Texas Capital Bancshares, Inc.

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Texas Capital Bancshares, Inc.

Q2 2021 Earnings Conference Call

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CORPORATE PARTICIPANTS

Rob Holmes - *President, Chief Executive Officer*

Julie Anderson - *Chief Financial Officer*

Jamie Britton - *Director of Investor Relations and Corporate Finance*

PRESENTATION

Operator
Good day and welcome to the Texas Capital Bancshares Second Quarter 2021 Earnings Conference Call. All participants will be in a listen-only mode. During this presentation, please note that this event is being recorded. If you need assistance, please signal a conference specialist by pressing the "*" key followed by "0."

I would now like to turn the conference over to Mr. Jamie Britton, Director of Investor Relations and Corporate Finance. Please go ahead, sir.

Jamie Britton
Good afternoon and thank you for joining us for TCBI's second quarter 2021 earnings conference call. I'm Jamie Britton, Director of Investor Relations.

Before we begin, please be aware this call will include forward-looking statements that are based on our current expectations of future results or events. Forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from these statements. Our forward-looking statements are as of the date of this call and we do not assume any obligation to update or revise them. Statements made on this call should be considered together with the cautionary statements and other information contained in today's earnings release, our most recent Annual Report on Form 10-K and subsequent filings with the SEC. We will refer to slides during today's presentation, which can be found along with the press release in the Investor Relations section of our website at texascapitalbank.com.

Our speakers for the call today are Rob Holmes, President and CEO; and Julie Anderson, CFO. At the conclusion of our prepared remarks, our operator will facilitate a Q&A session.

And now, I'll turn the call over to Rob for opening remarks. Rob?

Rob Holmes
Thank you, Jamie. And thanks everyone, for joining us today to discuss what we believe was another solid quarter. Following my remarks, Julie will walk us through the quarter's detailed financial performance.

But, first, I'd like to talk about the current state of the bank, the journey we are on and our continued areas of focus. We are working intently to build something special in the best market with a team we strongly believe in. Last quarter, we communicated several commitments to you and I'm happy to report that we delivered on all of them.

Number one, we announced we began transitioning correspondent lending activities to PHH and divest our MSR portfolio. As you can see, both actions have been taken and those processes are nearing completion. We said, based on our go-forward conservative approach, we would continue to strengthen our capital position. Our sub-debt transactions this quarter, coupled with our first quarter transactions, result in the strongest capital position in the history of the bank.

Number three, we promised to slowly and smartly make progress on our excess liquidity and resume our investment portfolio build, which as you can see from the balance sheet we executed. And before, we communicated credit will remain benign in the short-term. All the metrics continue to improve and we continue to have confidence in the portfolio's performance overall.

Number five, when announcing the mortgage warehouse credit risk transfer transaction, we said we had multiple levers we could utilize in mortgage to better support our current clients and introduce our best-in-class platform to new ones. We executed a number of those as material declines and refinance volume came to fruition. And we are now better positioned going into the third quarter. In fact, we gained market share in the back half of the second quarter.

And lastly, we said we'll begin reinvesting in talent. I cannot be more excited with the team that we have and the team we are building. Just last week, we on-boarded the largest number of new employees ever. We are establishing a culture of clear communication, transparency and accountability. We plan to continue to be very clear and transparent with you as well. And we have no doubt that you will hold us accountable. As you can tell, we are focused on enhancing a strong foundation from which we'll move forward.

Now, I'd like to provide more color and go deeper on the details of actions taken. First and foremost, our team is paramount. Our success depends entirely on our talent. In the past six months, we have brought on additional talent at all levels of the organization.

In April, I described how excited I was to welcome Tim Storms, Nancy McDonnell and Shanny Jurecka. Since then, we have made key additions. Julia Harman and Rick Rodman joined us this quarter and will lead corporate banking and business banking respectively. Both segments are critically important and demonstrated our renewed commitment to C&I.

We see great opportunity to profitably invest in our primary markets. And with discernment, we will continue to do so. Don Goin has recently joined as our new Chief Information Officer with responsibility for all technology and related functions. Don has led digital and IP transformations at institutions much larger and much more complex than ours and is experienced in delivering leading client experiences in banking and financial services, which is a focal point for us moving forward.

We were happy to promote Madison Simm who at one time was actually a client of Texas Capital and then joined as Head of Strategic Initiatives for our Mortgage Businesses. He will become President of Mortgage Finance upon Jack Nunnery's retirement in June. I told you how impressed I am with our national businesses, especially mortgage finance and I cannot be more excited than the expected industry veteran like Madison agreeing to assume this role.

The third quarter is off to a very strong start as well. Jon Larson has been appointed Head of Homebuilder and Community Finance, previously known as Specialized Residential Real Estate. With Jon joining us, we have a more talented and knowledgeable leadership team for the

Homebuilder industry, which will allow us to execute on the many opportunities we see for improvement in this business. We are fully committed to the Homebuilder segment.

