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## Texas Capital Bancshares, Inc.

### Q3 2020 Earnings Conference Call

Wednesday, October 20, 2020, 5:00 PM  
Eastern

#### **CORPORATE PARTICIPANTS**

**Larry Helm** - *Executive Chair, President, Chief Executive Officer*

**Julie Anderson** - *Chief Financial Officer*

**Sharon Wherry** - *Director of Communications*

## **PRESENTATION**

### **Operator**

Welcome to the Texas Capital Bancshares Q3 2020 Earnings Conference Call. All participants will be in a listen-only mode during the presentation. Please note this event is being recorded. If you need assistance, please signal a conference specialist by pressing the "\*" key followed "0."

I would like now to turn the call over to Sharon Wherry, Director of Communications. Please go ahead.

### **Shannon Wherry**

Good afternoon. Thank you for joining us for TCBI's third quarter 2020 earnings conference call. I'm Shannon Wherry, Director of Communications. 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 day 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](http://texascapitalbank.com).

Our speakers for the call today are Larry Helm, Executive Chair, 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 will turn the call over to Larry for opening remarks. Larry...

### **Larry Helm**

Great. Thanks, Shannon. And look, I really appreciate everybody being on the call today. I know you have a busy calendar these days, and so I appreciate it even more. Julie will walk you through the results for the quarter, but before that let me make a few comments about where we are and where we're going.

Last quarter, I talked about the steps we were taking and the plans we put in place to get us back to a sustainable earnings trajectory that would support a broad range of strategic options while managing strong liquidity and capital levels. This quarter's results demonstrate the progress we're making.

Most notably, and as expected, we had a profitable quarter with solid revenue, bolstered by mortgage finance, which just continues to provide us with the flexibility while generating strong risk-adjusted returns. We reduced our noninterest expense run rate while continuing to invest in key frontline new hires. We continued to strengthen our balance sheet and actively managed our assets, redeploying some of our prudently held excess cash into securities to enhance yield.

We said last quarter that we had addressed some large exposures as we de-risked our energy and leverage loan portfolio. That progress is reflected in this quarter's lower loan loss provision. While COVID-19 and oil prices continue to provide some headwinds, we're confident that our proactive approach to identifying and dealing with problem credits will continue with provision levels much lower than we experienced in the first half of this year.

We said we would capitalize on the investments we have made through a renewed back-to-basic strategy, focused on deepening relationships with our middle-market clients and delivering better products and results. We're seeing the fruits of that as client activity picks up and loan, deposit and treasury pipelines improve.

These improvements are driven by the incredible talent we have and continue to recruit. We hired a number of C&I bankers during the quarter and are in the final stages of recruiting several more as we focus on the frontline talent that will drive growth of our middle-market franchise and leverage our best-in-class specialty groups. The bankers we hired are just hitting their stride and bringing in new relationships and they have strong pipelines.

Also, our technology and HIG teams, who joined us in the fourth quarter of last year, continue to bring in quality relationships. With this team, I am more confident than ever in our ability to deliver strong results while gaining market share over the coming years. And I'm pleased to report that we are well into the process of finding a new CEO to build on that progress. I am very excited by the quality of candidates that we're considering, so much so that I'm confident we'll have an announcement to share before the end of the year. So, stay tuned.

With that, I'll turn the call over to Julie to review the quarterly results in detail. Julie...

**Julie Anderson**

Thanks, Larry. We're pleased with our third quarter results and the return to profitability, which we expected. Total revenue for the third quarter was \$268 million. And while not a record like last quarter, it was down only slightly compared to third quarter last year. We've continued to capitalize on market conditions in our mortgage finance business to drive meaningful revenue using our lowest risk loan category. The optionality of the mortgage finance business gives us an advantage by reducing revenue volatility through rate cycle.

As expected, the third quarter provision was significantly less than first quarter and second quarter and is reflective of some continued migration that we expected as well as some specific reserve changes for certain nonaccrual loans. As we noted in the second quarter, we believe that the larger credits in energy and leverage have been addressed. We still have problem loans in both portfolios that are being worked to resolution, but the remainder is more manageable.

Additionally, deferrals totaled \$166 million at the end of September, down significantly from the \$1.2 billion at the end of June. We would expect fourth quarter provisioning to be similar to that of Q3, assuming economic factors don't deteriorate significantly compared to our assumptions.

