Texas Capital Bancshares, Inc.

INVESTOR CONTACT
Jamie Britton, 214.932.6721
jamie.britton@texascapitalbank.com

MEDIA CONTACT
Shannon Wherry, 469.399.8527
shannon.wherry@texascapitalbank.com

Texas Capital Bancshares Inc.

Q3 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
Ladies and gentlemen, hello, and welcome to the TCBI Q3 2021 Earnings Release Call. My name is Sarah, and I will be coordinating the call today.

If you would like to ask a question during the presentation, you may do so by pressing "*", followed by "1" on your telephone keypad.

I will now hand over to Jamie Britton, Director of Investor Relations and Corporate Finance, to begin. Jamie, please go ahead when you are ready.

Jamie Britton
Good afternoon and thank you for joining us for TCBI's Third 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 Web site 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. This is Rob Holmes. Thank you for joining us, today, to discuss what we believe was an important quarter in the evolution of our firm. With me, as Jamie said, is Julie Anderson. She's going to walk us through the quarter's detailed financial performance. But first, I would like to highlight an important milestone we achieved in the quarter.

On September 1st, we shared a transformative vision for our company, one that will allow us to realize the many distinct opportunities before us, deliver a truly differentiated offering to our clients across our expanded platform and build a full service broad financial services firm that ca, seamlessly, serve our clients through their life cycles and is centered to one of the largest and fastest growing economies in the country, Texas.

On the call, we provided considerable detail on the strategy, while being very transparent about the sustained investment of both time and resources we believe will be required to achieve our long-term goals. Immediately following the call, we started meeting with various constituents to learn each of their specific perspectives.

First, we discussed all facets of the plan in detail again at an extended company-wide townhall. Then, we traveled to discuss with various types shareholders in person, attended an industry conference and heard from many more in one-on-one meetings.

The duration of the build was met with some frustration, which I certainly understand but came as no surprise to any of us.

Importantly, the strategy also created excitement. We were greatly encouraged, not only by the support to create shareholder value by building something differentiated in the space but also by the recognition that it will take time, talent, investment, and fortitude to do so. Time was even encouraged by some, recognizing true long term value creation is indeed difficult.

We invested the better part of three weeks to provide clarity, address concerns and, importantly, also learn where we could improve the communication of the strategy. I will not go into all the details of those constructive discussions now, but I would like to address some of the high-level concerns and questions.

Do loans really not matter? Of course, they do. But-and I cannot stress this enough, we will no longer let loan growth, alone, drive our strategy. We will have a broad offering with greater value add, which will allow us to become more relevant to our clients and appeal to more prospects. To achieve our plan, the loan portfolio will, absolutely, grow.

However, it will be an outcome of covering our markets in a smart and disciplined way versus a result of our historical strategy, which was to grow the loan portfolio for growth's sake alone, not adhering to a specific go-to-market strategy, by sector.

Next. Are you sure now is the right time for an investment bank? Absolutely. Our clients need and use these products and services. They are simply provided by our competitors. Today, we provide a portion of the value stream to them, or we leverage the trust we have built to refer them to a partnering firm for execution.

We currently incur the cost of client acquisition and in almost all cases, the investment of capital in the form of loans, precisely for the opportunity to provide these types of value-added solutions. Going forward, we want to become more relevant to our clients.

We would like to control the quality of the execution from end to end and we want to capture the full value of our relationships.

Importantly, the products and services we are going to provide do not move us down the risk continuum. And finally, is this all you can achieve, a 1.1% ROA in 2025? The answer is, of course

not. We believe the platform we are doing is capable of much more. And when complete, we'll be able to deliver favorable returns through economic and market cycles.

The financial targets set forth for 2025 represent an important milestone in the journey and one we're highly focused on achieving.

We have competitive advantages others do not have. We are in the best markets in the country. We have had a commercial focused background through conception, and we have a seasoned executive leadership team now in place excited to build something that is differentiated.

We are building an operating model aligned to our vision and grounded in our values, which requires organizing around the client journey, capitalizing on adjacencies to offer expanded products and services and establishing a culture of consistent communication, accountability, and execution.

We have a clear strategic direction to expand our coverage in our core C&I markets, strictly evaluate opportunities for growth and deliver higher quality, more sustainable earnings.

Financial resilience is a core tenant, which could be an important strategic advantage, allowing us to serve our clients and our communities, through all cycles. This type of model does not deliver average results, which is why we will continue to invest in the capabilities outlined in our strategic update.

The volatility in earnings, which our current model produced the past three quarters, further evidences the need for sustained, disciplined investment. We are committed to earning each of our constituents to us, through execution. And I can assure you we will explore every opportunity to responsibly accelerate our delivery and sweep every corner for opportunities to, prudently, manage expense and self-fund as many of our investments, as possible.

We are building Texas Capital Bank the right way, which leads me to the quarter's results and what I see as encouraging steps in the right direction. The benefits of a better capitalized balance sheet are now in place. There should be no more noise from issuances or redemptions.

The loan portfolio continues to perform well, and we are confident our new risk management practices, analytics, and adherences, will maintain solid credit quality on a relative basis, going forward.

With the correspondent lending wind-down largely complete, we believe the businesses we either have or are now in the process of building are the right ones with the right risk appetite and when executed the right way, will be very well received by our clients and prospects, across our markets.

With the addition of Anna Alvarado, our new Chief Legal Officer and Corporate Secretary, our executive leadership team continues to evolve and improve upon what I believe already favorably compares to that of any of our broader peers.

Finally, the quarter underscores the importance of increasing the contribution from higher value, more stable revenue sources. Increasing our focus on treasury, wealth management and investment banking will deliver significant value.