We are also excited to see the partnership between Jon and our very well-known Director of Community Development, Effie Dennison, expand to provide value in the communities in which we work and live. We are making tremendous progress and we will have more significant talent announcements soon. As you can clearly see, we have a highly accomplished leadership team that now transcends several levels of the organization. I compare them favorably to any team in the industry.

Importantly, our accelerated approach to attracting and adding key talent will allow us to pool our strategy forward. This is a type of experience we need to truly build a flagship financial services firm, one that allows us to engage, support and strengthen the communities we serve. Over the past quarter, I've been lucky to spend significant amounts of time in our markets. And I can tell you what we are building is resonating.

Our clients believe in our brand and are rooting for us to deliver. Our current teams are fully invested and prospective bankers are telling us this is an opportunity in a company they want to be a part of. Also, this quarter, we have added more client-facing professionals than at any point in our history, but the numbers do not matter. The quality of the person and the talent does, and we are not compromising on either.

One of the reasons our story is resonating is, though we are making significant changes, we are taking the time needed to ensure the investments and structure we were adding will enable our bankers to serve clients efficiently. We are acutely aware that building trusted relationships in our core markets and industries requires not only an investment of time but also higher touch service and we are empowering our teams to provide it. To that end, we are ensuring each new banker has a support staff and technology they need to deliver the value of an entire bank to all clients.

We are building a balance sheet and a business model that enables Texas Capital to support its clients through all cycles, full stop, which brings me to the actions we have taken to further strengthen our balance sheet. By now, it's clear that we are managing to a more, some may say conservative, I say appropriate capital position. And once supported by more consistent, high-quality earnings, which will earn us the right to be as opportunistic as we want to be in the future. The first quarter's preferred raise in credit risk transfer or a much needed start, both, materially improved capital and enhanced our ability to support our clients.

The latter even helped diversify our funding, which is prudent and value-added. Though we were the first regional bank to execute a CRT successfully, you may have noticed that others in the market are recognizing the value of the structure. And we expect this to continue as an important tool in the capital and liquidity management playbook going forward.

Early in the second quarter, we made a decision to transition our correspondent lending business and sell our MSR portfolio. We have been executing against those objectives since the announcement. And while the second quarter's financials continue to reflect the business's

inherent volatility, we expect this to be immaterial by third quarter and completely removed in the fourth.

As expected, revenues declined ahead of expenses. The associated expenses will quickly follow in the third quarter. The decision to exit these efforts is completely consistent with our goal to simplify the business and reinvest in higher quality, less volatile earnings going forward, while being mindful of capital. And importantly, we did it in a responsible way, decisively, efficiently and with the majority of our correspondent winning team and the majority of our clients smoothly transferring to the PHH platform.

Later in the second quarter, we further supplemented capital with a $375 million sub-debt issuance. And we have a capital stack that puts our risk-based capital ratios in line with desired levels and right in line with or better than where our peers want to be.

While others may be returning capital, we are accelerating out of the downturn. Excited to be reinvesting in the many opportunities we see for sustainability and growth. Julie will discuss this in detail, but as I briefly mentioned, it's important to note the success we have had in trimming our excess liquidity position. We deliberately paused upon my arrival to assess market conditions and go-forward strategies. But now, we are managing toward a more efficient balance sheet.

I hope by my considerable actions to-date to repair and improve all aspects of our balance sheet that it is apparent we will always take a conservative approach as it relates to all aspects of balance sheet management. As such, we recognize the importance in maintaining appropriate levels of liquidity. But we believe we can do it more efficient, thus more profitable, and we will.

The team we are building shares with you, that unquestionable financial resiliency is foundational to our success. This core financial tenet, coupled with the best-in-class risk-management practices, Tim and his teams are implementing and reinforcing, will ensure Texas Capital be here for its clients when they need us most through all market cycles.

We do have a long way to go but I’m proud of our people for their dedication and effort over the past six months. The operating committee continues to meet routinely to both drive consistent and thoughtful execution against our strategic objectives and determine the need for future investment to enhance client-focused value. The balance sheet committee is hitting its stride in convening regularly to ensure capital is managed wisely through diligent client selection and appropriate allocation to only the right opportunities with only the right clients.

And, we just completed our third round of quarterly business reviews, which are already delivering on the goal of appropriately aligning capital and other resources against our businesses and client solutions, while focusing on delivering a high-touch client experience. We look forward to sharing additional details with you on these topics as well as unveiling our vision and our goals in a few weeks when we host our Strategic Update Call.

With that, I'll turn it over to Julie to comment on the quarter. Julie?