We began to see some of the results from the Q2 actions we took in resetting our cost structure. Additionally, we took another \$15 million in software write-off. The write-off, coupled with the charges last quarter, is improving our core noninterest expense run rate going into 2021. We're continuing to focus on frontline hires, primarily corporate and commercial bankers. We had some meaningful additions in the third quarter and continue to have a strong pipeline.

Now I'll move on to some more details for the quarter. Our average loans held for investment, excluding mortgage finance, was down on a linked quarter basis as we work to reposition the book in energy, CRE payoffs have accelerated and overall line utilization rates are down. Despite the negative impact to loan yields from the full re-pricing of LIBOR loans, we've been able to offset a portion of it with continued decreases in funding cost, and overall loan spreads have been resilient.

As expected, we experienced another quarter of meaningful deposit growth. While we still remain focused on opportunities to further reduce interest-bearing cost, including those presented as more expensive CDs mature, our emphasis on growing existing client relationships and onboarding new clients will continue.

Net interest income was consistent with the second quarter level despite some decline in NIM. We're always focused on maximizing net interest income despite some fluctuations in NIM. When we evaluate the drop in NIM, net of the liquidity build, since year-end, the decrease is only 10 basis points. NIM will continue to fluctuate some based on shifts in earning assets. There was some cash build during the quarter, but we were also able to deploy over \$1 billion to securities. We will continue that strategy into 2021 and would expect to grow the securities portfolio to \$4 billion or so, roughly 10% to 12% of earning assets in 2021.

Warehouse yields declined slightly linked quarter as a result of less volume pricing in place. Core LHI yields realized the full impact of LIBOR re-pricing with the impact partially counteracted by existing loan floors.

As of the end of September, roughly 30% of our core LHI loans had floors in place, which is a meaningful improvement from Q2 levels. An already increasingly competitive environment will likely slow the pace at which we can continue to add floors over the coming quarters. We believe the deposit pricing still has some room to come down over the next couple of quarters as higher-priced CDs roll off, but obviously, the most dramatic shift has already occurred.

Our provision for the quarter was \$30 million and was primarily related to some continued migration and specific reserve changes on certain nonaccrual loans. The third quarter provision is consistent with what we signaled last quarter after the resolution of the larger energy credit.

Certainly, we expect to continue to have some additional migration as the cycle matures, but the remaining book, specifically energy and leveraged, is more manageable after the multiyear repositioning. We believe we are appropriately reserved, most specifically in energy and leverage. In CRE, we have lower levels of exposure in the most exposed risk segments. And with strong equity positions, the loss given default at this time is expected to be manageable.

We experienced a slight increase in total criticized of \$62 million, with the migration including downgrades from special mention to substandard and some from past to special mention, predominantly driven by COVID-impacted industry, and about half of that came from the leverage book. It's important to understand that we're seeing more undiscounted payoffs from the criticized portfolio than we've seen in the past. So, while the net number is up, there was a fair amount of ins and outs that made up that net increase.

Our linked quarter decrease in noninterest income was driven primarily by the gain on sale, which was expected. Based on the environment, we would expect the positive trend in gain on sale to continue for the next several quarters, but at lower levels than the third quarter. The second quarter was the peak. The third quarter was lower but came in a little stronger than originally expected. And we would expect fourth quarter to be more modest, say, \$10 million to \$12 million for the quarter.

Noninterest expense for the quarter included some benefit from the actions taken in the second quarter. Additionally, we had a final software write-off of \$15 million. Continued benefit will be evidenced in fourth quarter core expenses and into 2021. For the second half of 2020, our normalized noninterest expense will be in the low to mid \$290, and that's excluding the \$15 million write-off.

We're in the formal planning process now, and we'll have more detail about specific noninterest expense targets in January. But bottom line, we feel good about the actions we've taken in positioning us to continue to invest in frontline talent while driving meaningful improvement in PPNR. Larry...

**Larry Helm**

Thanks, Julie. Before we go to Q&A, let me just take a moment to recognize and thank the outstanding leadership team, bankers and employees at every level of Texas Capital Bank who continued to do extraordinary work under these extraordinary circumstances we're all living through.

While we will address the 2021 outlook in January, I would leave you with a few thoughts about what our focus will be; continuing to attract frontline talent and targeted loan growth while maintaining our focus on managing credit through the cycle. The recruiting process that we are executing in this year, whether at the CEO or the banker level, has given me even more conviction than I already had that the Texas Capital brand and the Texas market continue to be held in high esteem.