The hard work of executing and delivering is still ahead of us. But we have tangible momentum and a solid foundation created over the past six months, from which to build.

I want to thank you for your continued interest in our firm and the feedback that you have provided. Acknowledging the importance of providing the proper visibility to our progress, we are, acutely, focused on determining the right external metrics and guideposts to assess our performance and when to share them. It is important to note that, internally, everything we do is intentional.

Our routines, cadences and focus are all done in a deliberate manner to drive specific outcomes. Our efforts and spend across the enterprise are now measured and will be improved upon, perpetually. As I've mentioned, credibility is important, so we will be thoughtful in our approach.

With that, I'll turn it over to Julie to discuss the quarter's financials.

Julie Anderson
Thanks, Rob. Our third quarter results further substantiate our strategy is the right one and will improve our quality of earning, in the future. A core theme of our strategy is our ability to be banker-led and technology enabled.

So, included in noninterest expense for the quarter is a $12 million write-off, and it's a direct outcome of the way we're now approaching technology, rationalizing the existing test stack, understanding what we have and aligning it to the businesses.

We've re-underwritten all the capitalized amounts and whether or not the asset was going to be used as originally intended for the life cycle that was expected. And some of it was not because of our new approach includes ongoing development and enhancement.

It was a comprehensive process between finance, our new CIO and his team, as well as the lines of business. We feel good that the balance sheet is clean now, and don't expect other such write-offs in the future.

Moving on, total revenue continued to be pressured and was down from the second quarter with the transition of correspondent lending and a lower level of loan fees. A few noteworthy items for the quarter, I'll highlight.

Loan fees, excluding PPP, decreased from second quarter levels and, as usual, we've included additional detail, which will be helpful in understanding the context and fluctuations in core loan yields, as a result of the fee.

These will fluctuate from quarter-to-quarter, consistent with client and business activity. PPP fees were down in Q3 with slightly less than $5 million fees remaining to be earned.

Average liquidity was down over $2.5 billion, reflective of our reduction in index deposits in the first half of the year. A focus on optimizing rates towards appropriate market levels continues, but the largest move occurred in the second quarter.

There will be fluctuations in the level of liquidity with growth in core LHI, as well as seasonal movement in the mortgage finance portfolio.

We remain comfortable with the current investment portfolio level and will continue to focus, primarily, on replacing runoff to maintain the current balance. No meaningful net increase in those balances is expected.

Moving now to credit on Slide 8. After two consecutive quarters of negative provision, we recorded a nominal provision of $5 million in the third quarter, resulting from our view of the economic outlook remaining consistent with the second quarter, coupled with net growth in LHI, net of mortgage finance.

As a reminder, three factors impact provision levels, our economic outlook, loan growth and loan mix. Our allowance for credit losses on loans, excluding mortgage finance, is 1.46%, consistent with last quarter. The ACL currently represents 2.5x nonaccrual loans. Overall credit trends continue to be stable and improving with another quarter of nominal net charge-offs and flat nonaccrual levels.

Total criticized loans were down this quarter and included payoffs at par and upgrades to pass primarily in CRE, specifically in hotel and senior housing. We continue to be cautious and conservative in our evaluation of future economic conditions, and we continually refresh that view.

Average LHI, excluding mortgage finance, grew on a linked quarter basis. After netting out the reduction for PPP forgiveness, we had $210 million in net growth in loans, excluding mortgage finance. Growth in C&I was approximately $600 million, excluding the PPP paydown and was offset by paydowns in CRE of $400 million, which included about $100 million of criticized.

Our core loan yields dropped a bit during the quarter, as pressure continues with our focus on client selection. Loan spreads continue to be fairly stable as compared to spreads last year at this time, as we've improved our overall funding costs.

Additionally, we saw mortgage finance volumes strengthened at the end of the second quarter, and that continued into the third quarter. We're focused on relationships and using the levers available to us that we've discussed, previously, to continue to improve our market share. That can and have translated into lower yields, but we believe the pace of the decline is stabilizing, at this point.

As a reminder, the fourth quarter and first quarter are typically seasonally weaker for warehouse balances.

Moving now to deposits on Slide 10. We experienced some growth in noninterest-bearing deposits and a full quarter benefit of the $4 billion reduction in index deposits. We experienced modest improvement in overall funding costs. Focus on growth and core operating deposits continues and that takes time. Banking the full wallet of the right clients will improve our overall funding profile, longer term, and is key to our strategy.

Moving now to Slides 11 and 12. Our net interest income was down from the second quarter, primarily related to lower loan fees. NIM was up slightly, resulting from the deliberate reductions taken in the first half of the year with some of the higher priced index deposits.

We won't focus on trying to predict fluctuations in NIM but rather, remind everyone of the different components. Warehouse yields have continued to decline, as I mentioned, but seem to be stabilized, now.

All pricing decisions take into consideration each relationship's full profitability with a focus on maximizing overall returns. Core LHI yields, net of fee fluctuations, have been fairly stable but will continue to see pressure, as the mix changes.

Banking the right clients with improved products and services will, positively, impact overall profitability and returns, as it translates into an improved funding mix, but that does take time.

The third quarter noninterest income decrease was consistent with the transition of correspondent lending.

While certainly not significant yet, we continue to see positive trends in treasury related fees and wealth management fees. Top lines in both are encouraging, as we continue to see success in our more disciplined calling efforts and continue to add talent in both areas.

Net of the $12 million tech charge, noninterest expense was down $9 million from the second quarter and is reflective of the reduction in correspondent lending expenses.