Julie Anderson
Thanks Rob. My comments will address one spot through 12. We're reporting another solid quarter as we continue to take action strengthening our balance sheet to ensure we're well positioned with appropriate capital levels in line with our go-forward expectation.

With respect to our operating results, total revenue for the second quarter was $227 million, down slightly from the first quarter. The biggest impact coming from the transition of correspondent lending and associated sale of the MSR portfolio. Net of PPP, we saw growth in the core LHI portfolio and see momentum going into the third quarter. Our non-interest expense was flat linked quarter with the full quarter of expenses related to correspondent lending as we transitioned the business and closed the MSR sale.

For a second consecutive quarter, we recorded a negative provision as economic conditions continue to improve and our non-performing as well as criticized level came down. While confident about the quality of the portfolio, we continue to be cautious and conservative in our evaluation of future economic conditions. And we continually refresh that view paying particular attention this quarter to specific factors such as the ongoing benefits from stimulus, the Delta variant, inflation and continued supply chain challenges.

There were a few noteworthy items for the quarter I want to highlight. Loan fees, excluding PPP fees, increased from first quarter levels and we've included additional details which will be helpful to understand the context and fluctuations in core loan yield as a result of the fee. The current quarter's fees are higher than normalized levels, consistent with client and business activity. PPP fees were up in the second quarter and while PPP fees yet to be earned total $8 million, those amounts would be earned over the next few quarters. So quarterly amounts will be lower going forward. Given the nature of the program and the forgiveness process, the pace remains uncertain as you can see from our recent results.

During the quarter, we closed on the sale of the MSR portfolio and worked through the transition process for correspondent lending. The quarterly results include a full quarter of the business's expenses but lower revenues in prior quarters as expected. Third quarter results will have a few lingering expenses as we finalize the actual transfer of the servicing assets.

As Rob mentioned, we executed on the issuance of a $375 million sub-debt during the quarter, following a successful perpetual preferred issuance and CRT transaction in the first quarter. The result of these actions leaves us with capital levels that are consistent with our go-forward expectation. With the timing of the issuances and subsequent redemption of higher priced debt, there was about $2 million in excess interest and dividend cost in the second quarter and another $2 million of un-amortized debt issuance cost that was recognized through non-interest expense upon redemption.

In the quarter, liquidity levels were down over $4 billion compared to the end of March, as we more aggressively exited certain higher cost index deposits. Even with the Fed's recent decision to increase interest on excess reserves to 15 basis points, these deposits were in a negative spread situation so that will translate into improved revenue in future quarters.

Today, we have greater discipline on optimizing rates toward appropriate market level and each relationship is being evaluated for broader opportunity. We're comfortable with the current investment portfolio level and in the near-term purchases will replace runoff to maintain the current level. No meaningful net increase in balances is expected. Liquidity is, as Rob mentioned, a core tenet of financial resiliency and will remain a primary focus going forward.

Our credit trends continue to improve, net charge-offs for the quarter were slightly over $2 million and non-accruals continue to decrease from levels experienced last year. In fact, this was the sixth consecutive quarter of improved non-accrual level. Despite the improving economic outlook and underlying credit fundamentals, we remain disciplined and conservative with a substantial reserve built over the last 18 months.

While we had another quarter of negative provision, our allowance for credit losses on loans, excluding mortgage finance, is 1.46%, up from 1.18% at the end of Q4 2019 and 1.24% on day-one of CECL. While we're still carrying reserves at a higher rate than day-one CECL, we note that the ratio is normalizing from its Q3 2020 high of 1.84% as we evidence improvements in the level and composition of criticized.

ACL currently represents 2.6 times non-accrual loans and the ratio has increased for the past five quarters. Total criticized loans were down this quarter and included some meaningful pay-offs at par in CRE, specifically in hospitality. Average LHI, excluding mortgage finance, was down on a linked quarter basis. But after netting out for reduction from PPP forgiveness, we actually had net growth in loans, excluding mortgage finance.

Utilization remains low, but we're seeing positive momentum with our more....our increased and more disciplined calling efforts. Core loan yields continue to hold up and loan spreads improved slightly as a result of continued funding cost improvement and growth in non-interest-bearing deposits. In addition, though volume strengthened as the quarter progressed, we experienced lower mortgage finance volumes in the early months of Q2 as refinance volumes came down.

We experienced another quarter of average growth in non-interest-bearing deposits coupled with targeted reductions in higher cost interest-bearing deposits, specifically the indexed deposits. We'll continue to actively manage the portfolio mix and focus on growth in treasury relationships, which is a longer sales cycle, but will drive more operating deposits as well as fee income over time.

Now, moving on to NIM and net interest income. Our net interest income was down with normalization in the refinance market, but the impact was somewhat offset by higher fees both in core loan fees as well as PPP fee. NIM was up slightly as targeted reductions in some of the higher priced index deposits allowed us to remove some of our lower yielding earning assets. Most of that occurred later in the quarter, so additional improvement will show up in the third quarter results.