With that, Julie; John Turpen, our Chief Risk Officer; and I would be pleased to take your questions. Operator, please begin the Q&A.

## **QUESTION AND ANSWER**

### **Operator**

To ask a question, press "\*" then "1" on your touchtone phone. If you are using a speakerphone, please pickup your handset before pressing the keys, to withdraw your question, press "\*" then "2." At this time, we will pause momentarily to assemble our roster.

Our first question comes from Steven Alexopoulos from JPMorgan. Please go ahead.

### **Steven Alexopoulos**

Hi, good afternoon, everyone.

### **Larry Helm**

Good afternoon.

### **Steven Alexopoulos**

Hi, Larry. Maybe to start, so if we think about pretax pre-provision income, as the mortgage contribution moderates in coming quarters, could you talk about your ability to continue driving pretax pre-provision growth?

### **Julie Anderson**

Sure. So, I'll make a few comments, and then Larry can add. So yes, we would expect mortgage to moderate some, and that's obviously dependent on what the overall mortgage industry does. I think Larry talked about there, certainly, we are seeing some pickup in client activity. Some of the newer bankers that we've added this year are seeing pickup in client activity, and then we have more bankers that we're hiring. So, I think that we would expect to see growth in some of those targeted areas happening starting later this quarter and into next year. So that's where we would expect it to come from. In addition, Steven, the resetting that we've done on the cost basis is certainly going to help earnings going forward.

### **Larry Helm**

Yes. I would agree with everything Julie said. Clearly, the two that I broke out in my comments, technology and HIG, I've just seen a number of new relationships popping up here over the last couple of months. I think we'll continue to see that. The bankers' that are focused on the rest of C&I that we've hired this year, are starting to see the pipeline build on that. So, I think we'll continue to see a good loan experience in our specialty groups. We know mortgage will be down some, but I think we can make it up, depending on what happens with the economy. Now look, if the economy changes substantially, then we won't be any different than anybody else. But it will depend on the market.

**Julie Anderson**

Steven, one other thing to keep in mind on the warehouse is that we have over \$1 billion in sub-participations, probably \$1.3 billion, \$1.4 billion. And so, certainly as those volumes moderate, we have the flexibility to bring some of those back on the balance sheet. And then also the reallocation of some of our excess liquidity into securities will help with that going forward.

**Steven Alexopoulos**

So, Julie, do you think you guys will be able to drive net interest income growth? I mean the decline has moderated, but do you think you can actually grow it from here?

**Julie Anderson**

Yes, absolutely. Obviously, fourth quarter, we could see...I would expect it to be flat to down some in the fourth quarter, depending on what goes on with warehouse. But yes, we're absolutely expecting to expand revenue going forward into 2021.

**Steven Alexopoulos**

Okay. And then finally for Larry, so a lot of talk about new hires, I'm somewhat surprised, right? You have a very uncertain macro environment, and you guys are under a CEO search. So, one, is that impacting your ability to recruit at all? And then second, the company had a good history of hiring bankers, getting loans, but not getting the full relationship. Are you changing the hiring strategy to go after bankers where you get that more complete relationship? Thanks.

**Larry Helm**

Absolutely. And the bankers that we've hired, going back to the fourth quarter of last year in those two specialty areas I talked about as well as the C&I bankers we're talking to today, they've all been trained on this activity and how to deepen the relationship and grow the wallet with other noncredit services. I mean I've been doing that. I hadn't been in banking specifically for 15 years, but I certainly did it before that. And if you can't do that, then obviously, you're not going to be as successful. So absolutely, we're not talking to lenders that are just lenders, if that's your question.

**Steven Alexopoulos**

Yes, okay.

**Julie Anderson**

And with that comes treasury deposits. So that's certainly the focus now and will continue to be the focus, which will improve revenue.

**Steven Alexopoulos**

Alright, great. Thanks for the color.

**Julie Anderson**

Thank you.

**Operator**

Our next question comes from Jennifer Demba with SunTrust. Please go ahead.

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**Jennifer Demba**

Hey, good afternoon. Just curious about what you're expecting in terms of mortgage warehouse activity over the next few quarters. Could the typical holiday and winter seasonality be a lot more muted this year, given the level of home buying and upgrading we're seeing right now?