In the fourth quarter, we would expect $1 million to $1.5 million in remaining CL expenses and basically no CL expenses, going into 2022. We continue to have success in hiring bankers, as well as other targeted hires.

As we disclosed on September 1st, the pace of those investments will not be linear. And while we're focused on self-funding a portion of it with a reduction in CL, as well overall corporate initiatives focused on ensuring the right allocation of resources, we won't be shortsighted in our decisions about spending.

Everything that we're doing is aligned to our strategy and we'll continue to communicate the results of our efforts, including more detail as we move further into the time horizon of our longer-term plan.

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

QUESTION AND ANSWER

Operator
Absolutely. We will now begin Q&A. If you would like to ask a question, please press "*", followed by "1" on your telephone keypad, now. If you do change your mind, please press "*", followed by "2". When preparing to ask a question, please ensure your line is unmuted.

Our first question will come from the line of Brady Gailey with KBW. You may proceed.

Brady Gailey
Hey, thanks, good afternoon, guys.

Rob Holmes
Hey, Brady.

Brady Gailey
My first question, I wanted to start just on the capital base. If you look at common equity Tier 1, that ratio was up again this quarter, by about 20 basis points. It's now 10.7%. And if you look at the balance sheet, kind of a snapshot as of today, it looks like you do have a lot of excess capital and the buyback would, potentially, make sense.

But I know you guys have a big plan in front of you and maybe looking forward, you may think you don't have excess capital. So, maybe just comment on your capital base, not necessarily how it looks today, but do you think you have excess capital now, or do you think the capital base is adequate for the plan that you guys rolled out on September 1st?

Rob Holmes
Brady, I would just point you to the long-term goals of what our talent is and what we said we keep CET1 at on the September 1st call of 10, or greater. And if we do what we say we're going to do--I said at the outset of this call--that it will require loan growth to be successful, and we need this capital to execute our strategic plan. And we're not interested in the short-term returns of a buyback, because we'll have greater returns, by achieving the plan in which we'll need the capital.

Brady Gailey
Right. And then moving on to the warehouse. It's nice to see continued strength there, and warehouse is up a little bit linked quarter.

Rob, longer term, how do you think about the size of that mortgage warehouse business? I think, as of the third quarter, it's about 22% of average earning assets. Is that kind of where you'd like to see it longer term, or what's your thoughts on that longer term?

Rob Holmes
So, what I would say is, let me just touch on the short term real quick, because we talked about the six levers, I think, at the end of the first quarter that we had to pull. We've done a combination of those to where we, actually, were losing share kind of at the beginning of the second quarter.

At the end of the second quarter, we started gaining share and we've continued to gain share, since then. So, our strategies to battle that have actually worked and come to fruition. So, I'm really excited about the warehouse, itself, and moving forward and our ability to execute. And as Julie said, I think the compression in yields is about done.

So, I foresee a really constructive path forward, there. As it relates to the overall portfolio and the warehouse as a percentage of earnings or balance sheet, or assets, or whatever, I'm not going to project the future. I would like it to be less than it is today, obviously. But I just want to state, clearly, that we're bullish on that business.

So, should it be a smaller part of assets for composition of earnings? Absolutely. We said that, that's our goal. That's what the strategy does but not at the expense of the warehouse, itself.

Brady Gailey
And then lastly for me, I was a little surprised that the reserve ratio stayed flat linked quarter at 1.6%. I mean, it seems like an elevated level. I mean, if you look at criticized assets, they fell almost 20% linked quarter, and now you're back with the positive provisions.

So, maybe just talk about the reserve, the likelihood of that releasing lower, over time? And do you think you could still see a negative provision, or is the provision normalizing higher from here?

Rob Holmes
I would say that we have a pretty conservative outlook, going forward, and that's the reflection, here. I think I've told you before, others on these calls, Tim and I start from a pretty conservative position and go from there.

So, I don't know what our view of the future is, compared to peers and others. But I would say that's a conservative view, and it's reflected in the level of reserves.

Brady Gailey
Got it. Thanks for the color, Rob.

Operator
Thank you, Mr. Gailey. The next question comes from the line of Brett Rabatin with Hovde Group. You may proceed

Brett Rabatin
Hey, good afternoon, everyone. I wanted to, I guess, first start with the expense base and just talk maybe about the third quarter.

And I know, Julie, that it's going to be lumpy, in terms of what you invest in and how that shows up, quarterly. But could you maybe just talk about the strategic plan, relative to the third quarter and the double-digit expense growth that you kind of laid out when you did that strategic plan.

Does that still seem the case, in terms of the expense growth? And maybe can you give us any color on if that's going to be more in people from here or if you think that's going to be more in systems and infrastructure? Any help on that would be appreciated.

Rob Holmes
So, hey, Brett, can I take that real quick, and I'll turn it over to Julie?

Brett Rabatin
Sure.

Rob Holmes
What I would say is, as it relates to the third quarter, just remember, we came out with our strategic plan in September 1st, so mid-quarter, if you will. And we've done a lot to improve the firm. You saw the capital raise in the first quarter, the talent hires, we put in management routines and cases.

But launching our strategy in executing the specific strategy really is happening, right now. So, you don't see a lot of that expense build, as it relates to strategy in the third quarter. That's to come. I think there was some confusion, and I'll take blame for it, I guess, not being as clear as we should have been.

The strategy call that we were going to be able to front-load all this expense and get it behind us, and that's just not the case. And that's why we're saying it's going to be lumpy, not linear.

Here's a great example. I can't hire a lot of the talent that I want to in the fourth quarter-that will probably be the first quarter, right? We'll hire more people in the first quarter than the fourth quarter, even though we're hiring people, now. But for comp reasons and those dynamics, it will be first quarter.