Warehouse yields declined late quarter as we once again focused on pricing structure as needed. We would expect some continued compression in these yields during the next few quarters, but all pricing decisions will take into consideration each relationship, whole profitability with a focus on maximizing overall returns.

Our core LHI yields, net of the fee fluctuations, have been fairly stable for the past four quarters with spreads actually improving this quarter. The low fours continue to provide relief even if at the expense of near-term asset sensitivity.

Our second quarter non-interest income level was consistent with expectations for lower mortgage finance volumes as well as for the transition of correspondent lending. Our continued focus on optimizing treasury pricing and relationship profitability benefited our deposit service charge income, which was consistent with the higher level experienced in the first quarter.

With new treasury officers and more deliberate calling, we're getting more touches with clients and prospects. As we know, the treasury sales cycle is longer, but momentum is positive and gaining traction. Additionally, positive trends in wealth management fees continue with organic growth, not just positive market movement.

Our total non-interest expense for the quarter was consistent with the first quarter level. The quarter included correspondent lending expenses through the end of June. Third quarter will have only a few carryover expenses as the servicing transfer is completed.

We continue to have success in hiring bankers as well as other targeted hires. We look forward to giving more detail on our long-term strategy call, which is scheduled for September 1. And we'll include guidance on the pace of these investments. Everything that we're doing is aligned with our strategic priorities, so we believe it is important to effectively communicate our delivered approach and our commitment to execution and accountability in everything we do.

And now we'll turn it over to the operator for Q&A.

QUESTION AND ANSWER

Operator
Thank you. To ask a question, please press "*" then "1" on your touchtone phone. If you're using a speakerphone please pick up your handset before pressing the keys. To withdraw your question, please press "*" then "2." And at this time, we'll pause momentarily to assemble our roster.

And the first question will come from Jennifer Demba with Truist. Please go ahead.

Jennifer Demba
Good afternoon. Could you give us a sense, Rob, you said you've hired a lot of people across the organization since you've joined Texas Capital. Could you give us a sense of how many revenue producers have been hired since you came in?

Rob Holmes
I would say that the mix...I don't have the number exactly of revenue producers, I would say, if you told me the mix, it would be right at half. We are very conscious of this, Jennifer. We've...when I got here, we were...we did not have the right mix of back office and revenue producers, and we're coming at that in two ways. One is having a strategy, a clear strategy that we'll talk about and we're matching those revenue producers to the longer-term strategy that we'll talk and then we'll announce September 1st. And then also, it's a failure on our part not to be able to achieve scale with the back office through technology and ops. And so we're going to tap this two ways, and as we grow, change the mix of front office and back office.

Jennifer Demba
Okay. And can you give us a sense of your lending pipeline today versus what it was maybe a few months ago? I'm just trying to get a sense of what kind of momentum we're seeing in terms of loan demand?

Rob Holmes
I would say that we...as Julie said, excluding PPP, our loan volumes went up just fairly slightly, basically stable. But to think about in the context of the greater environment, when loan growth has been slow across the industry, and we've deliberately...we've deliberately exited certain names and reduced exposures over the last, say, 24 months due to the problems that we had. So I'd say the loan growth is actually pretty good. But remember, we're really focused on relationships, best in class management teams and companies and not loan growth. And so over time, you'll see that be a focus. We'll talk more about that.

Jennifer Demba
Okay. One more question. You said that most of the expenses from correspondent lending and the MSR portfolio would come out in the third quarter. Julie, can you give us a sense of what that expense rate might look like, run rate might look like in third quarter versus second?

Julie Anderson
Yes. Jennifer, I mean, I think there's still just some leftover expenses as we transfer the servicing and...I mean, I think, probably, I don't know, $4 million or $5 million in expenses in the third quarter, as opposed to the fourth quarter, I mean, second quarter, when we had a full quarter of everything. It will be nominal. There will be nominal income impact and nominal expense impact in the third quarter.

Jennifer Demba
Okay. But you think expenses will be down $4 million or $5 million sequentially?

Julie Anderson
I think in the third quarter, I think, the expenses related to correspondent are probably $5 million.

Jennifer Demba
Okay. Thank you.

Operator
The next question will come from Peter Winter with Wedbush. Please go ahead.

Peter Winter
Hi. I was wondering, Julie, if you could just talk about net interest income, it came in lower than I was expecting for this quarter. Could you just give us some guidance that maybe the second quarter is the bottom for net interest income? Just looking out a little bit directionally in the third quarter.