**Julie Anderson**

Yes. I think that's right, Jennifer. I would expect overall volumes averages to be flat to down, yes, for the fourth quarter. Conservatively, I would tell you, I would expect it to be down. It could absolutely come in more flattish.

**Jennifer Demba**

Okay. You said you have the ability to bring in more participations. What kind of...how many participations are out there right now? And what's the capacity to bring that?

**Julie Anderson**

So, we have...yes, I think in the warehouse, we have sub-participations of probably \$1.4 billion. And you've seen us do that in the past, where certainly in times of high refinance activity, we increased those sub-participations, but we certainly have the ability to bring them back on to the balance sheet. There's a 90 to 190...90 to 180-day notice period that we would give. But you could see that happening into 2021.

**Jennifer Demba**

And Larry, question, what's the company's propensity and interest in share repurchases at this point? In the past, the company has not really used that as a tool. I'm just curious what's your thoughts on that.

**Larry Helm**

Well, we are really working on improving our bank, our capital ratios, our earnings. As I said before, we are not really focused on share repurchases. I would never say we would rule that out, but right now, it's not part of what we're looking at. So, if you're asking me propensity, we've never had a propensity to buy shares back. But look, we're going to look at all alternatives. And we get a new CEO in, it will be up to them to determine a longer-term strategy and what role share repurchases or other capital activities play in that. It's going to be up to him or her and the management team.

**Jennifer Demba**

Thank you.

**Larry Helm**

You're welcome.

**Operator**

Our next question comes from Brad Milsaps with PSC. Please go ahead.

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**Brad Milsaps**

Hi, good afternoon.

**Julie Anderson**

Hi, Brad.

**Brad Milsaps**

Julie, I wanted to ask quickly maybe on the margin, specifically around some of the deposit rates. I noticed that the cost of interest-bearing demand and the cost of savings...actually, interest-bearing demand went up about a basis point linked quarter and savings down just three, still well above kind of the levels we saw when rates were this low last time around. Is there anything that's precluding you from bringing those down further? Or is there a chance we might see a bigger drop-off in some of those deposit rates over the near term?

**Julie Anderson**

Yes. I think that we absolutely have the ability to bring some of those costs down. I mean the first thing you would see is in the CDs that we have. Those are going to be rolling off...those will be rolling off over the next few quarters, and they're at much higher rates. I think we've even given the detail on that in a slide. And then on some of the other interest-bearing, absolutely, there's opportunity to opportunistically re-price going forward based on relationships.

**Brad Milsaps**

Okay. But it doesn't sound like you're poised to sort of bring those back. I think interest-bearing demand last time around those rates were down in the teens. You're sitting at 62 right now. Is that something that happens over a number of quarters? Or how are you thinking about that?

**Julie Anderson**

Yes. Yes. I think there's not any...we're not planning any wholesale rate changes at this point. I think that's something that you would see happen over time. And as...and we talked about, as we...as with treasury services and with the on-boarding of some of the new bankers and more holistic relationships, I think that you're going to see that mix change some, and that's where you're going to see that come down.

**Brad Milsaps**

Okay. And as a follow-up, maybe to ask the mortgage warehouse question a third different way. If the NBA is sort of forecasting mortgages and the originations in 2021 to look a lot like 2019, would you expect sort of your averages to look similar to 2019? Or do you think you guys have taken more share, have more customers to where you could do a little bit better than you did, all else equal, than you did in 2019?

**Julie Anderson**

Well, first, I would say that I'm not going to...we're not going to give any real 2021 guidance. So, we'll defer to January for that. But I guess I would tell you, Brad, that we...that I think we historically have...will beat the MBA estimate. So, I think we would generally beat that. And yes,

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I think that we have continued to be in the market share takeaway business. So, I guess stay tuned for more specifics on that in January. We're still talking about all of that internally right now.

**Brad Milsaps**

Okay, great. Thank you, guys. I will hop back in queue.

**Operator**

Our next question comes from Brett Rabatin from Hovde Group. Please go ahead.

**Brett Rabatin**

Hi, good afternoon.

**Julie Anderson**

Hi, Brett.

**Larry Helm**

How're you doing?

**Brett Rabatin**

Good. I wanted to ask about the deferrals. In second round here, you had \$61 million of \$166 million. Can you just talk about the deferrals that are remaining and the ones that you're getting requests on now? Like how are you managing those? And what do you expect to happen with those as to go through this last round?