We've got a lot of tech spend that we need to do, but it's not going to be linear quarter-over-quarter and then go away. We'll do something and then maybe a quarter to go by, and we'll do something again, as we develop our book of work and further address that.

So, I would just say, think of the strategic launch at September 1st. Clean balance sheet with provision, clean balance sheet with the tech write-off. We have a basis--by the way, a clean balance sheet with--having the capital where we want it, as well, and the ability to affect the strategy.

So, we have a base now, it's clean, it's super solid. And the expense and stuff as it relates to strategy, we'll probably be going forward outside of some talent that we've hired, to date.

Julie Anderson
And Brett, the only thing that I would add is to what Rob said, there's no change from what we talked about on September 1st. So, for the base, that base of 600, that still stands. As you look at our--what we said about low double-digit growth in 2022, nothing has changed from what we said on September 1st, if that's helpful.

Brett Rabatin
Okay. Yeah, that helps, Julie, appreciate it. And then the other question, just around the same topic. Rob, in your prepared comments, early on, you talked about some of the concerns that you would address with investors, post the big strategic update. I guess one of the things that I've heard is, Rob, seems like he's really going to work hard to fix the company, but he's also from a bigger--much bigger bank.

And so, there's some concern, perhaps, that maybe the JPMorgan/large bank expense base to some degree could get recreated at Texas Capital, which obviously. wouldn't be able to have the same kind of expense base. Can you maybe just address that topic, big bank expense and your background versus what you're trying to do at Texas Capital?

Rob Holmes
Yeah, I respectfully don't understand that. JPMorgan and Texas Capital are two completely different firms. I've run a big business before within JPMorgan. I know how to deal with expenses. We are--I would love for you to talk to people here that work with us every day in our SBMs that we talked about, in our QBRs and otherwise. We're doing things very, very differently, here.

We have initiated several expense programs, year-to-date, since I got here, that we did not have here, a number of different disciplines that we're doing now that we weren't doing, before. And I would say that we are way more acutely focused on expenses, today, than we were January 24th of this year.

And I don't think that to offend anybody. I think Julie would applaud that and agree. So, there is no comparison between my previous employers expense base and this, and we are, acutely, focused on it. And we have the disciplines and routines to deal with it.

Julie Anderson
The only thing that I might add to that is, I think there's always a lot of focus and talk about the expense side and maybe people aren't as focused on the revenue side and the potential, there.

And so, I think that what you're going to see is that the investments that we're making and the expenses as everyone wants to characterize them, they are going to more directly translate into improved revenue streams, and you're going to see that, over time.

Rob Holmes
And--sorry, Brett, I'm going to keep going a little bit. I've got a little mind stream, here.

Remember, we said we're going to add the tangible book every single year. So, what we're saying is there's going to be a slight negative operating leverage, possibly, if we're successful at executing the plan by investing in the right technology product, services, and talent.

So, the expense growth is a net positive, as long as we do it smart, which I'm highly confident that we will and that we are. But we're not going (INAUDIBLE) on the expense side. We're adding the tangible common book.

Brett Rabatin
Okay.

Julie Anderson
Yeah, absolutely.

Brett Rabatin
Okay. Great, that's great clarification. I appreciate all the color.

Rob Holmes
Thanks.

Julie Anderson
Thanks.

Operator
Thank you, Mr. Rabatin. The next question will come from the line of Brock Vandervliet. You may proceed.

Brock Vandervliet
Thank you. Good afternoon. I wanted to follow up, maybe it was Brady's question on the warehouse. I would say around the question that I get the most is whether you use MBA or some other forecast.

The outlook for mortgage is down by a material amount next year through your success here, a material--you have a very material line of business with warehouse, which is large enough that may kind of reflect the market. And that's coming with the expense pressures that you've outlined, as you're hiring elsewhere.

What do you have in place that could kind of immunize, I guess, the warehouse business from some of the pressure that may be building, next year?

Rob Holmes
Well, I'll just refer you back to some of the levers we talked about, before. We can bring participations back on balance sheet. We're banking larger clients by using syndication to put participations off balance sheet, so some are coming off, some are going on. It depends on which client and the need to do which one of those alternatives.

We have a pipeline of new prospects that we are onboarding, literally today, several this quarter. We have additional products and services that we suspended during COVID that we're offering again, without increasing risk in the warehouse. We have some funding incentives, which is working, fine.

And we're, importantly, something that we're doing today is very, very different than we did in the past, frankly, is we're banking those same companies, holistically.

So, we're going to do treasury services with them, we'll do investment banking with them, we'll do other things, than just lending. So, I think all those things will help. And we look to turn the mortgage warehouse into a huge positive by doing more and expanding the walk with those clients, than we have in the past when we were a one product shop.

Brock Vandervliet
Okay-okay, fair enough. And similarly, I think one thing we all really grapple with is much of the guidance is around total earnings, and total earnings is related to the size of the balance sheet.

Is there anything more you could share in terms of how we should think about balance sheet sizing, over the course of this process?

Rob Holmes
Well, the only thing I would say is, if you look at our plan that we gave September 1st, which I thought was--I really do think we gave more than most other, any financial institutions that have given strategies. We can't execute that without the balance sheet growing from here, going forward.

So, we recognize that, and we acknowledge that. But I don't want to give predictions on balance sheet growth. It truly depends on what the portfolio of our client makeup and in what sectors and in what industry over what period of time. Because as you know, some industries are heavy borrowers, others aren't.

And the success of our coverage of our segments in our different--the success of our coverage in our different segments, will determine the growth of our balance sheet because different borrowers have different borrowing characteristics. For instance, tech, they don't borrow a lot, but they do a lot of treasury management. E&P, a lot of borrowing.