Julie Anderson
So Peter, I would tell you, we always...we're always focused on net interest income, but I guess predicting net interest income in the third and the fourth quarter is really not the focus. The focus is everything that we're doing is to position us for sustainable, more predictable earnings going forward. So there can be some fluctuations when you have seasonality with mortgage finance. I think in the core book, well obviously, like what I said in the commentary and Rob mentioned, we're getting traction. There's pipeline activity. Mortgage finance in the second quarter as refinance volumes came down. We saw some...our numbers come down at the beginning of the quarter, but they came up later in the quarter. I think third quarter, we'll have a good mortgage finance quarter. In fourth quarter, will we see some seasonality? Maybe. So, I think that net interest income for the long term is what we're focused on. And so there could still be a few fluctuations in the next couple of quarters, is that fair?

Peter Winter
Okay. Thanks. And then, Rob, a question for you. I wanted to ask; you had put in an application to convert to a Texas State Chartered Bank. I was just wondering, what's the rationale for doing that and some of the advantages for doing that?

Rob Holmes
So we were actually an out-liner, it seems odd, I guess, on the surface that being the size that we are, if you're not familiar with this discussion, that this may be an interesting move. But the fact of the matter is we were the largest bank in Texas that wasn't a State chartered bank. So if you go look at the largest banks in Texas, we're the only one that wasn't. So it's consistent with what others do and the State charter does not hinder us in any way to do any type of business or product in any other State. And it's consistent with our desire to become more relevant with our vendors. We're more relevant with our regulators and we believe having our primary Texas focus in doing business in this market, it was the appropriate thing to do.

Peter Winter
Got it. Thanks for taking my questions.

Operator
The next question will come from Brett Rabatin with Hovde Group. Please go ahead.

Brett Rabatin
Hey, good afternoon. I was hoping maybe, Julie, to come at the NII question in a different way, just thinking about all of the moves in the quarter in terms of management of the balance sheet liquidity. Can you maybe give us an idea of, from a basis point perspective, what you think the margin could trend towards with the actions you took in 2Q? All else equal, I know PPP is going to have an impact with lower fees, but it would seem like your margin could move up over the next quarter, at least anyway. Maybe some comments on margin, if you might.

Julie Anderson
Sure. You know Brett, I don't like to talk about NIM, but I'll focus on the differential income. But again, because we can have some variations. But again, if you look at the different pieces, so we did...there was about $4 billion of deposits that were run off and that was back end loaded. Most of that happened at the end of the second quarter. So it wasn't reflected in liquidity. You can see our ending liquidity which was $4 billion lower. So we'll have...that's definitely going to be beneficial. Those deposits were...were at a negative spread. So you'll see the full quarter of that in the third quarter. So that's certainly something that's positive.

Again, on the core loan side, our yields and our spreads are holding up very well. There could be...there could still...there could be some compression on the mortgage finance side. But I think you'll see the volumes holding there and maybe even be a little bit higher in the third quarter. So that's the different part. I think that the fact that NIM was flat to up a little bit from Q1 to Q2, I think that's probably a positive indicator. But those are the different parts that would factor into that.

Brett Rabatin
Okay. Yes, I figured you wouldn't want to give me the answer I was looking for. So I guess the other question is just around that. Are you done with the balance sheet changes or will you continue to do things to the balance sheet to manage equity lower in the near term? Or is that going to be more of a natural progression as you grow the loan portfolio?

Julie Anderson
Yes. So we'll talk more holistically about that on September the 1st, but I can tell you that there...I think, the securities portfolio, we're comfortable with the level where that is right now based on current rates. So I don't think you'll see us move that much if rates stay consistent with where they are. Is there a little bit more room for some runoff of some of the higher cost deposits?

Probably. I think the bulk of that happened in the second quarter, but there's probably a little bit more room there. But I think that you'll see the full quarter and third quarter of the second quarter actions. And then we'll talk again more holistically on September the 1st of kind of what you could expect balance sheet composition, liquidity, and securities to look like going forward.

Rob Holmes
The only thing I would add is we would...the only thing I would add is I think we'd look to re-close the securities portfolio with anything that paid off.

Julie Anderson
Correct. Yes. To maintain the current level, yes.

Brett Rabatin
Okay. Fair enough. And then maybe one last one, if I could, just around hires. Rob, are you done with the senior hires in terms of lines of business or should we expect to see additional ones here in the near term?

Rob Holmes
No, I think you'll…I think in the next month you'll have two very significant hires for the firm both at the operating committee level and look forward to sharing that with you and its part of the strategy as well.

Brett Rabatin
Okay. Thanks. Appreciate the color.

Operator
The next question will come from Brady Gailey with KBW. Please go ahead.

Brady Gailey
Hey thanks. Good afternoon guys. I wanted to start on the deposit side. If you look at period end deposit, they were down about $4.5 billion. I know you guys mentioned strategically shrinking some of those higher cost index deposits. I was just wondering, I mean, the down $4.5 billion? How much of that was what you call strategic shrinkage in deposits?