**John Turpen**

Sure. Brett, this is John Turpen. I'll take that. \$61 million at the end of the quarter, the current number is \$39 million, just to show you the pace at which that is coming down. So, I think that, that looks very positive. It's important to understand that the first round of deferrals was more of a customer request, and we granted those requests. The second round of deferrals are with the longer-term vision of a holistic resolution. And so, there is a deeper conversation and refreshing of projections and really taking a look at those deferrals for the long-term benefit of the clients and how we see that playing out. So, it really is something that we continue to remain diligent on, but the volume is pretty low at this point.

**Brett Rabatin**

Okay. And then secondly, the criticized loans in the energy book actually declined this quarter after building for the last four. Do you guys feel like you've turned a corner in that portfolio and that continues to happen? And do you think you've marked a lot of the problem credits in that piece of the portfolio enough that essentially, it's not going to be a driver relative to the other pieces that are more at risk?

**John Turpen**

Yes. We've been through a multi-quarter proactive actions, as you know, in that portfolio and resolving some of the larger exposures that we have that are not reflective of what remains in the portfolio is what we've been working on for a few quarters now. And the reserve that we have

against that book is either near or at historical highs. So, we feel pretty good about where we're at in the reserve against that book as well as the assumptions that we have on what the macro looks like in that sector. We also supplement our reserve analysis with a loan-by-loan stress analysis and cash flow analysis on those names. And I can tell you that when we looked at it in February, and we just looked at it within the last 30 days, our view hasn't materially changed on what those stresses look like in specific names. So, we're at a very comfortable place right now with the reserve against that book.

**Brett Rabatin**

Okay. And then, Julie, just really quickly, the purchases that you're going to do in the fourth quarter and the securities book, I'm presuming that there's similar nature to what you did in 3Q in terms of yield?

**Julie Anderson**

Correct, very plain vanilla.

**Brett Rabatin**

Okay. Great. I appreciate the color.

**Operator**

Our next question comes from Michael Rose with Raymond James. Please go ahead.

**Michael Rose**

Hi, thanks for taking my question. Just as a follow-up to the last question. Is there a certain size you want to build the securities book to that you're targeting at this point?

**Julie Anderson**

Yes. What I said in the comments was that we would expect that to grow to \$4 billion or so, maybe 10% to 12% of earning assets by 2021.

**Michael Rose**

Okay. Sorry if I missed that. And then just as we think about the hiring that you guys are actively doing, and I know it's just not the CEO, I think you may have hired a new Chief Lending Officer. But is there a certain goal that in terms of number of RMs that you need to hire you think to kind of achieve your goals? Just wanted to see how aggressive you might be given the dislocations out there and what that could mean for the expense base. Thanks.

**Larry Helm**

Sure. So, look, we...I think we stated previously, we were looking to hire 10 to 15 bankers between now and the first half of 2021. I think that's still a good number. We find that there are highly qualified candidates out there, and we'll see what next year looks like if we want to increase that number or decrease it. But right now, we're certainly looking to fill that number.

**Michael Rose**

Okay. And maybe finally from me, Julie, any updated thoughts on capital? Or is that something that would happen potentially after a new CEO came on board at this point? Thanks.

**Julie Anderson**

Yes. I mean I think that's right. I think we certainly don't need capital. We feel comfortable with overall capital. Consistent with what we've said in the past is we would be...we would perhaps be open to some optimization of capital and replacing some sub-debt. So that might be something that we look to do. But yes, it would be in the future.

**Michael Rose**

Okay. Thanks for taking my questions.

**Operator**

Our next question comes from Brady Gailey with KBW. Please go ahead.

**Brady Gailey**

Yes, it's Brady. Good afternoon, guys.

**Larry Helm**

Good Brady.

**Brady Gailey**

So, I just wanted to ask about expenses. You're guiding to the back half of this year. We already know what 3Q looks like. So, it looks like indirectly, you're guiding to 4Q expenses of about \$140 million to \$145 million. I just wanted to make sure that was right. And then longer term, I mean, you're making some hires, but you're also getting more efficient, I mean, would you expect that number to be fairly flat for the next couple of years or would there be growth?