So, when I know how successful we'll be by segment, I can tell you the size of our balance sheet.

Brock Vandervliet
Okay.

Rob Holmes
But that's not to say--sorry--but that's not to say--let me include this--the model we have is a bottoms up, okay? We have a loading gearing, by segment, by TAM, bottoms-up model that drove the plan, but it's just really hard for me to predict growth of balance sheet over what period of time.

Rob Vandervliet
Okay, thank you.

Operator
Thank you, Mr. Vandervliet. The next question will come from the line of Michael Rose with Raymond James. You may proceed.

Michael Rose
Hey, good afternoon, and thanks for taking my questions. I thought I'd take a stab at just loan growth. I know it's a byproduct, but if we look ex-PPP, it was up about 5.5% annualized, this quarter. We've heard a bunch of banks, including another large Texas Bank, this morning, talk more about green shoots and company starting to borrow a little bit, here.

Just given the number of producers that you're going to hire, is there any reason to think that loan growth wouldn't continue to accelerate from here, just conceptually? Would just love kind of the puts and takes, broad strokes. Thanks.

Rob Holmes
Yeah, no-no, great question, Michael. Thanks. So remember, there's a lot of ins and outs that make up the whole portfolio. So PPP was paid down. We had a lot of paydowns in real estate, which by the way, it's how supposed to work.

We make construction loans in the two- and half-year period, it's a project, it's real high end, it's in the right asset classes with the right client selection. You lend the money over two-year period, two- and half-year period, they pay it back, they term it out. And then you make another one, and the cycle repeats itself.

So, those paydowns are actually very good, and we're excited about it. We also had paydowns in CMC, our real estate portfolio, which are really, really good. So, further helping our balance sheet and the position that we're in.

So, we are really happy about loan pay downs when it happens and mortgages down like we talked about. But having said that, our loans grew, well. And as we go through our strategy, I would expect continued loan growth. And we had a little bit pickup in utilization but not much, very modest. We're still below like '19 levels, but we're up from COVID levels.

But the loan growth--so that means the loan growth that you're seeing is from new clients. So, I do foresee that to continue.

Michael Rose
Maybe asked another way, what were the commitments this quarter, like, how much did you add in commitments as well because, obviously, line utilization is still weak.

Rob Holmes
I don't think we've given commitments before, have we?

Julie Anderson
No. They'll be in the 10-Q that gets filed in a couple of days. And I do think that they will have some (INAUDIBLE).

Rob Holmes
Do we break down, by segment?

Julie Anderson
Not by segments.

Rob Holmes
Okay. I don't think you'll see it, by segment.

Julie Anderson
Yes, a total. So, yeah, because they'll be netted (INAUDIBLE) theory.

Michael Rose
Okay. Great, thanks. And maybe just as a follow-up question, looks like the asset sensitivity nearly doubled, this quarter. You're now looking at a 6% increase or so, per 100 basis points. Would you expect that to increase, over time, just given the actions that you're taking?

And as it relates to the strategic plan, if we were to get a couple of rate hikes, which I assume, I believe they're not included in the timeline. But if we were to get a couple of rate hikes, I assume that would accelerate it. So, just any sort of commentary or color would be helpful. Thanks.

Julie Anderson
So Michael, I think that we are positioned well, if rates move up. I think you saw us reduce earlier in the year, the end of last year, earlier this year, reduce some of the sensitivity with the actions that we took with we have more floors in place. We also increased the securities book. That has stopped.

And then I think you did see, like you said, you saw sensitivity pick up some, this quarter. And that's really, if you look at what we've done with the deposits, we've remixed our deposits. So, some of the higher beta deposits are a much smaller percentage. So, that increased our sensitivity.

So, we would benefit the first 100 basis points, we don't benefit as much as we would the second 100 basis points, simply because we do have floors in place on a lot of the loans. And so, they have certainly served their purpose and helped us. But that will dampen the first 100 basis points, a little bit.

But yes, we're poised well for that. And actually in the September 1st numbers that we gave, we used the forward curve, at the time.

Michael Rose
So maybe just asked another way, is there more remixing to do on the deposit side that would drive that percentage higher in coming quarters?

Julie Anderson
I think that the--that the--and I think I said that in the commentary, the bulk of that remixing has been done with the actions that we took in the second quarter. Certainly, we are working overall to optimize. And the focus is on treasury operating deposits which, over time, will meaningfully remix that, but that does take time.

Michael Rose
Okay, thanks for taking my questions.

Rob Holmes
Thank you.

Operator
Thank you, Mr. Rose. The next question comes from the line of Brad Milsaps with Piper Sandler. You may proceed.

Brad Milsaps
Hey, good afternoon.

Julie Anderson
Hey, Brad.

Rob Holmes
Hi, Brad.

Brad Milsaps
Hey, how are you? Julie, just to follow up on Michael's question. I'd be curious what deposit betas you're assuming in your most updated interest rate sensitivity analysis that you disclosed in the deck?

Julie Anderson
So, I think that we gave--nothing is--we haven't given any updated beta information, other than what we gave in the September 1st deck. So, it was, I think, 60--yeah, about 60%.

Brad Milsaps
Okay, great. And Rob, I know that you guys have hired a lot of people on the treasury side. Just kind of curious, when you look at Texas Capital's existing $15 billion of DDA sort of relative to the $18 million in fees they generate annually, knowing that TCBI doesn't have a lot of consumer business.

Does that feel like the right number, or can you talk about opportunities there to increase some of the revenue you're getting from maybe the existing deposit base? Or is it a sense that some of those funds are--you can't generate these and it's going to be incumbent upon the treasury folks to bring in new relationships to improve kind of the fee structure at Texas Capital?