Julie Anderson
What you saw in interest-bearing, that's strategic. I think it's roughly $4 billion. That's the strategic repositioning. Non-interest deposit spread, you'll remember we can have some fluctuations in that with quarter end and average. So a non-interest deposit average is a better indicator, but as far as the interest bearing, the ending reflects the strategic runoff that we get.

Brady Gailey
Got it. And then, Julie, I've noticed over the years that the asset sensitivity of Texas Capital has been coming down. It came down a little bit more this quarter, but can you just talk about the components as far as why Texas Capital is losing some of its asset sensitivity here?

Julie Anderson
Sure. We think, you know, that all of that is good and we wanted that little bit less asset sensitivity kind of longer-term, not just like quarter but year-over-year. We have more floors in place, which are serving us well. And then, obviously that having a securities portfolio where in the past we really haven't had any security to speak of, that's reduced our asset sensitivity a little.

On a quarter-over-quarter basis, we had the HLAs, highly liquid assets, the cash that ran off, that's a 100% beta. Some of the deposits, the index deposits that we ran off, well we…well, I would talk about them as 100%. We model it at 85%. So there was a little bit of difference there, but it's what that action is so positive for net interest income. So we think a little bit of asset sensitivity that we're giving up, it's going to be very reflective in net interest income. And again, in September 1st, we'll talk a little bit more on how we plan to manage interest rate risk going forward, but hopefully, that helps answer your short-term question.

Brady Gailey
Yes. That's great. And then, finally for me, Rob, you've done a great job of working on the capital side of Texas Capital and it has more capital miles than I think I've ever seen as you had talked about. If you look at the stock, especially after the recent sell off in….the stock is 113% of tangible book value. You have plenty of capital, you know, why not get started on the share repurchase program at this time?

Rob Holmes
We think we can do much better investing in organic growth. We have a lot of opportunities. I am excited for you to listen to the story September 1st. There's a lot of banks out there doing the return to capital playbook. There are so many opportunities with new products and services and businesses in the markets that we're in. We can get a much greater return in repurchasing our stock. I agree that it's…well, it's…I'll leave it there.

Brady Gailey
Okay. All right great. Thanks for the color guys.

Operator
The next question will come from Brad Milsaps with PSC. Please go ahead.

Brad Milsaps
Hey. Good afternoon.

Julie Anderson
Hey Brad.

Brad Milsaps
Hey, Julie. Rob, I was just curious…I know you didn't have the number at hand of the number of relation managers that you've brought in since you started. But just…did you have a sense for maybe, you know, the amount of loans that they manage that their previous stops or just kind of want to get a sense of kind of what the potential is there with the RMs that you have brought in?

Rob Holmes
Yes. I would say that I would hopes going forward your focus. I know that this bank, you used to talk a lot about, new bankers, new assets. The new bankers and the current bankers that are here are the bankers that understand the whole myriad of corporate finance, if you will. And

there's going to be a lot of other things to do with these clients than just loans. And so loans is an outcome, if you will, of banking a great client over the lifecycle of that client. And it will go up and it'll go down. So we are not targeting loans. We're targeting relationships with a broad full myriad products providing solutions to management teams.

Brad Milsaps
Okay. And I guess, in that same vein, do you…I know a lot of this was in motion before you got there, but do you feel like you've sort of right-sized the loan portfolio to a steady-state where you can, you know, it's at a point where you like what's in there. There's nothing else that, in a major way, that you feel you need to run off or turn over at this point?

Rob Holmes
No, I think that…look, you're right. When there's a new team here, Tim and me both, you don't know what you have until you go deep. But I think what you see happening…well, first of all, being provisioned correctly is part of good capital management, right? So let me say that first. So we're really focused on having the right amount of provision.

And then, when you do a real deep dive in the loan book, the reason I think we're in good shape is, if you look at this quarter, safety dropped, we have lower NPAs, we had a de minimis amount of charge-offs and our watch list is trending down. And then the NPAs that we do have, they're with good value meaning equity and deals, call it real estate deals and good structure. These are not enterprise loans like we used to have in the portfolio that we exited or a high commodity-related issue. So I feel really good about where the portfolio is and very fortunate that that's what we found on a deep dive.

Brad Milsaps
Great. And then just one kind of final housekeeping question. Julie, I saw there was maybe $2 million of charges and other expense related to the sub-debt redemption. Anything going on in other fee income? I noticed it was up maybe $5 million sequentially. Just kind of curious, is that run rate or is there anything in there that you might say it was sort of one-time or elevated in nature?

Julie Anderson
No, I don't think so. I don't think there was any one thing that drove that. So that's probably an okay run rate for going forward.