**Julie Anderson**

So yes, your math is correct for the fourth quarter. And so, kind of when you look at the normalized for the year, we would expect...because we did that reset and because we did those...we've done those reductions, we would expect...and again, we're not going to give guidance for 2021 yet, but we would expect normalized 2020, we would expect 2021 to be down from that...down from the normalized 2020.

**Brady Gailey**

Okay. That makes sense. And then I was just wondering, what new loan yields were in the quarter. I know if you look at your held for investment loans, excluding mortgage, the portfolio yield was about 384. What was the new loan yield in 3Q?

**Julie Anderson**

So, Brady, I don't have that in front of me, but that's not something that we normally give. Obviously, the rate can vary depending on the area that it's coming from, whether it's real estate, whether it's C&I, I guess, I would just...what I would tell you is that we are focused on quality

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credits and only onboarding quality clients. And so, we will certainly deal with rate competition as needed.

**Brady Gailey**

Maybe to ask it a little bit, do you expect that core loan yields, excluding mortgage have bottomed here and they'll be pretty stable or is there more downside to come in the future?

**Julie Anderson**

I mean, it just depends on the...it depends on the mix. Again, we had pretty good...we've had pretty good success for a couple of quarters at getting floor [ph] on new deals, which certainly helps offset the reset from LIBOR that we've had. But I hear from the frontline that that's becoming harder competitively. So, I guess, I would tell you, it's just going to depend, it's going to depend on where the new deals come from and what competition does.

**Brady Gailey**

Okay. And then finally for me, it's great to hear that you all got some success hiring. I'm just curious, if you look at the RM count today, how does that compare to a year ago? Do you happen to have those numbers? And, if not, is it higher or lower than a year ago?

**Julie Anderson**

Yes, I think the numbers are...I don't have that in front of me, but I would say that the numbers are about the same, because I think there was some kind of normal attrition as we've changed kind of our focus. So, I don't have it in front of me, but I would say it's probably...on the RM side, I would say it's probably net flat.

**Brady Gailey**

Okay, great. Thanks for the color guys.

**Julie Anderson**

Thanks.

**Larry Helm**

Thank you.

**Operator**

Our next question comes from Ebrahim Poonawala from Bank of America Merrill Lynch. Please go ahead.

**Ebrahim Poonawala**

Good afternoon.

**Julie Anderson**

Good afternoon.

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**Ebrahim Poonawala**

Yes, I just wanted to follow up on a few things. One, Julie, on expenses. So, I guess, fourth quarter...just want to make sure I understand this correctly around your response to one of the earlier questions. Your full-year expenses for this year will be somewhere around \$592 million, \$595 million based on how you've talked about it in the slide 14. So, we should expect '21 to be lower than that \$590 million. And clearly, the fourth quarter, it's going to be somewhere around \$140 million. Am I thinking about those pieces correctly?

**Julie Anderson**

That's fair. Correct.

**Ebrahim Poonawala**

And should the message of this be that we should expect more on the expense front or are we at a point where you did what needed to be restructured, and now we are more in terms of managing costs slightly, but at the same time, investing, so we shouldn't expect a lot more in terms of just outright cutting of costs?

**Julie Anderson**

Yes, I think that's fair. I would tell you that the support areas of the company, we are all very focused are remaining flat and continuing to find efficiency, because we want to support the frontline investments that we need to make. So, we're not going to...we're certainly not...we have no plans to do anything drastic in the short term that would affect what we're trying to accomplish in the long term. But, yes, I think, we're focused on efficiencies and we're focused on maintaining and reducing on the support side to offset the investments that we need on the frontline.

**Ebrahim Poonawala**

Got it, I guess, just moving to...I think you talked about deposit costs on like savings deposits at 40 bps, transaction at 62. On the other side, you've got \$11 billion sitting in 10 basis points cash. Just remind us why that negative carry makes sense. Why not shrink down some of that cash outside of what you want to deploy into securities? Like how much more excess cash do you need, and why not be more aggressive in bringing down cost to kind of, I guess, free up capital?

**Julie Anderson**

So again, we're going to deploy some into securities. And then I think as you see us going to 2021, we absolutely will be focused on optimizing the funding side. So, I would expect to see some of that come down into 2021. I can't tell you exactly what level, but yes, I would expect that to come. I would expect a portion to be deployed into securities, and we would expect some optimization happening on the funding side that we're already working on. So, I would expect that cash...the actual cash to come down into 2021.