Rob Holmes
I think we can, dramatically, improve our wallet share with our current clients with the TS offering that we are building and the talent that we are hiring and the new strategy. So, we do not have to add new clients to do that. However, we're going to do both.

You've heard me say we need to be more relevant with our clients today, as well as with more clients. So, I would say--just as excited about both opportunities, but we have a small wallet share of treasury with our current client base. That was part of the problem and what we're focused on fixing.

Brad Milsaps
And just a final one on deposits. Julie, I mean, presumably, is there any room at all to bring the rates down? I mean, I noticed a couple of the categories are actually up a little bit, linked quarter. At this point, contractually, are those just all locked in, or is there any reason to expect any sort of step down, over the next quarter or so?

Julie Anderson
So again, I think that the big shift we've already seen happen, over time, as we improve the overall mix with more operating deposits, you will see that come down. But again, it's over a longer period of time. The most meaningful shift happened in second quarter-third quarter.

Rob Holmes
What I will say, though, is to give you a little color is, I would suggest that today, there is more frequent visible rigor around deposit pricing on a proactive basis by client, by segment, by appropriateness with oversight from treasury services and treasury of the bank, than ever before.

So, I think there's a new umbrella of discipline that will reflect much better performance for deposit pricing.

Brad Milsaps
Great, thank you, guys.

Operator
Thank you, Mr. Milsaps. The next question will come from the line of Jennifer Demba with Truist Securities. You may proceed.

Jennifer Demba
Thank you. Good afternoon.

Julie Anderson
Hey, Jennifer.

Jennifer Demba
First question--hi--first question is on the technology systems review you did. Can you just talk about the takeaways from that process?

Julie Anderson
I think the takeaways were just that we did a deep dive, right. It was a comprehensive review of all the tech assets that were capitalized on the balance sheet.

And again, it was an effort with the finance team, Don and his team and then the lines of business as we look at how those assets are tied to the lines of business.

So, a big factor that weighs in is how we're approaching technology now and some of the development that's going to go on. I think we talked quite a bit about that--Rob did on the September 1st call.

We're actually have hired developers, and we're doing some of that work in-house with developers, and it's an ongoing improvement, as opposed to in the past where virtually everything was based on a longer-term project that then when it ended, you amortized over several years. Now, it's more real time and constant improvement, especially, on the client facing piece.

So, that was exactly what happened. We had assets that were expected. Their useful life would have been longer, but the way we're now approaching it and the work that's being done just didn't substantiate that.

Rob Holmes
And the mix shift from us doing--us only a decline experience on a go-forward basis, not the back half of the house but the front facing client-facing half or portion.

Jennifer Demba
Okay. My second question is on loan growth, Rob. So, I know this question may frustrate you a bit, but another common question we get is, can this company grow faster than its Texas peers, and can it grow faster than national peers, given that it's in such a great market in Texas?

Can you talk about that, what your thoughts on loan growth and do it--in the context of doing it very conservatively and prudently?

Rob Holmes
Yeah, it's done for us, for us maybe at all, Jennifer. I appreciate you saying that. I understand everybody wants numbers and concrete numbers.

But like I just found out this week about some competitors, they are doing loan teasers-teaser rates, teaser structures and then they convert them into a term loan over time, later. Like I have no interest in that, for loan growth, for loan growth sake. We could do stuff like that.

I could add--think could add billions of dollars to this balance sheet in minutes, but it's just--that's so far behind this. Like it's going to take us a while to put on--we are focused on the right clients, real high-quality growth, very good earning assets with good companies that we want to bank, forever. They start in business banking, they go to middle market, they improve the corporate banking, and we maintain the relationship.

I'm not looking for loan teasers to accelerate loan growth. But having said that, we fully anticipate that when we're built out, the franchise will attract high-quality Texas clients at a rate faster than our peers. That's what we're doing.

Jennifer Demba
Thanks, so much.

Operator
Thank you, Ms. Demba. The next question comes from the line of Bill Dezellem with Tieton Capital. You may proceed.

Bill Dezellem
Thank you. A couple of questions. First of all, I want to circle back to the capitalized software that was written off and just a little bit more clarity. So, are you saying that that software will continue to be in use and it's just your expensing method is now different, so you're expensing, rather than capitalizing?

Or is there an insightful perspective on the no longer going down a certain path with the software because you're going a different direction that would help us all understand more about the strategy?

Rob Holmes
So what I would say--I'm jumping in front of Julie, so excuse me, Julie. What I would say is we have developed an entire book of work for our tech spend. And that book of work captures every dollar spend that we have on tech. And there's a lot of companies that think they know what they're spending that they've don't, frankly.

We know we are tied from the LOB leader through tech to the user and track adoption, everything about it. There has been a rationalization of the tech stack as--and as we've underwritten every dollar of tech spend. And I don't know how to explain it but that. We've gotten a lot smarter about technology and what we're going to continue to spend on and invest in and what we're not.

And we've also moved from more of a project management style, a tech shop to actual coders and technicians and engineers. So, the fundamental bank tech stack, how we run the place, obviously, we're going to keep that in place. Middle, a lot of business stack, we'll keep that in place.

Client-facing user interface, we want to own that experience and be a client journey instead of in silos, like we've been in the past. We want to be intuitive. We want to be elegant. We want to be simple. And we also want to be cost effective and quick.

So, that's the journey we're on and that's a big pivot from where we've been in the past and a lot of value that Don has brought with him.

Julie Anderson
It's a transformation--it's a transformation of some of the existing platform.