Brad Milsaps
Okay, great. Thank you.

Rob Holmes
Thank you.

Julie Anderson
Thanks.

Operator
The next question will come from Bill Dezellem with Tieton Capital Management. Please go ahead.

Bill Dezellem
Thank you. I was hoping that you would dive into more detail behind your reference to the second half of the quarter, saw business strength building. And as part of your answer, is this a function of your internal initiatives that are gaining traction or would you say it's more a function of just the economic…general economic strength that is in your market?

Rob Holmes
Let's say the business initiatives that we're employing are going to take a long time to take effect. We're very happy with the progress. So remember, we haven't even rolled out our strategy and announced the rest of our leadership team. Now, we've added a lot of front-line people. They're just getting here, as you know. So all of those efforts are going to take a little bit to come to fruition. I think with what we talked about in improving in the back half of the quarter was specific to mortgage warehouse.

And then, we also talked about that we have a number of levers. In the last call, I think, I talked about having number of levers in mortgage warehouse that we can utilize to affect volumes, price, and otherwise. And when we realized that we were decisive in taking action to mitigate, the refi volumes have come down to kind of a normalized level, I guess, by June of 16 to 19 and then were quite there yet, in the second quarter they started going there. So our trim line continued. And now, we're at a normalized level in the sector for refi business. So when those volumes went down by that much, we did take action and we saw new clients, we saw increased volume with old clients and we did other things that really helped fund the warehouse and that's what we know about back half performance in the quarter.

Bill Dezellem
Thank you Rob.

Rob Holmes
You bet.

Operator
The next question will come from Anthony Elian with JP Morgan. Please go ahead.

Anthony Elian
Hi everyone. Rob, I want to start on the new revenue producers that you talked about. Can you give us more detail on how you recruit these professionals? Do they find you or do you reach out to them? And do you think you can keep up the strong pace of hiring from here?

Rob Holmes
So, yes, it's a great question. So, it's really great to see. So when you hire somebody on a leadership team that's new or a level or two down and they're really good, they usually bring talent withal. So, people are coming with the new people that we hire. We actually have one banker drive up here from a market last week, who literally asked for a job. I want to get part of the team, the team that you've hired. And we had extensive conversations over the weekend. And guess what? He accepted today.

So, we're seeing a really good momentum in the market. We're being very discerning that the people that we brought in are attracting other people, which is making it easier than I would have thought. It started slow, but as other people and talent came, we've gotten a lot of momentum. So, I'm not naive. I think it'll be very hard. We're competing against the best financial institutions out there. We have people coming from other states, moving to Texas. Think somebody that went to a Texas University and graduated or went somewhere else to work? We've seen that dynamic come to play. But there is a war for talent that is brutal, but we're having success.

Anthony Elian
Thank you. And Julie, you mentioned that line utilization on the LHI book remains low, but you're seeing positive momentum here. Do you think this could translate into actual loan growth in the back half of this year?

Julie Anderson
Maybe. I mean, again, it's…I think that's longer-term, but the momentum is positive. We just haven't seen any meaningful change in the utilizations yet. So, more to come on that.

Anthony Elian
Okay. And then, finally for me, I know we're still about a month away from your strategic update in September, but I'm curious if you're planning on providing any long-term financial targets or an outlook, just so we can quantify the impact of all the investments and hires you're making or if it'll primarily be a qualitative update? Thank you.

Rob Holmes
I think that we will be longer-term. And so there will be….it's just going to be…we want to be credible and accurate where we do provide that. So I think you'll see several periods out. We provide that, we'll tell you what we're going to do. And you can keep us accountable by certain actions and things that we talk about in the mid periods. So we'll definitely have some financial goals and metrics longer term.

Anthony Elian
Great. Thank you.

Operator
The next question will come from Matt Olney with Stephens. Please go ahead.

Matt Olney
Yes. Thanks for taking the question. I want to circle back on the warehouse and I'm looking for a little clarification. Did you call any participations back on the balance sheet in the second quarter? And if so how much, and then what's the remaining balance of participations off balance sheet as of June 30? Thanks.

Julie Anderson
Matt, we did. We did and that'll be in the 10-Q which will get filed in the next couple of days and I think it was about I don't know $400 million, $400 million or so that you will see a reduction in actual funded participation from the end of Q1 to the end of Q2.

Matt Olney
Thanks for that. And Julie, in terms of the timing of that, it sounds like based off the previous commentary those were maybe called in towards the back of the quarter. And then secondly, what's the appetite to bring on…to bring back the remaining around $1 billion participations back on balance sheet? What's the appetite for that?