**Ebrahim Poonawala**

Got it. And just lastly, in terms of, I guess, for Larry in terms of the hiring that you're doing as you...some of the responses that you gave to the previous questions. Is...was your intent for that hiring and also the new CEO that you're bringing on, strategically, is the idea to have someone in, I'm assuming it's an external candidate who reorients the focus of the franchise? Or just talk

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to us in terms of how the Board thought about who that candidate should be? And what were the number one, two or three priorities that you were looking for in that candidate?

**Larry Helm**

Sure. So, look, I'm not going to tell you who it is, but who it might be. When we know, we'll let you know. But I think I've said before, look we're looking for somebody that really understands this business who can look at the entire landscape of our markets and other markets determine which businesses we ought to invest more in, invest less in, looking for somebody with great leadership talent and qualities. We're looking for somebody with a track record of execution of the strategy. And so, clearly, the candidates that we've seen all have those qualities and many more. We went through a pretty exhaustive process with our search firm to build a succession planning process over the last 18 months or two years, and now that it's time to execute on that, we've hit the ground running. And so, we had lots of criteria that we were looking at and the candidates that we've looked at, many of them, have met all of those and more. So, I'm really excited about it. I'm happy to work with a new CEO for whatever period of time, either as Executive or Nonexecutive Chairman. And so, we'll have that done by the end of the year and we'll go from there, and then you'll know exactly what they look like.

**Ebrahim Poonawala**

Thanks Larry. Thanks for taking my questions.

**Larry Helm**

Thank you.

**Operator**

Our next question comes from Gary Tenner with DA Davidson. Please go ahead.

**Gary Tenner**

Thanks. Good afternoon. Wanted to ask on the loan portfolio, you gave in the slide deck a pretty good kind of year-over-year, kind of walk-through, of the beginning balance to the September 30 balance. I wonder if you were looking at that on a sequential quarter basis in terms of targeted reductions line utilization, et cetera, what the biggest deltas would have been on the \$700 million or so sequential quarter change?

**Julie Anderson**

I don't...I mean, I don't know that there would have been...I think the line utilization has come down more in the last quarter or two. I don't know that it would be that different than kind of generally how this is. I think the line utilization is probably the thing that would be more dramatic in the last quarter or two than over the year-over-year. And then I would say the targeted reductions, I would say those were more weighted towards last year Q3, Q4 in the first part of the year.

**Gary Tenner**

Okay.

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**Julie Anderson**

Does that help?

**Gary Tenner**

Yes. No, it does. I guess online utilization, obviously, the more recent thing...item, and of course, we've heard that for most banks. Do you have a sense of...do you think we're at the bottom of the line utilization at this point to where LHI loans might begin to stabilize here or do you think there's some additional deleveraging from your customers to come?

**Julie Anderson**

So, I think...yes, I think it is, because I think we're starting to see some pickup in activity. In March, we were all braced for line utilizations to go through the roof, and ours picked up a little bit, but not much, and then they just continued to come down. I don't know, JT, do you have any comment on it?

**John Turpen**

Yes. I can just add, I mean, certainly, I think where we're at the line utilization in the last 90 to 120 days has probably fluctuated off the baseline, plus or minus 10%, is where I would say. I won't give you what those numbers are, but it's...from historical levels, it's plus or minus 10% within the last 90 to 120 days, starting at the end of the first quarter.

**Gary Tenner**

Okay. Thank you. And then just for kind of margin building purposes, could you give us the effective yield for the PPP loans in the quarter?

**Julie Anderson**

I don't know what it is. Is it...?

**John Turpen**

Yes. It's the standard 2% or 3%.

**Julie Anderson**

Yes. It's pretty...it's a pretty immaterial impact on our overall number based on the amount of PPP loans that we had.

**John Turpen**

Alright. Fair enough. Thank you.

**Julie Anderson**

Thanks.

**Operator**

Our next question comes from Brock Vandervliet with UBS. Please go ahead.

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**Brock Vandervliet**

Thank for taking the question.

**Julie Anderson**

Hi, Brock.

**Brock Vandervliet**

Hi, there. I think, I saw in one of your slides, you mentioned almost \$3 billion of FHLB borrowings coming due pretty soon. With the Plan B, to just pay those off? Is that part of the optimization on the funding side?

**Julie Anderson**

Correct.

**Brock Vandervliet**

Okay. And...