Bill Dezellem
So, you were moving to platforms to accomplish the same thing-simply better?

Julie Anderson
For the most part, yes.

Rob Holmes
So, think about some of the tech assets. We had too many tech assets. We're stopping them. It's over. We're retiring them. Some, we're using differently, and that's the result of the write-off.

Julie Anderson
Yeah, a tool that we didn't plan to upgrade or change for the next couple of years, and now we're transforming it, now. So we didn't have the three year--what we have done previously no longer has another three years, it's being transformed today to deliver a better experience for our employees, as well as the client facing.

Bill Dezellem
Thank you, both, that is helpful. And then one additional question. Are you sensing at this point that your net interest income has now reached bottom?

Julie Anderson
So, there are puts and takes on that, right. So, one of the things that you have to remember, and we mentioned this in the commentary, is the seasonality with mortgage finance, right.

So, fourth quarter and first quarter are typically, seasonally, a little weaker in that space. As Rob already mentioned, we continue to take market share there, but there is some seasonal impact that you would have to think about for the next couple of quarters.

Bill Dezellem
So, you are expecting the normal seasonality in mortgage warehouse and for that reason, you may still see a little slippage in the net interest income. But if we were to exclude that seasonality, are you feeling like you are kind of at that bottom point?

Julie Anderson
I think that's fair. Again, I think you saw from the third quarter, there's definitely some ins and outs on the core side where we continue, which is exactly what we expect to have a high level of paydowns in the CRE space, but there is good traction on the C&I space.

Bill Dezellem
Great, thank you both for taking the questions.

Rob Holmes
You bet.

Julie Anderson
Of course.

Operator
Thank you, Mr. Dezellem. The next question will come from the line of Matt Olney with Stephens. You may proceed.

Matt Olney
Yeah, thanks, guys. Going back to the mix of earning assets, we are seeing a little firmness in the yield curve. I'm curious what the appetite is to add to the investment securities portfolio, at this point.

Rob Holmes
I think right now, what we're doing is we're adding to maturities to keep the same amount invested, but we're not racing to increase the amount, whatsoever. We're on the sideline, at this point. But it's something that we talked about, literally every week, if not day.

We have a very, very disciplined approach as to when and what we will move into and what percentage and in what period of time. So, there's nothing being done happenstance. I don't want to make it sound flippant whatsoever, but we are just replacing maturities, at this point.

Matt Olney
Okay, that's helpful. And then on the September 1st update call, you discussed achieving, I think, with positive operating leverage late in 2022. I just want to make sure this is still within your expectations.

Rob Holmes
That's the goal. There's no reason to think that we won't. We are on track with a plan, to date. Again, we just started. But we made, we made a lot of changes that gave us a great foundation these past six months.

And I know our hiring pipeline, I know our tech pipeline. I know our products and service pipeline and the road maps. And we're not there, but we're well on the way. So, I hope that's the case.

But we're not going to--remember, anybody can hire people and fill seats. We are going to be very discerning. And there is a period of time that we have to wait to do certain things. We get our broker-dealer license, we hope in December.

So, we're not hiring people for that business in September of this year. So, there's a certain order and discipline that we'll maintain. But the view, right now, is to return to a normalization in that period that you discussed.

Matt Olney
Okay, perfect. And then, I guess, maybe more in the short term, Julie, we've talked about a number of things. The operating expense guidance you provided, you mentioned the correspondent, some of the remaining headwinds there that should be flushed out. You mentioned the seasonality of the warehouse that we should be thinking about.

Anything else more near term we should be thinking about, as we build out our forecast over the next few quarters?

Julie Anderson
No, I don't think so. I think you've covered it all.

Matt Olney
Okay-okay. And then, the last thing was mortgage warehouse yields. I think you said those came down in the third quarter but sounds like there were some signals that was firming up maybe at the end of the quarter or in recent weeks.

And I've just been assuming that an asset class would experience incremental pressure on yields the next few quarters. What else can you share that will provide us some more confidence that yields are starting to firm in that asset class?

Rob Holmes
Well, we just saw slower--we saw the compression slow, over time.

Julie Anderson
Yeah, I think the pace of the decline is stabilizing. So, could we see it drop a little bit in the fourth quarter? Yes, maybe. But I think the pace of the decline that you've seen the last couple of quarters, you should not see, going forward.

Matt Olney
Okay, thanks for the clarification.

Rob Holmes
And remember, there's--remember there's--some of that is done by design, too, right. We haven't seen a program. So some of that is us.

Julie Anderson
Yeah, right.

Matt Olney
Got it. Thank you, guys.

Operator
Thank you, Mr. Olney. The next question will come from the line of Jon Arfstrom with RBC. You may proceed.

Jon Arfstrom
Hey, thanks for letting me in late. Just a few quick ones. Rob, how does the interest in joining Texas Capital compare to what it was pre-September disclosure of your updated strategic plan?

And what kind of objections or pushback do you get from people that are looking to join the company?

Rob Holmes
That's a great question. So, I would just say a couple of things. I don't know if it's different or changed, dramatically. So, what happened, Jon, when we first got here is I joined and humbly, I got some phone calls, hey, can I come with you? I brought Tim and Nancy, day one.

And then they joined, they know people, they hire people. Don came, others came and then they have people that they want to bring with them-great talent. So, you get this cascading of leadership, bringing in their own talent, which goes down through the organization. And then we started a junior program.

So now, we're coming up through the organization. But I think broadly in the middle, at the senior banker level, they came and joined pre the strategy, based on the people and the credibility that we're already here in terms of payment for that year and credibility for go forward, if you will.