Rob Holmes
I think what you're seeing, it's not as simple as bringing participations back on or not. I mean, there's certain comfort levels with certain clients at certain exposures that we may have participations. So, it's not like we render participation back on or off. It's how you're strategically managing the portfolio with exposure to certain clients where participation may be prudent or the right answer and by doing that, you maximize your exposure to the right clients over a portfolio of years. So, it's not just like bringing them back, it's strategic. The participations we brought back and then put back on were probably with different clients, if that makes sense.

Julie Anderson
Yes. I mean, bottom line that, we've always said that we're always going to maintain some level of participations because that's how we manage individual client concentrations. But certainly in times of increased refinance volumes, you can see that overall participations be higher than in a more normalized environment.

Matt Olney
Okay. Thank you. And then, Rob, I think you mentioned the mix shift of the warehouse volumes in recent months between refi and purchase. Any color on what that mix looks like more recently? Thanks.

Rob Holmes
Yes. I would say, it's…think about the high-30% of refi currently were the last numbers I saw.

Matt Olney
Okay. Thank you.

Operator
The next question will come from Jon Arfstrom with RBC Capital Markets. Please go ahead.

Jon Arfstrom
Hey, thanks. Good afternoon.

Julie Anderson
Hey, Jon.

Rob Holmes
Good afternoon.

Jon Arfstrom
Hey, a question for you and some of your commentary on the slide deck. You talk about re-underwriting the expense base. And curious what you're learning from that. And also, you talk about reallocating some of the expenses from correspondent lending into hires in new products and services. You touch on some of the key areas you feel are missing from your product offering that you need for longer-term success?

Rob Holmes
So, the reallocation, first, I guess, we can talk about. So we hired Don Goin, he is CIO. And before he got here, we're looking at all the investments and technology and attempting to re-underwrite them. We're bringing that forward with Don under his leadership. I think we said it before, we want to be technology enabled and banker dependent. I think Don will tell you the focal point is a client experience and software-based and digital every day. We're moving in that direction. That is a greater focus point today than it was historically at this firm. So, we are allocating dollars differently in technology. That's one.

Two, we had a large amount of expenses associated with correspondent lending that we're taking out of that business, which as you saw can be volatile and a more risky business and attract more capital. And for all the reasons we got out of it and we're ploughing that into C&I and other investments in front line. And then, we have a whole lot of…we're not…with the correspondent lending, if you think about it, there is a lot of people that left with that business which we're very fortunate. And one of the reasons we take PHA to us, we could find a home for those people. But that head count is going back in to front line of C&I and other products and services. And we'll talk more about the products and services September 1st.

Jon Arfstrom
Okay. Second question here I'm guessing hiring some of these people that you've talked about, these new leaders, frees up a bit more of your time and curious how you're spending time today versus when you started? Are you…would you call yourself on your front foot and your client calling and recruiting new bankers? Are you still spending a lot of time internally?

Rob Holmes
I'm spending a lot of time in all of those areas. I'm not doing a very good job taking much time off. So I would say that the first several months was really understanding, diligent…understanding the loan book, understanding the products, the services, the talent, the processes, the policies, the systems the technology where we were in the regulatory environment and with all the different constituents and how they felt about us. So, it's a good base to move forward, and then, we've spent a lot of time attracting talent, talking to talent at all levels of the organization. As you know, we're supplementing the organization from the top down and the bottom up.

We're starting a new junior program next week with 60 new analysts. We've never had a wholesome junior program before. So, we're really, really excited about that. And frankly, I've spent time retaining talent as well. We had a lot of talent here that I needed to go and sit down with and describe the vision and ask to be a part of it. And I'm really, really happy with the talent that is here as well. And that…I just don't want to miss that key component, it's not all new people. There's a lot of people here that we're focused on and I'll continue to do that.

And then, the one thing that did change is probably about a month ago…or maybe eight weeks ago, I hit the road. And I've been in all of our markets numerous times, probably more times than the people who work there with me want me to come. But we've been in the markets a lot and it's been very, very revealing. And we've taken market conversations and feedback from both our clients, prospects, but also our employees. And we're listening and we're making changes to get better. So we're getting to be more proactive in the markets and I'm really excited about that. So I guess, I would say, if there is any change at all, it would be more in the market divisible. But there's also this September 1 deadline that we're focused on and making sure we have clarity for each of you.

Jon Arfstrom
Okay, good. Thank you for the help. And I look forward to that.

Rob Holmes
Thank you.

Operator
This concludes our question and answer session. I would like to turn the conference back over to President and CEO, Rob Holmes, for any closing remarks.

CONCLUSION

Rob Holmes
Well, I would just like to thank everybody for your interest in Texas Capital. We're very appreciative of your time. We're really excited about seeing you September 1 and stay safe.

Operator
Thank you for your participation in TCBI's second quarter 2021 earnings conference call. Please direct requests for follow-up questions to Jamie Britton at jamiebritton@texascapitalbanks.com. Thank you for your participation again. You may now disconnect.