain economic environment which has produced losses, including those resulting from borrowers' misstatement of financial information or inaccurate certification of collateral values. Such losses are not necessarily correlated with historical loss trends or general economic conditions. Our methodology used to calculate the allowance considers historical losses; however, the historical loss rates for specific product types or credit risk grades may not fully incorporate the effects of continued weakness in the economy.

Generally we place loans on non-accrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining unpaid principal amount of the loan is deemed to be fully collectible. If collectability is questionable, then cash payments are applied to principal. As of June 30, 2015,

\$904,100 of our non-accrual loans were earning on a cash basis compared to \$310,000 at December 31, 2014. A loan is placed back on accrual status when both principal and interest are current and it is probable that we will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

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A loan held for investment is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. In accordance with ASC 310 Receivables ("ASC 310"), we have also included all restructured loans in our impaired loan totals. The following tables detail our impaired loans, by portfolio class, as of June 30, 2015 and December 31, 2014 (in thousands):

June 30, 2015

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|-------------------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| With no related allowance recorded: | | | | | |
| Commercial | | | | | |
| Business loans | \$11,557 | \$15,805 | \$— | \$20,736 | \$— |
| Energy | 37,938 | 37,938 | — | 6,956 | 28 |
| Construction | | | | | |
| Market risk | 16,749 | 16,749 | — | 2,792 | — |
| Real estate | | | | | |
| Market risk | 3,639 | 3,639 | — | 3,696 | — |
| Commercial | 2,951 | 2,951 | — | 3,732 | — |
| Secured by 1-4 family | — | — | — | — | — |
| Consumer | — | — | — | — | — |
| Leases | 6,432 | 6,432 | — | 1,072 | — |
| Total impaired loans with no allowance recorded | \$79,266 | \$83,514 | \$— | \$38,984 | \$28 |
| With an allowance recorded: | | | | | |
| Commercial | | | | | |
| Business loans | \$44,153 | \$47,153 | \$13,672 | \$29,602 | \$— |
| Energy | 296 | 296 | 45 | 702 | — |
| Construction | | | | | |
| Market risk | — | — | — | — | — |
| Real estate | | | | | |
| Market risk | 1,920 | 1,920 | 46 | 2,693 | — |
| Commercial | 436 | 436 | 65 | 466 | — |
| Secured by 1-4 family | 1,619 | 1,619 | 226 | 1,757 | — |
| Consumer | — | — | — | 21 | — |
| Leases | 5 | 5 | 1 | 145 | — |
| Total impaired loans with an allowance recorded | \$48,429 | \$51,429 | \$14,055 | \$35,386 | \$— |
| Combined: | | | | | |
| Commercial | | | | | |
| Business loans | \$55,710 | \$62,958 | \$13,672 | \$50,338 | \$— |
| Energy | 38,234 | 38,234 | 45 | 7,658 | 28 |
| Construction | | | | | |
| Market risk | 16,749 | 16,749 | — | 2,792 | — |
| Real estate | | | | | |
| Market risk | 5,559 | 5,559 | 46 | 6,389 | — |
| Commercial | 3,387 | 3,387 | 65 | 4,198 | — |
| Secured by 1-4 family | 1,619 | 1,619 | 226 | 1,757 | — |
| Consumer | — | — | — | 21 | — |
| Leases | 6,437 | 6,437 | 1 | 1,217 | — |

| | | | | | |
|----------------------|------------|------------|-----------|-----------|-------|
| Total impaired loans | \$ 127,695 | \$ 134,943 | \$ 14,055 | \$ 74,370 | \$ 28 |
|----------------------|------------|------------|-----------|-----------|-------|

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December 31, 2014

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|-------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| With no related allowance recorded: | | | | | |
| Commercial | | | | | |
| Business loans | \$9,608 | \$11,857 | \$— | \$7,334 | \$— |
| Energy | — | — | — | 375 | 25 |
| Construction | | | | | |
| Market risk | — | — | — | 118 | — |
| Real estate | | | | | |
| Market risk | 3,735 | 3,735 | — | 7,970 | — |
| Commercial | 3,521 | 3,521 | — | 2,795 | — |
| Secured by 1-4 family | — | — | — | 1,210 | — |
| Consumer | — | — | — | — | — |