I do think we're attracting a different type of person. So, if you want to go preside over a portfolio or not really build anything, this isn't the place to be. The people that we're attracting are high energy, they're very commercial, they're team oriented, they want to do this with a group that they like.

They're excited to be part of building a bank with a focused, stated strategy with an operating committee that has clarity and confidence. And there's not a lot of others out there. But I would say that we were behind in our hiring plans before the strategy was announced.

So, there's no real pickup. I will say we're being discerning and we're making better progress in some areas than other, but kind of our own doing.

Jon Arfstrom
Okay. And yeah, your end comment makes a lot of sense, as well. Everybody in this call lives in that world, so that makes sense, as well, in terms of hiring.

Quickly on energy, what are your thoughts on energy lending and exposure, going forward, for the company?

Rob Holmes
Yeah, so, we have strict adherences to the amount of energy exposure that we'll have at any one time, and those are stated in the deck, I believe, and we will abide by those. But we have a very prudent box applied to a very discerning client selection process that goes through balance sheet committee.

And there's--remember, in our Energy segment, I was responsible for all the noninvestment grade, energy, E&P, etc., at JPMorgan. I know the industry. Tim certainly understands it. Curtis Anderson, our Chief Credit Officer here, what is new to that role since we had our problems. Our new head of banking is our credit officer that covers that segment is new.

We have, pretty much, an entirely new lineup versus the team that was faced off against that segment when we had our problems. And as Tim Storms is known for saying, I don't mind making a mistake, but when I do, I want it to be little. So, we are very focused on exposure adherences and client selection and total exposure to clients and thresholds.

So, I feel really, really good about where we are with that book and we're excited to bank those companies. And we are focused on ESG. We do have a process for onboarding companies, and they have to have a program and be following them, and we do explore that in diligence, better.

Jon Arfstrom
Okay. That's it for me. I'll just say on growth, I know you don't like the question, but my sense is it should be Texas economic growth plus some healthy market share gains, and that will be how you're judged. Hopefully, you think that's fair. But my sense is that's where it's going to shake out, but that's just my commentary.

Rob Holmes
No, I appreciate the input, the insight. And I totally respect the view.

Jon Arfstrom
Yep, alright, thank you.

Operator
Thank you, Mr. Arfstrom. The next question comes from the line of Anthony Elian with JPMorgan. You may proceed.

Anthony Elian
Hi, good afternoon. I want to dig deeper into loan growth. Julie, you mentioned in the prepared remarks, you saw about $600 million of sequential growth in C&I, ex-PPP. Just from a percentage growth point of view, this looks like one of the strongest core C&I growth rates among banks that have reported, thus far.

Any particular subsegments within C&I that drove this or anything different you're doing on pricing or structure?

Julie Anderson
No, that was broad based growth, across several areas. So no particular area to highlight.

Anthony Elian
Okay. And then my follow-up, you mentioned in the slides that you've had success in onboarding client facing professionals. Rob, maybe for you. I know it's very early, but can you comment on just what you're seeing, so far, from the people that you have hired and have been onboarded? Thanks.

Rob Holmes
Yeah, sure. So, I would say a couple of things. To Julie's answer, I would just add that a significant portion of the loan growth is from new clients. So, I just want to say that-one.

Two, as new hires, what we're seeing, I--I'm treating the people that were here before I got here as new hires. We are recruiting them, as much as we're recruiting the new bankers.

And so, I just want to say that it's really, really important that people understand that. There was good talent here that we have kept and that we're excited about keeping. The new hires, however, like anybody comes to a new firm, have been enthusiastic, energetic, client obsessed, client focused.

And I would just say what I said earlier, what they tell us is they like the fact that there's clarity in the strategy and confidence in the strategy and that we all say the same things with the same words from the leadership team, the operating committee, down.

And so, we see a lot of activity. The activity has picked up a lot in the last, I would say, six months in terms of--I don't know if it's the virus, if it's the culture or what have you, but we are much more active today, than we were a number of months ago.

Anthony Elian
Okay. And then my follow-up, Rob, on the comment you had earlier on seeing new loan growth from new clients. Are these clients--are they coming to you, or are you actively reaching out to them, are they coming from other regionals or the money centers? Thank you.

Rob Holmes
I would say it's broad-based. I would humbly say, no, they're not calling us. This is a--he best client in the market are highly competed for and we are winning out their share and I would say that, that's super exciting to me because you know, as well as I know, the life cycle of new client acquisition is long.

Even if they want to make a move, they have to have a reason to move. Is the revolver maturing? Are they doing an acquisition? Is there a new CFO, on-boarding treasury service? You got to identify the wallet, acquire the wallet, onboard it.

That happens over a period of time and then you only ramp like 80% of what you thought you were going to get. So all this stuff takes time.

So, the new client acquisition happening when it is and at the pace that it did is very encouraging.

Anthony Elian
Thank you.

Rob Holmes
Okay.

CONCLUSION

Operator
Thank you, Mr. Elian. Yes, sir, you may proceed. This concludes our question-and-answer session, so, I'll pass it back to the President and CEO, Rob Holmes, for the closing remarks.

Rob Holmes
I just want to thank everybody, again. I appreciate the questions. Julie does, too. We like talking about it. We're excited about it. We want to be transparent. By the way, I like loan growth. I just want the right loan growth with the right clients.

So, I just want to make sure everybody understands that. I do want to do it in a very disciplined, smart way like you'd want us to do it. So, thank you all very much. Look forward to talking to you again soon.

Operator
Thank you for your participation in TCBI's Q3 2021 Earnings Conference Call. Please direct requests for follow-up questions to Jamie Britton at jamie.britton@texascapitalbank.com. You may now disconnect.