**Julie Anderson**

Most of what we normally keep at FHLB is overnight money. And it's...we get advances on our mortgage finance portfolio. And so, these were some...if you remember in the March timeframe, we did some extended maturities. And so, yes, these will just roll off.

**Brock Vandervliet**

Okay. And this has come up on other calls as well. I think a lot of us assumed that the deposits, whether PPP or otherwise, that pounded in, in the last couple of quarters would kind of go the other way. But more recently, it seems like some bankers are intimating that they may hang around longer for any number of reasons. What's your view on your deposit flows and how much you may retain there? Do you have any sense of that?

**Julie Anderson**

Yes. And I don't know that PPP, I mean, yes, there were some in deposits, but I don't know if that's been a meaningful driver one way or the other on our deposits. I mean, as it comes from...our deposit growth has come from...mainly from existing clients. Certainly, in the...on the...in the mortgage industry, with the volumes they've had, there's been some growth. That's an area of focus for us. And so, certainly some of the growth has come from that. And then it's just come from other existing clients as we kind of refocused our efforts on treasury calling on some of our existing clients.

**Brock Vandervliet**

Okay. And within mortgage finance operation, if you could just remind us, are you indifferent regarding the mix of refinance or purchase or is there a real difference in profitability to you?

**Julie Anderson**

Yes. There's no difference in the profitability. I will tell you that most of our clients are...they're purchased, like we don't purchase, but obviously, they take advantage of the refinance market. But our clients are people who are in the business all the time, whether there's a refinance boom or not. But certainly, they take advantage of that. But yes, there's not any difference in the pricing.

**Brock Vandervliet**

Okay, great. Thanks for the questions.

**Julie Anderson**

Thanks.

**Operator**

Our next question comes from Bill Dezellem of Tieton Capital. Please go ahead.

**Bill Dezellem**

Thank you. I would like to also follow up on the mortgage loans, specifically the brokerage loan fees, up by 50% versus the second quarter. That seems much larger than what we would have expected given that the second quarter also had a pretty high level of mortgage activity, maybe excluding the first month of that Q2. Would you talk to, why you were so successful with that 50% increase sequentially?

**Julie Anderson**

Yes. So, Bill, those are...those fees lag. Those fees are paid at the end. So, it will usually...yes, they were strong...they were both strong quarters from volumes, but those fees...the majority of those fees are paid at the end or paid at the end, when the loan is paid off the line. So, you can see those...you can see those lags on.

**Bill Dezellem**

Alright.

**Julie Anderson**

Some of the fees that were in the...some of the fees that are in the third quarter, they would have been on volumes advances that we made in Q2.

**Bill Dezellem**

Understood. Thank you for the clarification.

**Julie Anderson**

Sure.

**Operator**

Our next question comes from Peter Winter with Wedbush Securities. Please go ahead.

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**Peter Winter**

Yes, good afternoon.

**Julie Anderson**

Hi, Peter.

**Peter Winter**

Hi, I just want to pick on one line within expenses, the marketing.

**Julie Anderson**

Okay.

**Peter Winter**

Marketing has come way down, and it declined again in the third quarter. Can you just talk about, what's happening in the marketing line?

**Julie Anderson**

Yes. If you remember a few quarters ago, we were talking about...there was some deposit-related...there was some deposit-related fees in there that were kind of variable with some of our index deposits. So as rates have come down, those have come down as well.

**Peter Winter**

Do you think that this level is a good run rate then going forward?

**Julie Anderson**

Yes, I do. I think this is a good run rate.

**Peter Winter**

Okay.

**Julie Anderson**

There's some...I mean, there are some traditional marketing and some business development and things like that. But yes, I think this is probably a good run rate.

**Peter Winter**

Great. That's all I had. Thank you.

**Julie Anderson**

Thank you.

**Larry Helm**

Thank you, Peter.

**Operator**

This concludes our question and answer session. I will turn the conference back over to President and CEO, Larry Helm, for closing remarks.

**CONCLUSION****Larry Helm**

Great. Thank you very much. I appreciate everybody calling in today. And look, if you have follow-up questions, Julie or JT or I and others will be available over the next several days. So, feel free to get in touch with us. Thanks again.

**Operator**

Thank you for your participation in TCBI's Q3 2020 earnings conference call. Please direct requests for follow-up questions to Julie Anderson at [julie.anderson@texascapitalbank.com](mailto:julie.anderson@texascapitalbank.com). You may now disconnect.